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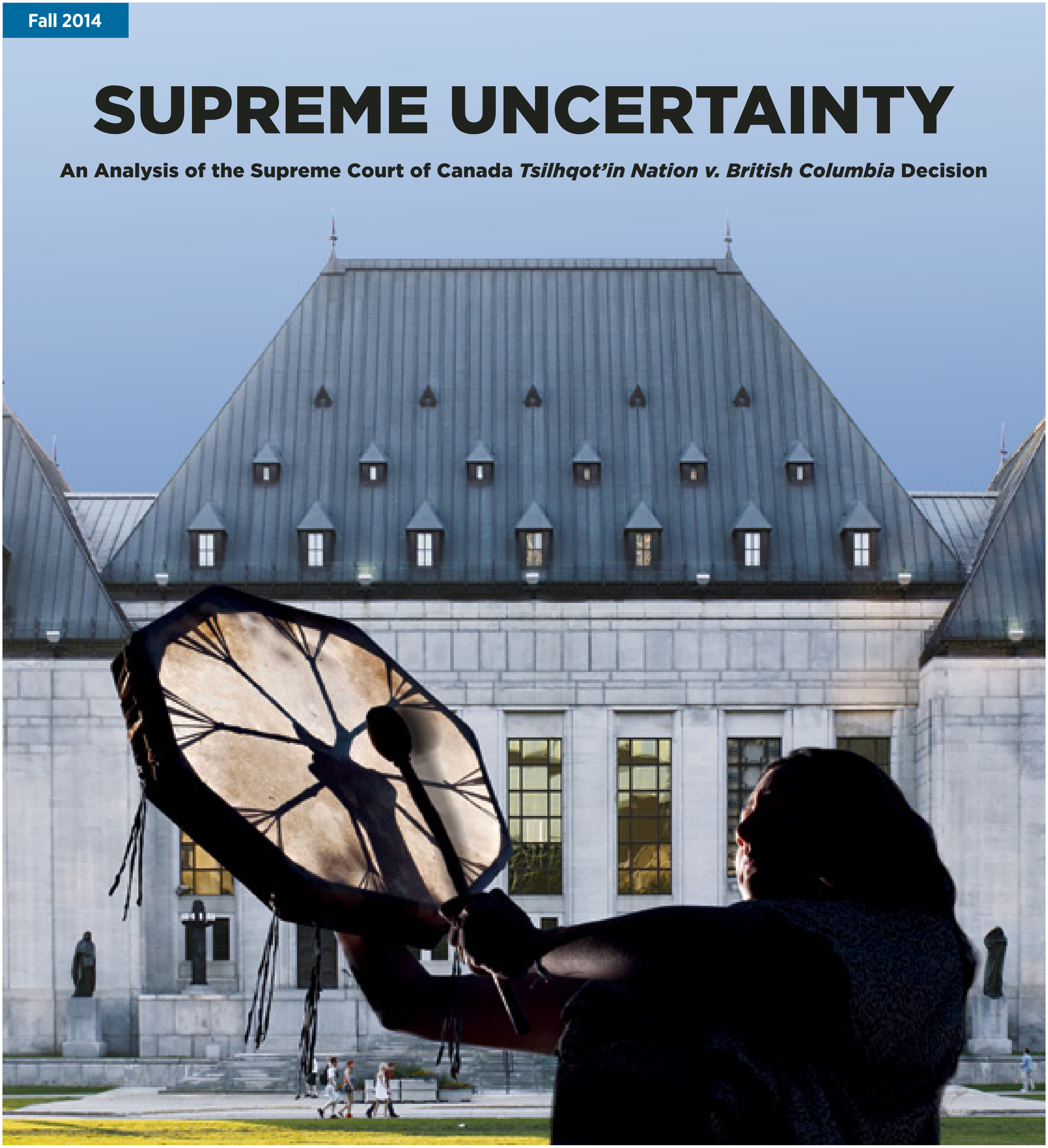
FRASER INSTITUTE

THE Quarterly

Fall 2014



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ALSO INSIDE

Tax Freedom Day

Dutch health care system shows competition works

Are "Wynne Days" ahead?

