

WHY YOUNG PEOPLE SHOULD CARE ABOUT CANADA'S PRODUCTIVITY CRISIS



Video Highlight

How much do Canadians Pay in Taxes compared to the Necessities of Life?

Quote Wall

Milton Friedman

Infographic

Recent Trends in Youth Employment



EDITOR

Ryan Hill

LAYOUT AND DESIGN

Carolina Wong

PRODUCTION EDITOR

Kristin McCahon

PHOTO CREDITS

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To receive a subscription, or to write to us about articles you read in this publication, contact us at:

Canadian Student Review
1770 Burrard Street, 4th Floor
Vancouver, British Columbia V6J 3G7

TEL

604.688.0221 ext. 538

FAX

604.688.8539

EMAIL

Ryan.Hill@fraserinstitute.org

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Our mission is to improve the quality of life for Canadians, their families and future generations by studying, measuring and broadly communicating the effects of government policies, entrepreneurship and choice on their well-being.



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WELCOME



Dear Readers:

I hope you had a refreshing autumn and are ready to embrace a productive winter season, whether you're continuing in your academic journey or starting a new semester.

In this edition of *Canadian Student Review*, we spotlight the winners of the 2024 Essay Contest, featuring thoughtful essays from students who applied the ideas of our Essential Scholars to current public policy challenges. These entries offer fresh perspectives on pressing issues, providing a valuable read for any policy-minded student.

We're also pleased to present *Why Young People Should Care About Canada's Productivity Crisis* by William Dunstan, an essential look at a crucial economic issue facing the country. Additionally, this issue includes new commentary on inflation, and an engaging quote from Milton Friedman on the balance between equality and freedom.

We've packed this issue with other fascinating articles and visual aids as well, such as a blog by Alex Whalen and Jake Fuss on the rising cost of plane tickets, and an infographic illustrating the long-term decline in work hours among young Canadians, and more.

If you or someone you know is interested in contributing to *Canadian Student Review*, please reach out to me directly at Ryan.Hill@fraserinstitute.org.

Best,

Ryan

WHY YOUNG PEOPLE SHOULD CARE ABOUT CANADA'S PRODUCTIVITY CRISIS

WILLIAM DUNSTAN

You may have seen headlines recently about Canada's "productivity crisis." "Productivity" can seem like an abstract concept with little real-world relevance. So, why does it matter? The productivity of our economy matters because it impacts our standards of living. Therefore, the stagnant productivity growth we see today means lower standards of living in the future. That should worry all Canadians, especially young people.

Productivity is how much output we can produce with a given number of inputs. When people talk about productivity, though, they often refer specifically to "labour productivity": the number of goods and services produced per hour worked. In addition to affecting the economy (as measured by gross domestic product), labour productivity has a direct influence on real incomes because as workers become more productive, they can demand higher wages and businesses can afford to pay them more. Over the past 30 years, growth in inflation-adjusted wages in Canada has closely matched productivity growth rates (RBC Economics & Thought Leadership, 2024).

In Canada, labour productivity has historically grown over time due to business investment in improving the technology and equipment available to workers, better trained workers, and other advancements. From 1961 to 2012 Canadian labour productivity in the business sector grew by 1.9 percent annually on average (Statistics Canada, 2014). In recent years, particularly since 2015, the rate of productivity growth has slowed (Statistics Canada, 2024b). From 2015 to 2023, the average rate of growth was only 0.4 percent. This slowdown was not just a temporary effect of the pandemic; annual growth averaged 0.7 percent between 2015 and 2019 (Statistics Canada, 2024b).

Canada's productivity slowdown is not simply part of a global trend either. Canada's recent growth rates in GDP per capita, dragged down by poor growth in labour productivity, are among the lowest in the OECD. Notably, Canada's GDP per capita declined from 80.4 percent of GDP per capita in the United States in 2012 to 72.3 percent in 2022 (Whalen, Palacios, and Schembri, 2024).



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AND MAKE CANADA A MORE
ATTRACTIVE DESTINATION
FOR HIGHLY PRODUCTIVE
WORKERS.**

These low rates of productivity growth matter. The difference between 0.4 percent growth and 1.9 percent growth can seem insignificant, but over many years, gaps in rates of labour productivity growth can have drastic impacts. To illustrate, in 2023, the average hourly wage in Canada was \$33.55 (Statistics Canada, 2024a). As mentioned earlier, growth in inflation-adjusted wages in Canada has tended to closely match rates of productivity growth. If labour productivity and the hourly average wage increased by 0.4 percent per year between now and 2050, the average hourly wage in 2050 would be \$37.37. If the annual growth rate were 1.9 percent, by contrast, the average hourly wage in 2050 would be \$55.77.

This is why Canada's productivity crisis should be so concerning to young people—it threatens their future prosperity. Furthermore, the consequences of a sustained period of stagnant productivity go beyond lower wages. Some people will lose out on time for leisure and recreation; the less productive you are (all else equal) the more time you must spend working to achieve the same standard of living. A less productive future Canada will also be more strained by the costs of caring for an aging population in addition to financing and paying off our growing public debt. Increasing productivity, then, should be a priority for all Canadians, and especially young people.

Fortunately, Canada is not condemned to a future of low productivity growth. Governments have options to encourage increased productivity. Many of these fall under three themes: reducing taxes, regulation, and barriers to trade.

A core principle of economics is that if you tax something, you get less of it. Across Canada, high tax rates on businesses, capital gains, and personal income discourage people and businesses from making decisions that could increase productivity. All taxes have an economic cost, but research has shown that these three types of taxes are particularly costly (Whalen and Fuss, 2021). Business and capital gains taxes discourage investment and entrepreneurship by reducing the return from these activities, which are key

to innovation and increased productivity. High personal income taxes similarly discourage another means of increasing labour productivity: attracting highly skilled workers to live and work in Canada. Canadian tax rates are uncompetitive compared to many other industrialized economies, especially regarding personal income (Fuss and Munro, 2024; Whalen and Fuss, 2021). Reducing taxes on businesses, capital gains, and personal income would encourage more productivity-enhancing investment and entrepreneurship and make Canada a more attractive destination for highly productive workers.

Regulation is another factor that limits productivity. It can prevent businesses from pursuing efficiencies, require them to devote resources to complying with regulations that could otherwise be used for more productive work, and create barriers to entry that limit competition, discouraging innovation. One example of regulation hurting Canadian productivity is in the mining and energy sectors. Burdensome regulations require companies to reallocate resources away from value-generating work towards navigating regulatory processes. Sometimes, these regulations lead companies not to invest in Canada at all (Mejia and Aliakbari, 2024a, 2024b). There are valid reasons for some regulations, and there can be trade-offs between the benefits of regulation and its costs to productivity. But often there is no trade-off. Canadian businesses estimate that the annual cost of regulation could be cut by 30 percent without compromising health, safety, and the environment (Jones, 2021).

Along with cutting taxes and regulations, Canadian governments can encourage productivity growth by reducing barriers to trade—both internationally and domestically. Trade can lead to increased productivity in several ways, including by allowing countries and regions to specialize in their area of comparative advantage, and by creating greater competition between producers, which can fuel innovation. Around 20 percent of Canada's economy is protected from foreign competition, which lowers productivity in affected sectors (Geloso, 2021). Additionally, there are many

restrictions on trade between provinces. These range from explicit prohibitions on interprovincial trade of some goods to differences in regulations that make trade impractical or more expensive. One estimate puts the cost of interprovincial trade barriers on goods at \$90 billion per year and suggests that eliminating these barriers would increase national productivity by 3.8 percent—or over \$2,300 per person (Tombe, 2021).

Canada clearly has a productivity crisis. To build a more prosperous future for young Canadians, governments should cut taxes, regulations, and barriers to trade to help the Canadian economy return to the steady rates of productivity growth it once enjoyed. ♦



William Dunstan is a Master of Public Policy student at the University of Calgary. He is passionate about the power of markets to improve people's lives and is interested in developing policies that allow us to enjoy the benefits of free markets.

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HOW CAN THE IDEAS OF ADAM SMITH INFORM THE FUTURE OF K-12 EDUCATION IN CANADA?

CHRISTOPHER KLUNE

There is perhaps no individual more influential than Adam Smith in the canon of economic thought. His ideas still ruminate in university halls and are taught as key concepts in schools across the world. While Smith's economic ideas are often a focal point in classrooms, his thoughts on education itself are less so, but it may be worth looking at how Smith's ideas can inform debates in K-12 education. In Canada, there may be no better time to do so. Since 2014, increased spending on public education in seven out of 10 provinces (MacPherson, Emes, and Li, 2021) has alarmingly mirrored Canadian students' declining scores on international assessments (Marshall, Mou, and Atkinson, 2019). If increased spending has yielded a decline in learning, what needs to change about public education? Smith's ideas, when applied to the K-12 education context in Canada, argue that in order to improve schooling and maximize the resources allocated to it, governments must produce policies and legislation that empower individual families and enable school choice.