MESSAGE FROM THE INSTITUTE'S PRESIDENT

Niels Veldhuis
President, Fraser Institute

Dear Fraser Institute Friends and Supporters,

High quality, impactful, and timely research is the foundation of the Fraser Institute. It's what we have been doing for forty years. And this summer was no different.

When the Supreme Court of Canada issued an historic judgment on Aboriginal title—a ruling that will greatly affect all Canadians—the Institute released a detailed review of the judgement: *A Real Game Changer: An Analysis of the Supreme Court of Canada Tsilhqot'in v. British Columbia Decision* in less than two weeks.

You can read a summary of the study which attracted widespread media attention, appearing in print and broadcast news outlets across Canada, on page 2. In addition, a *Globe and Mail* article by senior fellow Tom Flanagan and associate director of aboriginal policy studies Ravina Bains (page 15) noted that the real victors of this judgment will be lawyers and consultants.

Mid-way through the summer, the freshly re-elected Liberal government in Ontario re-tabled its budget. As Institute analysts Charles Lammam and Sean Speer concluded in their *Toronto Sun* commentary (page 28), the big-spending, tax-increasing budget will only push the province further in the wrong direction. The budget also included a plan for a new "made-in-Ontario" pension program. As Philip Cross, former chief economic analyst for Statistics Canada, found in his Fraser Institute study, *Evaluating the Proposed Ontario Pension Plan* (page 8), the plan is based on a fundamentally flawed assumption that Ontarians don't save enough for retirement.

Unfortunately Ontario is not the only province facing difficulties. As Institute senior fellow Livio Di Matteo and Executive Vice President Jason Clemens found in their study *An Economic and Fiscal Comparison of Alberta and Other North American Energy-Producing Provinces and States* (page 10), Alberta lags behind other jurisdictions due to increased spending, relatively poor productivity growth, and higher taxes. And as Jean-François Wen found in his study, *Capital Budgeting and Fiscal Sustainability in British Columbia*, government debt in B.C. is growing rapidly and continues to do so under the radar.

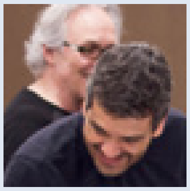
I can't highlight all of the great work the Institute is doing in this short space but I would encourage you to read about it in this issue of *The Quarterly*.

Best,

Niels Veldhuis

New Research

Education Programs



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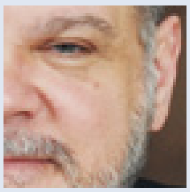

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National Implications for Resource Development from Supreme Court Ruling

Ravina Bains

The Supreme Court of Canada's recent judgment on Aboriginal title for the Tsilhqot'in First Nation in British Columbia should be of great concern to all Canadians. This judgment will significantly increase the level of uncertainty in Canada's natural resource sector and will likely deter investment and exploration in Canada.

FRASER RESEARCH BULLETIN

FROM THE CENTRE FOR ABORIGINAL POLICY STUDIES

July 2014

A Real Game Changer: An Analysis of the Supreme Court of Canada *Tsilhqot'in Nation v. British Columbia* Decision

by Ravina Bains

Alexis Creek

Williams Lake

Aboriginal title recognized for more than 1700 sq. kilometres

Whistler

Vancouver

SUMMARY

- The *Tsilhqot'in Nation v. British Columbia* judgment represents the first time Aboriginal title has been recognized (outside an Indian Reserve) to a First Nation in Canada. The unanimous judgment recognized Aboriginal title to over 1,700 square kilometers of land in the interior of British Columbia.
- Despite having fee simple characteristics, Aboriginal title represents communal ownership, not individual property rights.
- This judgment provides a clear test for when Aboriginal title can be recognized on traditional territory.
- Where Aboriginal title has been recognized, economic development will require the consent of the First Nation that holds title. However, the Crown can push through development, without **the consent of the First Nation, if it is able to demonstrate a compelling and substantial public purpose for the proposed activity.**
- The judgment reaffirms that consultation processes and the justification of infringements of Aboriginal rights and title are the responsibility of the Crown and not project proponents. It will mean that if development is to occur on Aboriginal title land against the wishes of the First Nation, governments will have to be advocates for third party projects.
- Where there is no consent, and the potential infringement cannot be justified, proposed projects may be set aside by the court. This is also true for existing development projects. This puts current and potential development at risk and results in increased uncertainty for economic development in British Columbia.