Smith (2005) writes about education from both a moral and practical standpoint in the chapter

"Of the Expense of the Education of Youth" in his magnum opus *The Wealth of Nations*.

Crucially, Smith was a proponent of an accessible, state-funded education system, writing that "For a very small expense, the public can facilitate, can encourage and can even impose upon almost the whole body of the people, the necessity of acquiring those most essential parts of education" (Smith, 2005: 640). Currently, public education is decentralized in Canada, with each province and territory responsible for governing, funding, and operating their own education systems, while First Nations manage their own education with assistance from federal funding (OECD, 2015). Broadly, every provincial education system follows its uniform curriculum with standardized assessments. Smith believed in education for all and would likely applaud the use of public funds to ensure every child is educated. However, given statistically significant declines in test scores from 2000 to 2018 in reading, science, and especially math (Richards, 2020) on the Programme for International Student Assessment, Smith would question if current governance and funding models



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maximize the effectiveness of schools and learning. This is where Smith's economic ideas on government intervention and the individual synthesize with his views on education and give insight into policy changes that could be considered in Canadian provinces.

Though Smith supported publicly funded education for all, this does not mean he would favour an education system solely provided by the government. In fact, Smith only condoned government intervention when it could be proven that the service or institution could not be better provided by private enterprise (Otteson, 2018: 63). Another key element of Smith's thought that goes against exclusively government-run schooling is his position on the individual, decision-making, and self-interest. Smith argued individuals naturally seek the most efficient means of using resources to achieve their goals, and because individuals themselves knew their position best, decisions on allocating resources should therefore be left to the individual (Otteson, 2018: 45). This then leads to Smith's most famous idea of the invisible hand, in that an individual acting in their own self-interest unknowingly "leads him to prefer that employment which is most advantageous to the society" (Smith, 2005: 362). In essence, each individual's pursuit of their own interests leads to better societal outcomes. These ideas can be used when considering education. First, Smith would advocate for an accessible education system that is funded by but not solely run by the government, thus allowing provisions for the creation of a breadth of diverse schools that could be publicly or privately run. Second, rather than just fund schools, education funding should be allocated to families themselves so they may choose where to best use it. The empowerment of families to pursue the best education for themselves would create demand for the creation of different schools to meet the diverse needs of students, spurring innovation and quality learning—an "invisible hand" in education. In today's terms, Smithian ideas support unfettered school choice. In this regard, how would Canadian provinces fare?

Broadly, school choice in Canada exists. However, due to federally decentralized education, Canada "lacks a coherent national-level discourse on school choice" (Davies and Aurini, 2008: 56), which has left a variety of policy landscapes regarding school choice across provinces. Currently, all education ministries allow for homeschooling and make provisions for independent (commonly known as private) schools to exist. Freer than uniform public schools, independent schools can cater better to the diverse needs of society by being able to offer more specialized programming, different pedagogical focuses, and even cultural or faith-based education. Independent schools normally charge tuition fees and do not need to adhere to provincial curriculums, and as a result they may not be afforded the same funding provisions as public schools. Only five provinces offer partial funding to support independent schools (Van Pelt, Hasan, and Allison, 2017). In this instance, Smith would advocate for provincial policy-makers to make funding more readily accessible to support families pursuing private education.

Smithian policy would likely support voucher systems as practical reform provinces could look at to expand choice and school access. Voucher systems allocate education dollars directly to students themselves so families can choose which school, public or private, those funds go toward. No province currently has a defined voucher program. However, in Alberta independent schools receive 60–70 percent of the per-student funding public schools receive (Clemens, Emes, and MacLeod, 2018) and the current government has indicated interest in exploring a voucher system that will allow equal per-student funding regardless of school choice (Member Policy Declaration, 2021: 9). In Smith's view it would be a necessity for all provinces to look at exploring voucher systems to incentivize the development of unique independent schools and to ensure families are protected and secure in making the best decisions for their education.

In addition to enabling and protecting choice, proponents of Smithian policy might also point

to how other benefits of voucher systems could be replicated in Canadian provinces. In the United States and Sweden, vouchers make independent schooling accessible to lower socio-economic families and healthy competition incentivizes public schools to improve, leading to better test scores and less disciplinary issues in public systems (Figlio, Hart, and Karbownik, 2021; Sandström and Bergström, 2002). Arguments against voucher programs tend to point out that vouchers may not cover the entire cost of independent schooling or waitlists are too large. Smith's ideas still say the solution lies in choice, namely in expanding provisions to fund public charter schools.

In Canada, charter schools only have provisions in Alberta. Charter schools are defined as "autonomous non-profit public schools" that "have a focus not already offered by the board of the school authority in which the public charter school is located" (Alberta Education, 2022). Charter schools can center on different educational philosophies or focus on particular student needs, increasing the diversity of educational choice that is publicly available. Importantly, charter schools cannot charge tuition fees (Alberta Education, 2022: 5) and also tend to outperform public schools on standardized assessments (MacPherson, 2018: 15–17). Essentially, charter schools are a way to ensure choice, innovation, and quality learning is maintained in a public system and is accessible regardless of family income. Smith would applaud recent changes in Alberta, including the passing of the Choice in Education Act (2020) that makes the process of establishing charter schools easier (pp. 2–3), and a provincial budget that allocated nearly \$75 million dollars to expand the charter school system over the next three years (Upright, 2022). Smith's philosophy would insist all Canadian provinces create legislation that allow the establishment of publicly funded charter schools, perhaps using Alberta as a model. With more provisions for charter schools coupled with a voucher system, more families would have access to education options that best suit them, leading to better learning outcomes and more impactful

education spending in both public and private systems.

On the whole, more Canadians have been enrolling in independent schools (MacPherson, 2022) and waitlists for charter schools in Alberta are growing (MacPherson, 2018: 18). This is understandable, given emerging questions on how increased spending in public schools across Canada has seemingly resulted in declining academic performance. Recent trends have put to question the ability of governments to allocate resources in one-size-fits-all public schooling best. Using Smith's philosophy to examine this issue, the conclusion can be made that provinces should prioritize policy and legislation that reduces barriers and expands access to school choice. When individuals are free to pursue their own self-interest, society benefits, thus when resources are allocated to help individual families pursue the best education for themselves, the overall quality of education systems improve. ◆



Chris Klune is a former teacher and is currently completing a masters degree in Education Policies for Global Development, studying at the Autonomous University of Barcelona. He is broadly interested in education research and policy, particularly as it relates to public education, pedagogy, teacher professional development, and effective implementation of educational technology.

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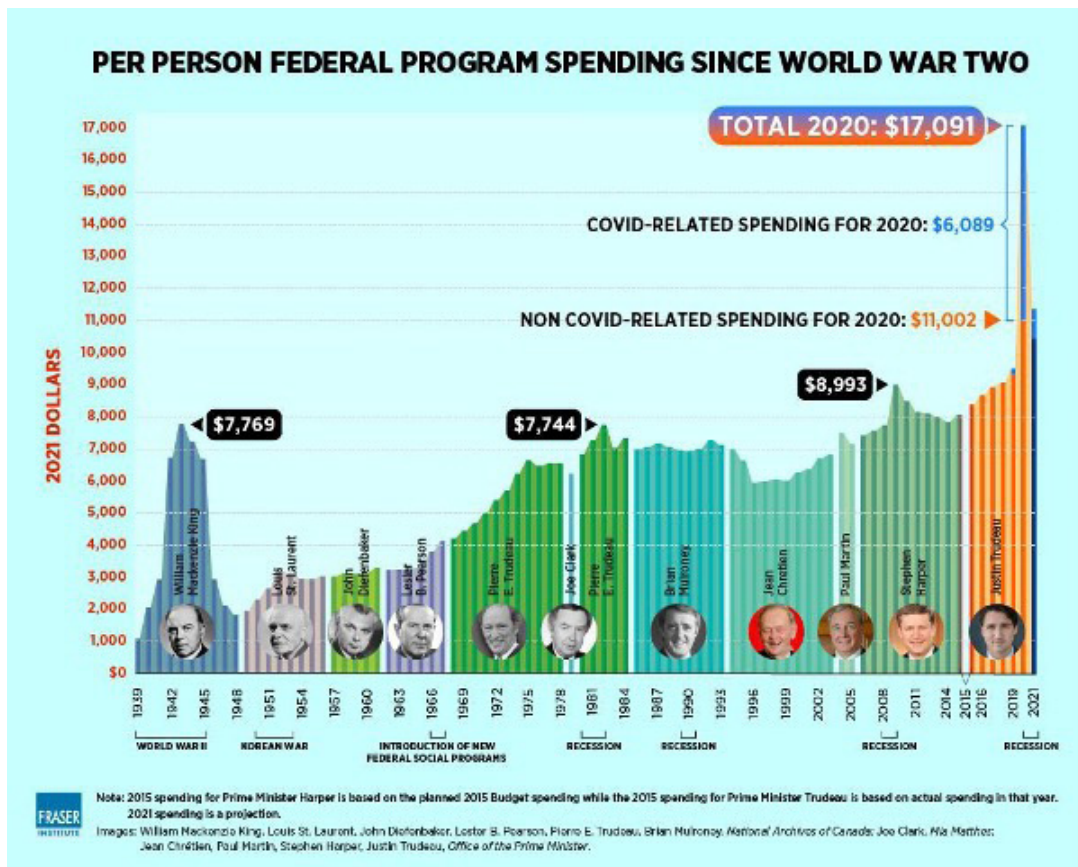
HOW ROBERT NOZICK RESPONDS TO THE MODERN CANADIAN SOCIO-ECONOMIC LANDSCAPE

WILLIAM HOU

In a free society where “diverse persons control different resources” and exchanges occur “out of the voluntary ... actions of persons” (Nozick, 1974: 15), Robert Nozick, in his book *Anarchy, State, and Utopia*, believes that no principle of patterned distribution “can be continuously realized without continuous interference with people’s lives” (Nozick, 1974: 162). While Canadian policies today are shifting towards socialist ideals and through an expanded government, Nozick, a renowned professor known for his works on political philosophy at Harvard University, seeks to refute this by establishing the justification of the minimal state through his entitlement theory. In his book, Nozick has concisely identified his stance: individual rights are paramount, and any attempt to impose a patterned distribution of private resources necessarily infringes upon these rights. He argues that the state’s role should be strictly limited to “protecting all its citizens against violence, theft, and fraud” (Nozick, 1974: 26). In response to the subtly expanding Canadian federal government, Nozick would reprimand these policies for their extended reach beyond individual liberties and moral fallacies behind redistribution.

Based on the fundamental ideas of individual liberties and the Lockean Proviso, Nozick has constructed the concept of the minimal state, which focuses on fair transactions between consenting parties. The minimal state thus ensures these rights, whose power is “limited to the narrow functions of protection” (Nozick, 1974: 17). The state is minimal as it does not extend its responsibilities and is strictly present to provide a legal framework for protecting the rights of its citizens. He argues it is the only state to be justified, and “any state more extensive violates people’s rights.” The state functions as a “night-watchman” (Nozick, 1974: 45), adjudicating disputes between its citizens to safeguard individual liberties.

Yet federal policies and expenditures have contested Nozick’s theories in the modern Canadian economic-political landscape. In Trudeau’s first term in office, “real per-person federal government spending [increased] by nearly 18 percent,” surpassing wartime real wartime spending amidst WWII. Per-person spending reached a historic high in 2015 at \$8,063. (Fuss and Li, 2021). In the years that followed, the Canadian economy witnessed yet another wave of unprecedented growth in federal spending; by 2019, spending rose to \$9,500 per



Source: Fuss and Li, 2021.

person, and in 2020, an astounding \$17,091, with non-COVID related spending reaching \$11,002.

With a rise in governance and socialism, there has been a shift away from capitalist ideals. Among youth in Canada, the declining popularity of capitalism is signifying Canada's shift towards socialism. Results show that although individuals are becoming increasingly aligned with socialist ideologies, respondents "indicated a general unwillingness to pay for the costs associated with ... socialism" (Clemens and Globberman, 2023). Those who called for increased government intervention in the markets simply turned to an increase in taxation for the upper classes; when faced with a "20 percent VAT option, [the public indicated] the lowest level of total support" at only 16 percent approval. For the individuals who desire increased welfare, the census shows that society is generally recalcitrant when it comes to paying for it.

Despite the recent growth of the popularity of socialist ideals, Canadians are calling for

an end-state redistribution—where resources are allocated to achieve a specific pattern deemed fair or necessary—through government intervention; however, these distributive theories are in violation of individual freedom and are, thus, contradictory. Nozick establishes that the principle of individual rights precedes the interest of any other individuals, including the state: "Individuals have rights, and there are things no person or group may do to them" (Nozick, 1974: 17). When examining time-slice principles of redistribution, this process seemingly violates the definition of individual rights. In any patterned distribution theory, fairness is determined by an ahistorical examination of the distribution. In his example of Wilt Chamberlain, Nozick argues that Chamberlain's income—a cut of the total ticket sales of his basketball team—is directly influenced by the free choice of individuals who wish to see him play. A redistribution of Chamberlain's income would be unjustifiable; individuals willingly "chose to give" their money to Chamberlain, constituting a just transfer. If an uneven distribution due to

“our separate existences” (p. 33) is unjustifiable, entitlement to one’s own property also fails. Due to the lack of “central distribution” (p. 149), transfer of resources must occur due to “voluntary exchanges and actions” (p. 150). However, if consenting transactions cannot be “realized without continuous interferences with people’s lives” (p. 162), individuals inherently lack entitlement to their own properties. Following the framework of constant redistribution, by its nature, undermines individual rights to property by dictating its terms of distribution and use.

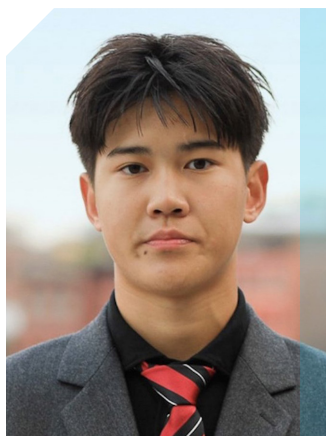
In 2023, the Trudeau government proposed a “more sustainable and secure Canadian economy for everyone” (Government of Canada, 2023). Meanwhile, the federal deficit skyrocketed during the bustling pre-pandemic economy alongside a rapidly expanding public service sector: from 2014 to 2023, the population of public services employees in the federal government increased by over 40 percent (Fuss, 2023). Specifically, through the expanded state, Trudeau’s government has implemented various programs, including a Housing Action Plan, costing \$15 billion; a Dental Care Plan, costing \$13 billion; and a drug relief plan, costing \$900 million. Yet despite these investments—funded by individual taxpayers—into the welfare of our state, 87 percent of Canadians reported low confidence in Canadian institutions (Fuss, 2023). Furthermore, all of these plans contain a great additive cost: taxes—federal income taxes as a share of federal revenue have grown dramatically from a mere 10 percent in 1921 to over 50 percent in 2017. While aiming to deliver relief to Canadians, these plans fail to allay the concerns of citizens as taxes continue to climb.

The examples listed previously fall under Nozick’s critique of patterned distribution. Nozick establishes that a patterned distribution is created “according to his moral merit, or ... needs” (Nozick, 1974: 155): a distribution of wealth that follows a specific principle. However, Nozick believes such distribution is unjustified and can only be realized with “continuous interference with people’s lives” (p. 162). To Nozick, the Canadian

government’s policies, including the Dental Care Plan, Housing Action Plan, and drug relief plan, are all redistribution attempts—patterned ones, based on what the government deems as societal needs—fuelled by incessant state intervention. On the individual scale, Nozick specifically emphasizes that when one entity “using one of these people for the benefit of others, uses him and benefits others”; it fails to “take account of the fact that he is a separate person” (p. 33). In the context of the Canadian government, when it begins to redistribute wealth through its welfare programs, it fails to adhere to individual liberties. Nozick would argue that this subtle expansion of the Canadian government—through investment in social service programs—is internecine. Nozick believes that “the minimal state is the most extensive state that can be justified,” and any expansion would be unnecessary and an infringement on the rights of the people (p. 149). Nozick’s idea of continuous interference is shown in redistribution propelled by the state: by redistributing through mandatory taxation, the state ignores “the principle of justice in transfer” (p. 150). A transfer of one’s own resources “is just if it arises from another just distribution by legitimate means” (p. 151); in other words, individuals have certain legitimate expectations regarding their property and resources based on the principles of justice in acquisition and transfer. When the state redistributes through welfare and taxation, it obviates individual rights and forcefully transfers resources without regard for legitimate expectations. To Nozick, this is a violation of individual liberties, as it disregards the established rights in any given society.