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FRASER RESEARCH BULLETIN 1

More than 12% of Canada's economic output is directly generated by resource development (i.e. energy, forestry, and mining). These industries are leading sources of stable, high-paying jobs and unless these uncertainties can be mitigated by purposeful government action, Canada's economic future looks bleaker.

Unfortunately much of the analysis of the Tsilhqot'in judgment, such as that by McMillian lawyer and former Deputy Minister of Energy, Mines and Petroleum Resources in British Columbia, Robin Junger, misses the most important impact of these judgments—the increased riskiness of investing in Canada's natural resource sector.

When investors examine potential opportunities, they spend considerable time evaluating exposure to various risks, including business, economic, political, and exchange rate risk. Many of these risks can be managed and mitigated through insurance and hedging. Others, such as political risk, can leave a business exposed to uncertainty that simply cannot be controlled or mitigated.

Uncertainty is one of the biggest barriers to business investment since it is difficult if not impossible to manage (this is distinct from risk, which can be managed when understood properly). One of the main implications of the recent Supreme Court of Canada judgment is that it increases uncertainty in Canada's natural resource sectors in areas lacking treaties with First Nations.

Where treaties exist, some degree of certainty remains. For example, the July 11th Grassy Narrows Supreme Court of Canada judgment upheld the Ontario government's right to "take up" and issue resource licenses on lands covered under historic Treaty 3. The stark contrast between this and the Tsilhqot'in judgment demonstrates the importance of negotiated settlements and treaties when trying to advance resource development in Canada.

The Tsilhqot'in judgment makes Canada even less attractive by markedly increasing the risk of investment because of the uncertainties linked to this legal decision.

The Tsilhqot'in judgment represents the first time in Canadian history a declaration of Aboriginal title has been granted outside an Indian reserve. And unlike previous judgments, the Tsilhqot'in ruling states that Aboriginal title can extend to all traditional territories and is not limited to specific village sites. Even more important, once Aboriginal title has been recognized, project development requires the consent of the First Nation that holds title, except where the government can demonstrate a compelling and substantial public purpose for the project.

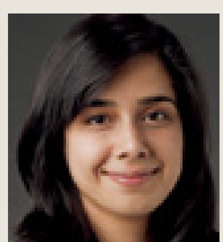
If there is a project on Aboriginal title land not supported by the First Nation, even if it has long existed, then according to the Tsilhqot'in judgment, the government "may be required to cancel the project ... if continuation of the project would be unjustifiably infringing."

Ultimately the courts will decide the merits of each claim and the precise amount of land deemed to have "Aboriginal title" but the reality is this litigious path creates incredible uncertainty for investors and will likely be a tipping point whereby investment capital deems Canada too risky to justify investment. Put differently, there is little question the Supreme Court judgment will put a freeze on exploration and investment in mining, energy and other natural resources until clarity and some certainty emerge.

For example, since this judgment was released, the Gitxsan First Nations in British Columbia moved to enforce their claim to traditional territory by serving eviction notices to logging companies, sport fishermen and CN Rail to vacate their traditional territory along the Skeena River, citing the Tsilhqot'in judgment as justification. So in provinces such as British Columbia, where over 100% of the land is under claim by First Nations, resource projects currently under development or already in operation may be at risk due to Aboriginal title.

Canada is a small exporting country with world-class natural resource deposits but we live in an increasingly global world and must compete with other jurisdictions for investment. In mining for example, many other jurisdictions are equally if not more attractive to investors than Canada, including Western Australia, Nevada, Finland, Alaska, and Sweden.