Nozick’s framework of the minimal state stands as the antithesis of the functions executed by the Canadian government today. Nozick proposes that the state must restrict itself to protecting the rights of its people. In today’s political climate, Canada is slowly trending towards a socialist system with a growing federal budget that invests heavily in welfare systems. To this, Nozick would argue that all welfare spending is classified under the principle of patterned redistribution. Such redistribution, he believes, infringes upon

individual liberties by forcing them to support government programs through taxation, thus violating the principles of justice in acquisition and transfer. This interference with personal property undermines the foundation of a free society with private property. Therefore, according to Nozick, the recent expansion of the Canadian government is unjustifiable and threatens individual freedoms. ◆



William Hou is currently a senior at St. George's School. He is particularly interested in how economic theories influence global business and plans to continue his studies in this field at university with the goal of driving meaningful change in the business world.

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THE WORKS OF MILTON FRIEDMAN: A FRAMEWORK FOR CANADA'S RESPONSE TO THE CURRENT INFLATIONARY ECONOMIC CLIMATE

MATT MACFARLANE

In today's economically volatile world, controlling inflation has become a critical challenge for policymakers. Renowned economist Milton Friedman championed the power of free markets and minimal government intervention as solutions to this problem. He argued that controlling the money supply, reducing government spending, and promoting deregulation were essential strategies to keep inflation in check. According to Friedman, these measures would stabilize the economy by preventing excess liquidity, fostering efficient resource allocation, and enhancing market competition. This essay explores how Friedman's principles can be applied to effectively manage and reduce inflation in contemporary economies.

Milton Friedman, a leading proponent of monetarism, would argue that controlling the money supply is essential for reducing inflation, based on his core belief that inflation was fundamentally a monetary phenomenon. One of the works of Friedman was the Quantity Theory of Money which proposed that there was a proportional relationship between the money supply in the economy and the price levels of

consumer goods (Friedman, 1987). In other words, inflation occurs when there is too much money chasing too few goods. If Friedman applied these principles to the current inflationary crisis occurring in Canada, he would likely identify significant increases in the money supply coupled with artificially low interest rates as the primary culprits. Between March 2020 and March 2022, the Bank of Canada printed nearly \$370 billion by purchasing financial assets like government bonds (Terrazzano, 2023). This excess liquidity boosted demand for goods and services, but lacked a corresponding increase to supply, inevitably leading to higher prices. Thus, central banks should only inject liquidity into the economy at a proportional rate to the rate at which the economy grows. The principle is known as the k-percent rule, and it was famously advocated for by Friedman (Halton, 2024). By keeping the money supply and the long-term growth rate proportional to each other, central banks can prevent the runaway inflation that is often motivated by erratic and politically motivated monetary interventions. Friedman's principles would caution against the short-term allure of using monetary policy to stimulate the

economy excessively. While it is undeniable that such measures can provide temporary increases to output and employment, the long-term costs of inflation, such as high interest rates, eroding purchasing power, and economic uncertainty, far outweigh the immediate benefits of stimulus through monetary expansion. If Friedman was addressing modern central banks, he would likely acknowledge that there are challenges that come with the current complex global economy, and resisting the political pressures of monetary easing can at times be difficult. However, by adhering to a rule-based monetary policy that effectively controls the money supply, central banks can stabilize prices and provide a foundation for long-term economic stability and growth.

While Milton Friedman would certainly be a critic of the Bank of Canada's management of the money supply, his economic principles would suggest that the blame for Canada's inflationary crisis ought to be shared with the Federal Government for their excessive deficit spending. According to chief economists from RBC, Canada's repeat deficits since the 2016–17 fiscal year have put the country just below the current deficit maximum and with expenditures set to increase by 7.1 percent in 2024–25 there is no sign of fiscal restraint in the future (Battaglia, 2024).

Friedman, a man with unwavering confidence in free markets, would surely be opposed to such excessive government spending and would likely suggest cutting non-essential public sector spending in favour of implementing efficient policies that unleashed the private sector to help the government carry the weight of providing services to consumers. Such areas in which Friedman would encourage private sector involvement would be childcare, pharmacare, and other expensive social programs carrying the brunt of the current increases in government spending. With greater efficiency and productivity, Friedman's principles would allow supply to keep up with any increase in demand, preventing inflation. By getting government out of the way, Friedman would argue that reducing government

spending in tandem with a controlled money supply would be sound policies to keep inflation low.

A staunch supporter of free markets and minimal government intervention, Milton Friedman understood that deregulation and free markets were crucial mechanisms for controlling inflation. At the core of this argument lay his belief that free markets are inherently more efficient at allocating resources than the government or any other centralized authority. Therefore, excessive regulation of the free market contributes to inefficiencies and distortions, leading to additional costs, which are passed on to consumers in the form of inflation.

Regulatory compliance often requires substantial financial and administrative resources which is burdensome for the business community. To make up for these additional costs, businesses are forced to pass these costs on to the consumer. As pointed out by Dustin Chambers and Courtney Collins of George Mason University, while these regulations may be well-intentioned, regulatory effects create volatile prices on goods (Chambers and Collins, 2016). Should a government adopt a deregulatory agenda, the elimination of unnecessary regulations can reduce operational costs, having a deflationary effect on the goods in the market. Furthermore, deregulation can enhance competition, which is an imperative element to a low inflation climate. Regulations have long been known to stifle competition, as indicated by the Trump White House Council of Economic Advisers, which found that excessive regulation costed the US an average of 0.8 percent GDP growth per year since 1980, ranking them 27th out of 35 countries in terms of competition based on product market regulations (Council of Economic Advisers, 2017). A lack of competition can lead to monopolistic or oligopolistic markets in which a few firms have enough pricing power that they are able to increase prices without the fear of losing market share. Deregulation is a way of breaking down barriers to encourage new entrants into the market, fostering a competitive environment



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where businesses must innovate and improve efficiency to survive. This competitive pressure keeps prices in check, mitigating inflation. An example of such a regulatory measure that Friedman would take issue with would be the enactment of price controls, which have been known to lead to shortages and exacerbations of long-term inflation. Friedman would argue that allowing prices to adjust freely in the market ensures that supply and demand are appropriately balanced so that inflation does not occur. Milton Friedman realized that by fostering competition, reducing operational costs, and letting the market set prices, deregulation provides a path towards controlling inflation in an effective manner.

Milton Friedman's economic principles provide a robust framework for controlling inflation by focusing on the money supply, reducing government spending, and promoting deregulation. By managing these key areas, we can stabilize the economy, ensure efficient resource allocation, and enhance market competition. As we face ongoing economic challenges, Friedman's insights remind us of the enduring power of free markets and prudent fiscal policies in maintaining price stability. Reflecting on these strategies, policymakers must consider how these timeless principles can be adapted to today's complex economic landscape to foster long-term stability and growth. ◆



Matt MacFarlane is a medical science student at Dalhousie University. His interests lie in healthcare and public policy and he hopes to act on these interests through the fields of medicine and politics.

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MILTON FRIEDMAN ON THE CANADA EMERGENCY RESPONSE BENEFIT

SEAN LI

Introduction

On March 11, 2020, the World Health Organization declared COVID-19 as a pandemic. Consequently, from January to May 2020, Canada experienced a dramatic decline in employment, with approximately 3.4 million jobs lost, equating to nearly 20 percent of the workforce (Clarke and Fields, 2022).

In response, the Government of Canada established the Canada Emergency Response Benefit (CERB), which provided temporary monetary distributions of \$2,000 to those eligible to mitigate the economic impacts of the pandemic (Morissette, Turcotte, Bernard, and Olson, 2021). While CERB was widely successful, with nearly a million applicants on the first day, critics argued that the policy was “backwards” (Harris, 2020).

In this analysis, we focus on this claim that CERB was “backwards” by utilizing Milton Friedman’s Permanent Income Hypothesis (PIH) to understand the economic impacts of CERB on the Canadian economy and how consumer spending was

impacted during the pandemic. By analyzing empirical data on consumer spending and household savings, we illustrate the limitations of CERB and suggest an alternative policy that aligns with the PIH principles to better support economic stability and consumer behaviour during crises.

Permanent Income Hypothesis

Milton Friedman’s Permanent Income Hypothesis (PIH) challenges the Keynesian multiplier, which suggests that additional government spending would bolster consumer spending, which in turn, stimulates the economy (Landsburg, 2019: 3).

However, Friedman’s PIH suggests that consumer spending is primarily tied to a consumer’s long-term average income rather than temporary income fluctuations (Landsburg, 2019: 4). This theory is based on the idea that consumers tend to strive towards a consistent standard of living and adjust their spending based on expected future permanent income. As defined by Friedman (1957), permanent income is the average income that individuals expect to receive over the long term



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whereas temporary income is not permanent and may come in the form of tax refunds, monetary bonuses, or temporary government assistant payments (pp. 20–37).

A key consequence of the PIH is that a rise or fall in your non-permanent income results in minimal variation in current spending (Landsburg, 2019: 4–5). Thus, most temporary income is saved rather than spent. Overall, Friedman’s theory suggests that when individuals experience a temporary increase in income, they tend to save rather than spend due to their expected permanent income remaining unchanged.

Canada Emergency Response Benefit and Empirical Data

As stated previously, CERB was an initiative taken by the Government of Canada to assist workers directly affected by COVID-19. The relief program was effective from March 15 to September 26, 2020, spanning 28 weeks (Morissette, Turcotte, Bernard, and Olson, 2021). Recipients were granted \$2,000 for an initial four-week period with the option to request further extensions, resulting in a maximum entitlement of \$14,000 (Morissette, Turcotte, Bernard, and Olson, 2021). Consequently, the main criticism that Friedman would have about CERB is that the benefit would have minimal economic impact due to the temporary nature of the benefit.

Empirical data supports Friedman’s PIH theory, as reflected by the bi-yearly 2021 Survey of Household Spending by Statistics Canada. The survey revealed that in 2021, there was a decrease in average household spending by 6.5 percent compared to 2019, accounted for inflation (Statistics Canada, 2023). From the perspective of Friedman, this data is not surprising. Due to the large increase in unemployment, many families expect a lower future permanent income and thus, decrease their current spending.

In contrast, 35.2 percent of Canadians received the CERB benefits, injecting around \$81.64 billion into the economy (Morissette, Turcotte,

Bernard, and Olson, 2021). Given such a large distribution of money in a short period, one might expect a significant boost in consumer spending, considering the Keynesian multiplier.

However, empirical data suggests otherwise. Observed from figure 1, at the start of the pandemic (end of Q1 2020), household income decreased while figure 2 shows that household savings increased drastically from 5.3 to 26.5 percent within the same time frame. Recall that CERB benefits spanned from March to September 2020, coinciding with the drastic spike in the saving rate. The data further reveals a drastic decrease in the saving rate relative to the initial spike which aligns with the end of CERB benefits. With this data taken into consideration, it perfectly aligns with Friedman’s Permanent Income Hypothesis, individuals receiving CERB benefits tend to save rather than spend the money due to the non-permanent nature of the transfers.

This trend is further reflected in the increase in disposable income in Q2 2020, which could be attributed to various factors, including CERB. In particular, the first three quarters of 2020 saw an increase in disposable income for the lowest-income households by 36.8 percent (Statistics Canada, 2021). This drastic increase is attributed to the unprecedented government transfers that “exceeded losses in wages and salaries” (Statistics Canada, 2021). However, even with an increase in disposable income, consumer spending decreased whilst the saving rate increased.

Overall, these trends underscore the nuanced impact of temporary relief measures like CERB on consumer behaviour and aligns with Friedman’s PIH. The increase in disposable income and the simultaneous decrease in consumer spending and increase in the saving rate suggests a propensity towards precautionary saving when households are unsure about their long-term income.

Based on the data presented, it is evident that the CERB was not the most efficient policy for

sustaining economic activity during the pandemic. Therefore, it is crucial to explore alternative policies that could provide more effective economic support.

Changes in Household Income and Disposable Income

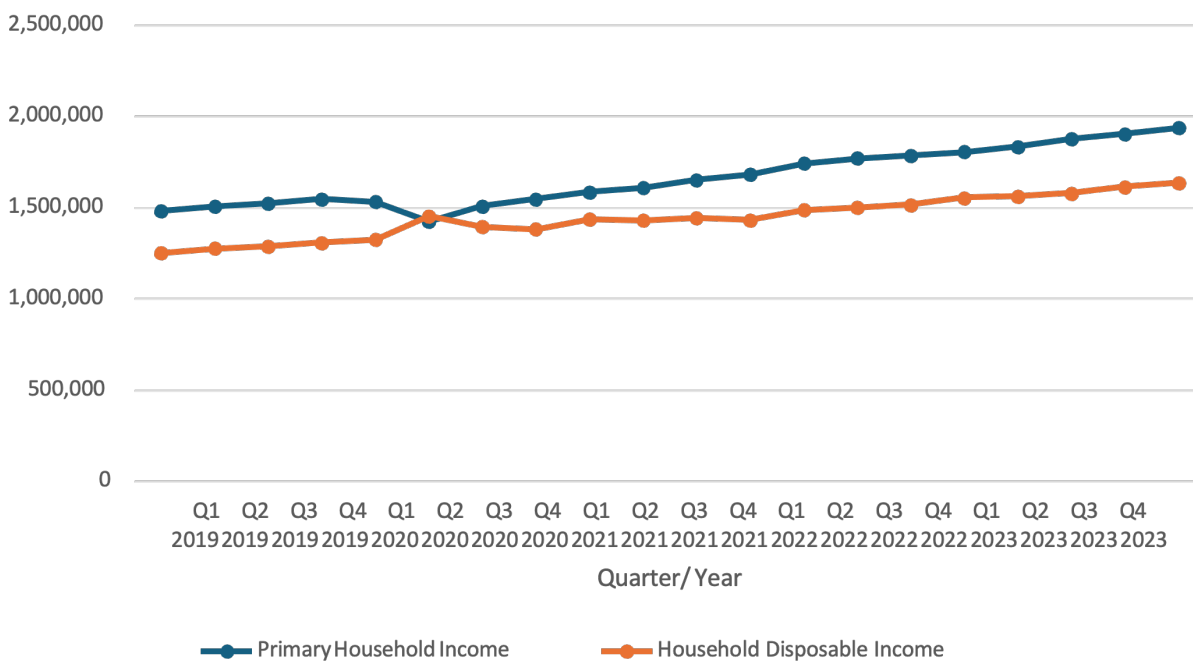


Figure 1: Changes in Household Income and Disposable Income [2019-2023]

Changes in Household Saving Rate Quarterly and Seasonally Adjusted

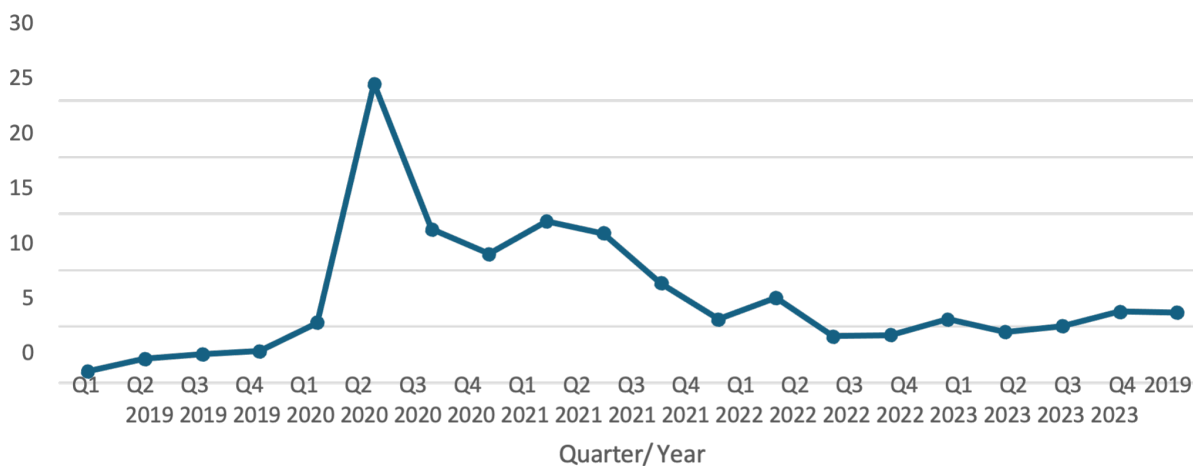


Figure 2: Changes in Household Saving Rate [2019-2023]

An Alternative Policy

Milton Friedman was an advocate for a negative income tax system, envisioning it as a more efficient and equitable means of providing social welfare compared to traditional welfare programs (Friedman, 2002: 192). His proposal aimed for a streamlined system where individuals earning below a certain income threshold would receive direct financial support from the government (Friedman, 2002: 192). This approach

sought to provide a guaranteed minimum income to all citizens, thereby reducing poverty and income inequality.

Friedman's negative income tax system also aligns with the principles of the Permanent Income Hypothesis, as it ensures a stable income base for individuals, allowing them to make long-term consumption decisions without the stress of short-term financial instability. By integrating these economic theories, we can propose an alternative policy that addresses the main objective of CERB: mitigating the loss of income due to the pandemic while maintaining current spending levels.