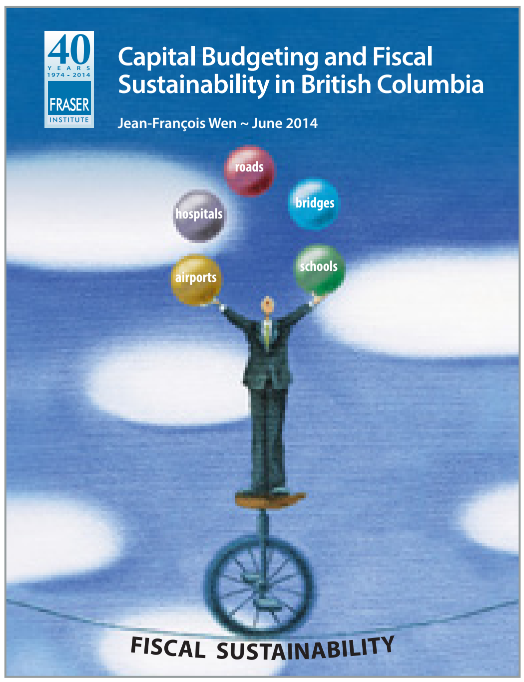
The Tsilhqot'in judgment makes Canada even less attractive by markedly increasing the risk of investment because of the uncertainties linked to this legal decision. The federal and provincial governments along with Aboriginal leaders must recognize the enormously destructive implications of foregone investment for all Canadians and move to mitigate the uncertainties created by the Supreme Court decisions. FI


RAVINA BAINS

Ravina Bains is associate director of Aboriginal Policy Studies at the Fraser Institute. She is the author of *A Real Game Changer: An Analysis of the Supreme Court of Canada Tsilhqot'in Nation v. British Columbia Decision*, available at www.fraserinstitute.org.

BC Government Debt Growing Under the Radar

Jean-François Wen



Finance minister Mike de Jong issued a flurry of press releases in the spring touting the high credit rating of the BC government by various rating agencies. In one release he said: "The judgment of the rating agencies is an objective confirmation that by balancing our budget and keeping our debt affordable for British Columbians, our finances are on the right track." Statements like these can mislead British Columbians about the actual state of BC's finances, which may not be as rosy as the minister lets on.

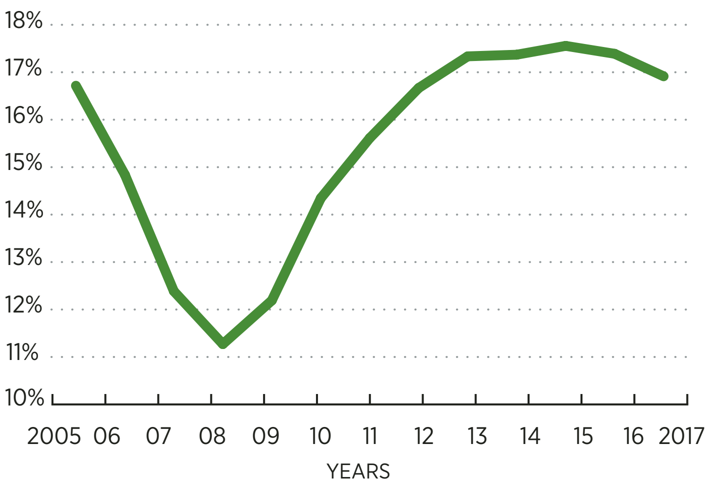
When de Jong refers to BC's budget being balanced, he is referring to the government's operating budget. However, government debt in BC is growing and the source is hidden in the province's capital budget, unnoticed by many taxpayers. If not carefully managed, this debt could pose fiscal challenges.

High levels of capital debt could saddle future operating budgets with increased interest payments and amortization expenses. This in turn could derail balanced budget plans and prompt spending cuts, tax hikes, or more borrowing.

While de Jong's focus on the state of the operating budget is politically understandable, the province bases its financial reporting on a capital budgeting approach. That means when the government borrows to pay for capital spending (such as roads, schools, and hospitals), it typically records only the annual interest payments and amortization expense in the operating budget.

Capital budgeting has the important merit of spreading the cost of capital spending over many years. But it also creates a situation where taxpayers can overlook the accumulated debt when the government reports a balanced operating budget. Consider that this year the BC government expects a surplus of $184 million in its operating budget. Despite this surplus, provincial debt will grow by $1.9 billion due to a capital budget deficit.

RATIO OF PUBLIC NET DEBT TO GDP IN BRITISH COLUMBIA



The real bottom line for a government is its net debt (gross debt minus financial assets) and changes in net debt depend on both the operating budget and the capital budget. This year BC's net debt will reach $41.1 billion (or 17.6 percent of GDP), up from $24.9 billion (12.2 per cent of GDP) in 2008/09.

A new study published by the Fraser Institute examines how increasing debt can affect the sustainability of BC's finances. Fiscal sustainability measures the government's financial health based on its ability to meet future debt obligations without major changes to tax and spending plans.

When government debt is large, over time the resulting high interest payments may force program cuts or tax hikes. The unpopularity of such actions often induces governments to finance the interest payments by borrowing even more. This can lead to an upward debt spiral until financial markets become unwilling to lend to the government.

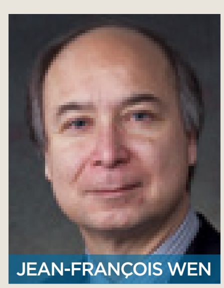
The study focuses on BC's fiscal policy from 2005 to 2017 (the last three years incorporate the projected fiscal plan announced in February's 2014 budget).

After a period of operating budget surpluses, the BC government turned to operating budget deficits in 2009. More startling, however, is the persistently large capital budget deficits throughout the entire period, especially the increase in 2011 and the general use of debt to finance infrastructure spending after the recession of 2008/09.

The findings suggest that the sustainability of fiscal policy over the period from 2005 to 2017 is achievable, but barely. Achieving it depends partly on the government's ability to reduce capital spending in 2016 and 2017.

Beyond 2017, the government will have to restrain program spending to generate not only balanced operating budgets but also some years of substantial surpluses in the operating budget. This may prove difficult. But spending restraint will be important especially if interest payments on the debt increase in coming years.

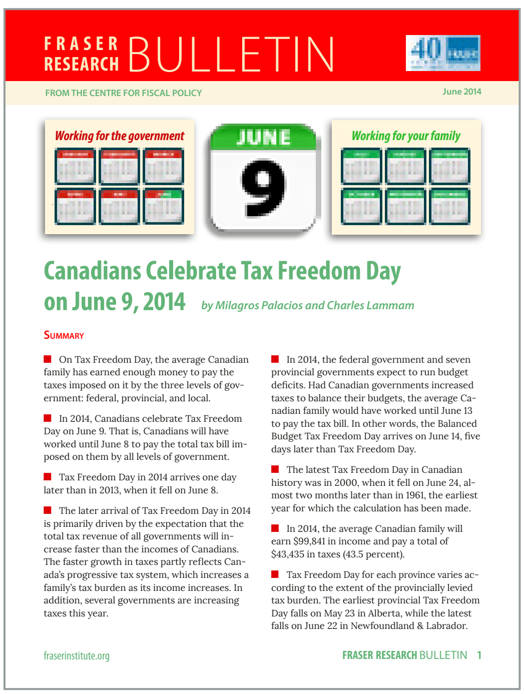
No one knows exactly how fiscal policy will unfold. But if de Jong fails to deliver on his budget commitments, British Columbians could see government debt spiral out of control. FI



Jean-François Wen is author of *Capital Budgeting and Fiscal Sustainability in British Columbia* published by the Fraser Institute and available at www.fraserinstitute.org.