A temporary negative income tax system could be implemented where individuals whose incomes fall below a certain threshold due to the pandemic will receive supplemental income from the government. The amount of assistance provided should not be based only on their current income but also on their expected long-term income once the pandemic subsides. By incorporating both short-term income needs and long-term income expectations into the calculation process, this approach ensures that an individual's income is consistent, thereby promoting consistent consumer spending. Furthermore, it is important to recognize that although termed "temporary," this policy would align with the principles of the PIH since it focuses on maintaining expected future income rather than providing short-term monetary boosts.

By ensuring a consistent income for all citizens, a negative income tax system can significantly contribute to overall economic stability. This approach helps maintain consumer spending during economic downturns, thereby mitigating the impacts of recessions and supporting economic recovery. It provides financial security for households by ensuring that individuals have the financial means to meet their needs, and thus, reducing the likelihood of sharp declines in consumer spending that can exacerbate economic downturns.

Conclusion

In conclusion, the Canada Emergency Response Benefit (CERB), while effective in providing immediate relief to millions of Canadians during the outset of the COVID-19 pandemic, demonstrates limitations when viewed through the lens of Milton Friedman's Permanent Income Hypothesis. Friedman's theory suggests that temporary income boosts, such as CERB payments, are more likely to be saved rather than spent, resulting in a minimal impact on overall consumer spending. Empirical data from Statistics Canada supports this notion, showing a significant increase in household savings rates during the period when CERB was distributed, and a corresponding decrease in consumer spending.

To address these shortcomings, an alternative policy inspired by Friedman's advocacy for a negative income tax system could be more effective. In particular, a temporary negative tax system during economic crises could provide a more consistent income, allowing individuals to make longer-term consumption decisions without the stress of short-term financial instability. By ensuring targeted assistance based on individuals' overall financial situations, rather than just their immediate income loss, this policy could maintain consumer spending and contribute to economic stability. ◆

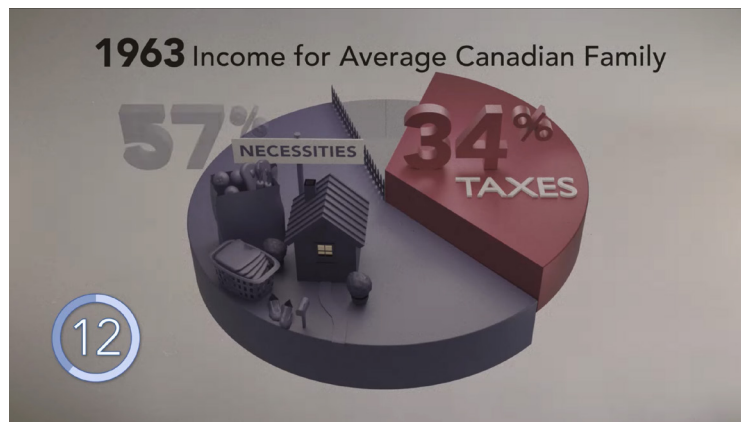
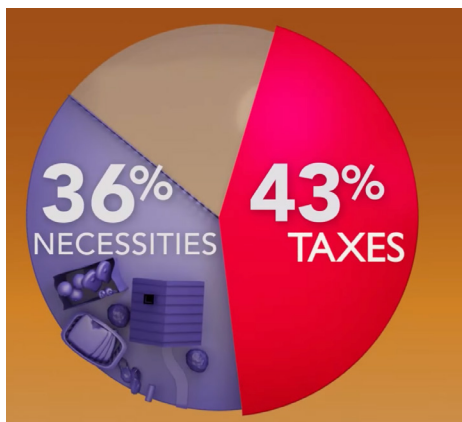
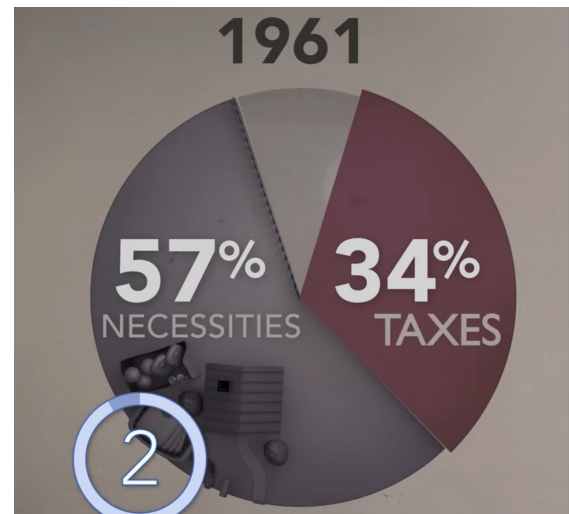


Sean Li is currently an economics student at The University of British Columbia. His interest lies in monetary policy and he hopes to act on this interest in his further studies of economics.

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HOW MUCH DO CANADIANS PAY IN TAXES COMPARED TO HOUSING, FOOD AND OTHER NECESSITIES OF LIFE?



WHY YOUR PLANE TICKET IS SO EXPENSIVE

ALEX WHALEN AND JAKES FUSS

While the strike by WestJet mechanics lasted only a few days, many Canadian air travellers faced long delays and cancelled flights. More broadly, according to the Canadian Transportation Agency, customer complaints have hit an all-time [high](#).

Yet many dissatisfied travellers likely don't realize that Ottawa heavily contributes to their frustrations. Let's look at the various ways federal policies and laws make air travel worse in Canada.

First, federal laws insulate Canada's airlines from competition. Foreign airlines are subject to [highly restrictive](#) "cabotage" laws which, for example, dictate that foreign airlines cannot operate routes between Canadian cities. At the same time, foreign investors are [forbidden from owning](#) more than 49 per cent of Canadian airlines. By restricting international participation in the Canadian air travel market, these laws both deprive Canadian consumers of choice and insulate incumbent airlines from competition. When consumers have more choice, incumbents have a greater incentive to improve performance to keep pace with their competitors.

Second, a wide array of taxes and fees heavily influence the cost of airline tickets in Canada. Airport improvement fees, [for example](#), average \$32.20 per departing passenger at airports in Canada's 10 largest markets. In contrast, airport improvement fees in the United States [cannot exceed \\$4.50](#). And last year the Trudeau government [increased](#) the "air travellers security charge" by 32.85 per cent—this fee, which now ranges from \$9.94 to \$34.82 per flight, [is higher](#) in Canada than the U.S. across all flight categories. On the tax front, in addition to fuel taxes including the federal carbon tax, the [federal excise tax](#) on unleaded aviation gasoline in Canada is 10 cents per litre compared to 6.9 cents per litre [in the U.S.](#) And the U.S., unlike Canada, does not apply sales taxes to aviation fuel.

Third, air travel is a heavily regulated sector. Federal legislation generates thousands of provisions airlines must follow to operate legally in Canada. Of course, some regulation is necessary to ensure passenger safety, but each regulation adds administrative and compliance costs, which ultimately affect ticket prices. To lower the cost of



**AIRPORTS
MUST STILL
PAY RENT TO
THE FEDERAL
GOVERNMENT—
NEARLY HALF
A BILLION
DOLLARS
ANNUALLY**

air travel, the federal government should reduce the regulatory burden while maintaining safety standards.

Lastly, the ownership model of Canada's airports results in a yearly transfer of rent to the federal government. The federal government used to [own](#) Canada's national system of airports until they were transferred to private not-for-profit corporations in the early 1990s. However, these airports must still pay rent to the federal government—nearly half a billion dollars annually, [according](#) to the Canada Airports Council. As with the other examples listed above, these costs are ultimately passed on to consumers in the form of higher ticket prices.

While a precise estimate is difficult to obtain, various government policies, taxes and fees comprise a large share of the cost of each airline ticket sold in Canada. With complaints from travellers at all-time highs, the federal government should reduce the regulatory burden, increase competition, and lower fees and taxes. Policy reform for air travel in Canada is long overdue. ♦



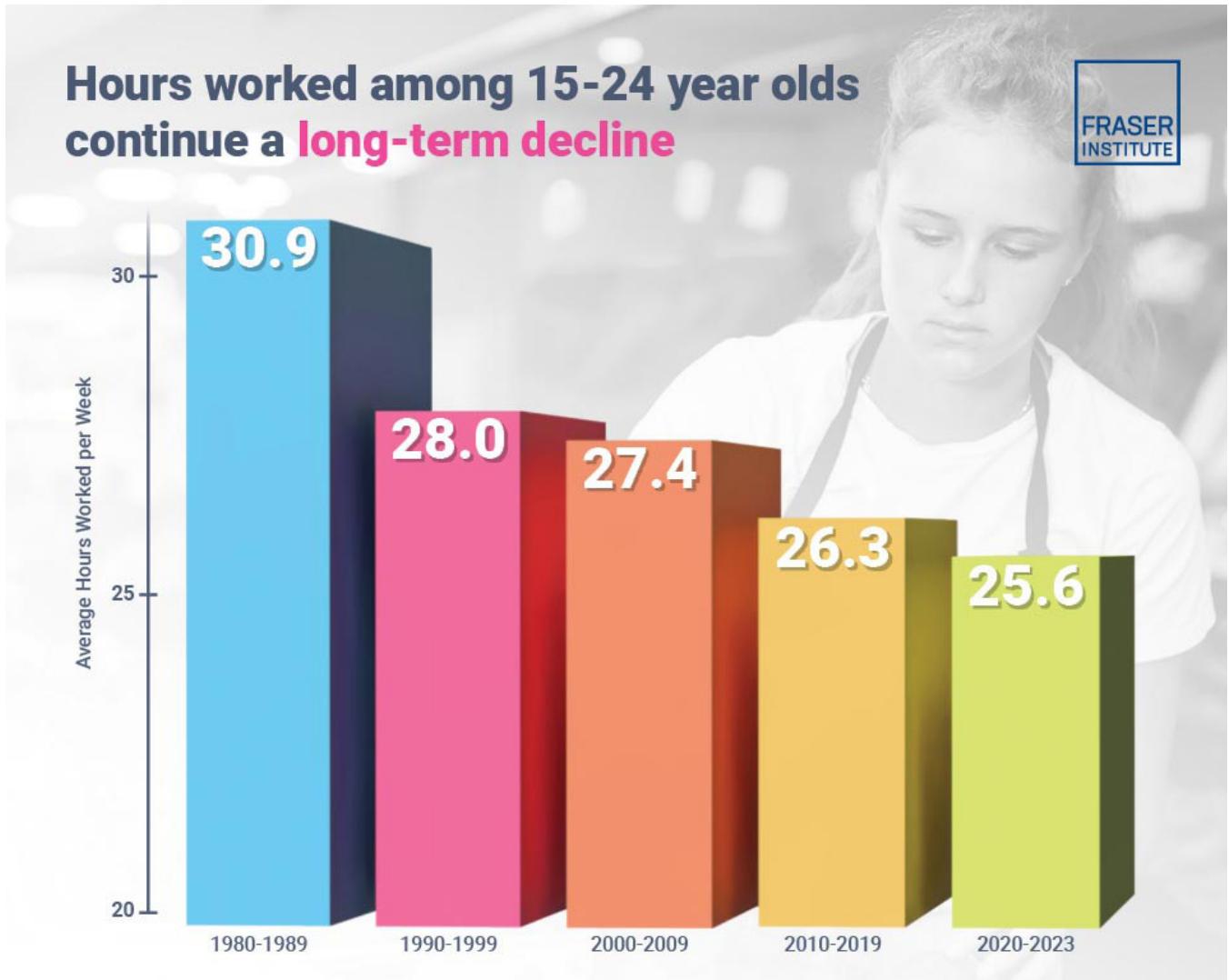
Alex Whalen is Director, Atlantic Canada Prosperity with the Fraser Institute and coordinator of the activities of the Atlantic Canada division. Prior to joining the Institute, Alex was Vice-President of the Atlantic Institute for Market Studies (AIMS), which merged with the Fraser Institute in 2019. He is a graduate of the Schulich School of Law at Dalhousie University, and the School of Business at the University of Prince Edward Island. He brings prior experience as an entrepreneur and business manager to his work at the Institute. His writing has appeared widely in newspapers including the Globe and Mail, National Post, Chronicle Herald, Telegraph Journal, Calgary Herald, and others.



Jake Fuss is Director of Fiscal Studies for the Fraser Institute. He holds a Bachelor of Commerce and a Master's Degree in Public Policy from the University of Calgary. Mr. Fuss has written commentaries appearing in major Canadian newspapers including the Globe and Mail, Toronto Sun, and National Post. His research covers a wide range of policy issues including government spending, debt, taxation, labour policy, and charitable giving.

TRENDS IN YOUTH EMPLOYMENT

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HERE'S WHY YOUNG CANADIANS ARE PESSIMISTIC ABOUT THE FEDERAL GOVERNMENT

JAKE FUSS AND GRADY MUNRO

A new poll shows that the share of Canadians feeling pessimistic about the federal government has reached a new high. This should come as no surprise. Years of poor policy has left Canadians with a stagnant economy and declining living standards. And despite the Trudeau government's recent focus on younger generations, young people appear the most pessimistic of all.

According to the [poll](#) conducted by Nanos, 39.8 per cent of Canadians feel "pessimism" towards the federal government—representing a seven-year high. On the flip side, 7.6 per cent feel "satisfaction," a seven-year low.

More broadly, 68.7 per cent of respondents reported negative feelings ("anger" or "pessimism") towards the federal government while just 16.3 per cent reported positive feelings ("optimism" or "satisfaction"). The remaining 15.0 per cent either weren't sure or were simply disinterested.

Again, it's not surprising that the majority of Canadians report negative feelings about Ottawa,

in light of the Trudeau government's fiscal and economic mismanagement.

For example, due to record-high spending, the Trudeau government will run its tenth-consecutive budget deficit in 2024/25 at a projected [\\$39.8 billion](#). These deficits have contributed to a remarkable rise in federal government debt since Prime Minister Trudeau first took office. From [2014/15](#) (the Harper government's last full year) to [2024/25](#), federal gross debt is expected to have approximately doubled to \$2.1 trillion. And the Trudeau government has no plans to change course. Deficits are [expected](#) to continue until at least 2028/29, and projections suggest gross debt will increase an additional \$400.1 billion over the same period.

What have Canadians gained from all this spending and debt?

Through the implementation of sweeping programs such as \$10-a-day daycare and national dental care, the Trudeau government has expanded its role in the lives of Canadians. But because the government

has chosen to use taxpayer dollars to provide services that were already offered privately, many Canadians have [less choice](#) of how to best to use their hard-earned money due to the imposition of higher taxes. Indeed, 86 per cent of middle-income families now [pay more in taxes](#) than they did in 2015, adding to the cost of [living](#).

At the same time, Ottawa and some provinces have spent tens of billions on [corporate welfare](#) with the [promise](#) that it will promote economic growth. But over the last decade the economy has posted its [worst performance](#) since the 1930s, and Canadian living standards have been in a historic [decline](#) since mid-2019.

Finally, the burden of government debt and poor economic prospects may be why younger generations are feeling the most pessimistic. Indeed, among [survey](#) respondents aged 18 to 34, 41.3 per cent were “pessimistic” about the federal government while just 5.3 per cent

were “satisfied” (the largest and smallest shares, respectively, relative to all other age groups). Despite the Trudeau government’s rhetoric about “[generational fairness](#),” younger generations face a [disproportionately](#) higher tax burden in the future due to debt accumulated today. Meanwhile, according to long-term [projections](#), Canadian living standards will fall further behind comparable countries (including the United States, Australia and the United Kingdom) over the coming decades.

Canadians are worse off today than they were 10 years ago, and should expect higher taxes and relatively little improvement in their living standards in coming years due to poor government policy. Is it any wonder they’re feeling pessimistic? ◆



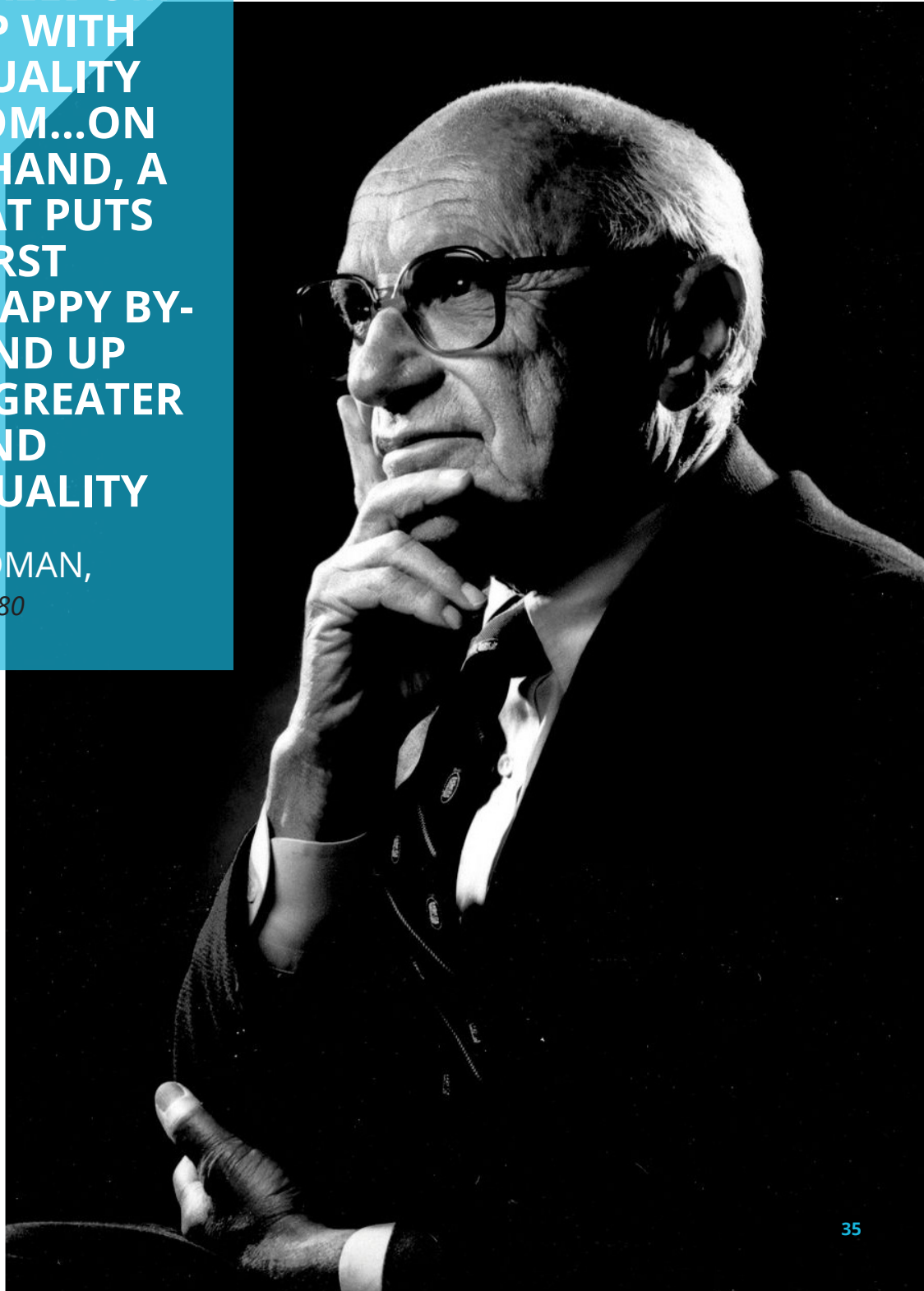
Jake Fuss is Director of Fiscal Studies for the Fraser Institute. He holds a Bachelor of Commerce and a Master’s Degree in Public Policy from the University of Calgary. Mr. Fuss has written commentaries appearing in major Canadian newspapers including the Globe and Mail, Toronto Sun, and National Post. His research covers a wide range of policy issues including government spending, debt, taxation, labour policy, and charitable giving.



Grady Munro is a Policy Analyst at the Fraser Institute. He holds a Bachelor of Arts in Economics from Macalester College in Minnesota, and a Master’s Degree in Public Policy at the University of Calgary. Mr. Munro’s commentaries have appeared in the Toronto Sun, Halifax Chronicle Herald, and Vancouver Province. His research focuses on government spending, debt, and taxation.

A SOCIETY THAT PUTS EQUALITY—IN THE SENSE OF EQUALITY OF OUTCOME—AHEAD OF FREEDOM WILL END UP WITH NEITHER EQUALITY NOR FREEDOM...ON THE OTHER HAND, A SOCIETY THAT PUTS FREEDOM FIRST WILL, AS A HAPPY BY-PRODUCT, END UP WITH BOTH GREATER FREEDOM AND GREATER EQUALITY

— MILTON FRIEDMAN,
CREATED EQUAL, 1980



A REVIEW OF *THE CODDLING OF THE AMERICAN MIND*

LISA FAN

As the largest election year ever is well underway and heading into what some consider the most influential election of them all--that of the United States, the world becomes an increasingly divided and hostile place. More relevant than ever is Greg Lukianoff and Jonathan Haidt's book, *The Coddling of the American Mind, How Good Intentions and Bad Ideas are Setting up a Generation for Failure*. Published in 2018, this book addresses the growing divide on both sides of the political spectrum, and in particular, on American college campuses. Through a psychological perspective, *The Coddling of the American Mind* seeks to answer the question "why is political polarization on the rise?"

According to Lukianoff and Haidt, the answer to this question lies in the emergence of a culture of "safetyism" in the early 2000s, which prompted the parents of Gen Z to adopt a style of parenting that catered to not only the child's physical, but also emotional safety. The authors argue that this led children to believe in their own fragility, to see the world in dichotomous terms, and to reason using their emotions. These "untruths" led young people

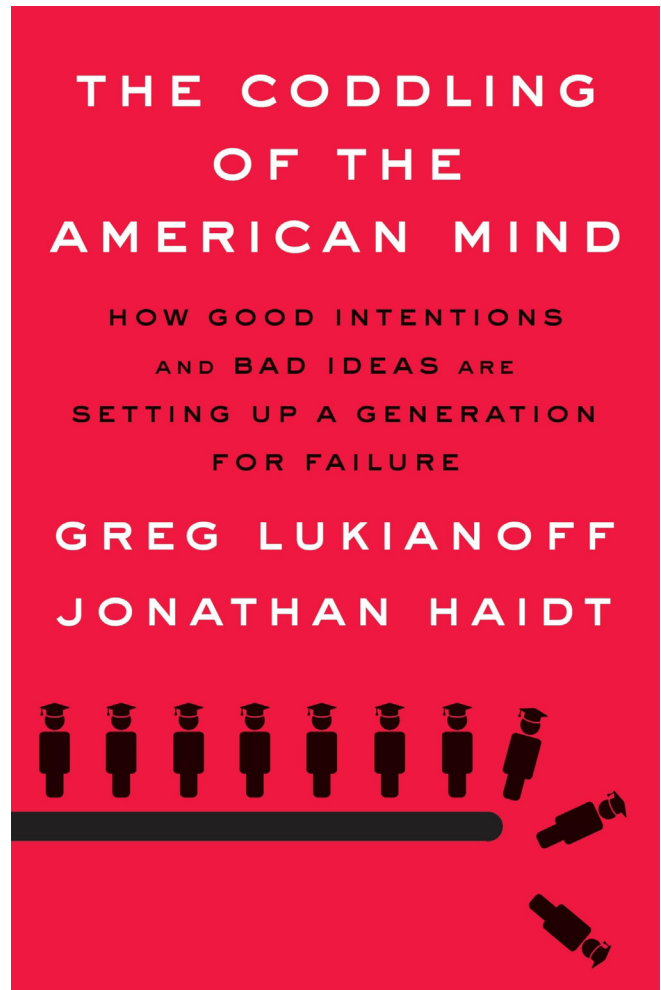
to develop cognitive distortions and behave in ways antithetical to conventional wisdom.

As these children grew up, they were exposed to politics and aligned their flawed ways of thinking with political agendas, whether liberal or conservative. This phenomenon manifested on college campuses through protests against speakers, demands for faculty resignations, and in some extreme cases, outbreaks of violence. The authors observed that when some students felt ideologically or emotionally challenged by their peers, teachers, or schoolwork, they often rebelled, demanding safety through the removal of the source of offense. However, this is problematic because it contradicts the spirit of higher education, which seeks to uphold the freedom of speech and challenge students' preconceived biases through healthy intellectual exchange.

So, how do we address this issue? The authors propose that Cognitive Behavioral Therapy, a process of identifying and breaking cognitive distortions, could help students combat emotionally charged ways of thinking and instead promote

critical thinking. They do not insist on everyone undergoing therapy, but instead advocate for a vision of the political system whereby individuals are more aware of their cognitive flaws and are thereby more open to criticism and cross-partisan dialogue.

The Coddling of the American Mind is commendable for its effectiveness among other qualities. It communicates a problem, its causes, and its solutions, while using engaging examples and convincing statistics to back its claims. It is non-partisan, fact-based, and critical—a worthy example of the sort of intellectual inquiry it advocates for. This is a book that forces readers to confront their biases and question their beliefs. It is best suited for those who believe polarization is a problem, and are willing to reflect on and change their actions for the betterment of our democracy. ♦



Lisa Fan is a freshman at the dual bachelor's degree between Columbia University and SciencesPo where she's studying international relations and financial economics. Although Lisa is ambitious, she isn't sure what she wants to do yet—maybe consulting, maybe finance, maybe painting in the french countryside. The world is her oyster, but she's too much of a relativist to make anything of it. If you have advice for her, or want to talk about film or literature, feel free to reach her at lisafan139@gmail.com.

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