June 9 is Tax Freedom Day
When Canadians Start Working for Themselves, Stop Working for Government

Charles Lammam and Milagros Palacios


FRASER RESEARCH BULLETIN

FROM THE CENTRE FOR FISCAL POLICY

June 2014

Working for the government

JUNE 9

Working for your family

Canadians Celebrate Tax Freedom Day on June 9, 2014 *by Milagros Palacios and Charles Lammam*

SUMMARY

- On Tax Freedom Day, the average Canadian family has earned enough money to pay the taxes imposed on it by the three levels of government: federal, provincial, and local.
- In 2014, Canadians celebrate Tax Freedom Day on June 9. That is, Canadians will have worked until June 8 to pay the total tax bill imposed on them by all levels of government.
- Tax Freedom Day in 2014 arrives one day later than in 2013, when it fell on June 8.
- The later arrival of Tax Freedom Day in 2014 is primarily driven by the expectation that the total tax revenue of all governments will increase faster than the incomes of Canadians. The faster growth in taxes partly reflects Canada's progressive tax system, which increases a family's tax burden as its income increases. In addition, several governments are increasing taxes this year.
- In 2014, the federal government and seven provincial governments expect to run budget deficits. Had Canadian governments increased taxes to balance their budgets, the average Canadian family would have worked until June 13 to pay the tax bill. In other words, the Balanced Budget Tax Freedom Day arrives on June 14, five days later than Tax Freedom Day.
- The latest Tax Freedom Day in Canadian history was in 2000, when it fell on June 24, almost two months later than in 1961, the earliest year for which the calculation has been made.
- In 2014, the average Canadian family will earn $99,841 in income and pay a total of $43,435 in taxes (43.5 percent).
- Tax Freedom Day for each province varies according to the extent of the provincially levied tax burden. The earliest provincial Tax Freedom Day falls on May 23 in Alberta, while the latest falls on June 22 in Newfoundland & Labrador.

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No one really thinks we should abolish all taxes. After all, how would governments fund important public services that form the foundation of our economy? Think of services like protecting property, building infrastructure, upholding the legal system, to name a few.

The real debate is about the amount of taxes that governments extract from us given the services we get in return. Are we paying too much, too little, or just the right amount? In other words, are we getting good value for our tax dollars?

That's up to you to decide.

But to make an informed assessment, you must have a complete understanding of all the taxes you pay. Unfortunately, it's not so straightforward because the different levels of government levy such a wide range of taxes—some visible, many hidden. This includes everything from income taxes, payroll taxes, health taxes, sales taxes, property taxes, fuel taxes, vehicle taxes, profit taxes, import taxes, to "sin" taxes on liquor and tobacco, and much more.

The Fraser Institute's annual Tax Freedom Day calculation is a handy measure of the total tax burden imposed on Canadian families by the federal, provincial, and local governments. If you had to pay all your taxes up front, you'd give government each and every dollar you earned before Tax Freedom Day. The later the Tax Freedom Day, the heavier the tax burden.

This year, Tax Freedom Day falls on June 9 for the average Canadian family (with two or more people). It's only from that day on that you start working for yourself and family instead of the government.

In 2014, we estimate the average family will pay $43,435 in total taxes. That works out to 43.5 per cent of annual income, which, on the calendar, translates into Tax Freedom Day falling on June 9.

Is 43.5 per cent of your family's income too high a tax burden? Is working almost half of the year to pay for government reasonable given the current mix of government programs and services? These are questions we don't purport to answer here.

But it makes you think. Are governments currently doing too much? Can they do what they do now, but more efficiently and with fewer tax dollars? Are your tax dollars better directed by you and your family, be it for spending, saving, or paying down household debt?

Yet, with 43.5 per cent of our income going to taxes, it still isn't enough to pay for what our governments do.

This year, the federal government and seven provincial governments are planning deficits totalling $18.8 billion. When governments spend beyond their means, they borrow, incurring deficits, which are essentially deferred taxes.

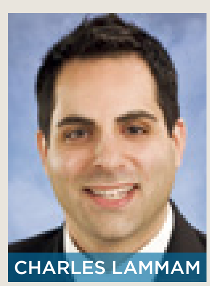
TAX FREEDOM DAY, 2014
CHANGE IN DAYS FROM 2013

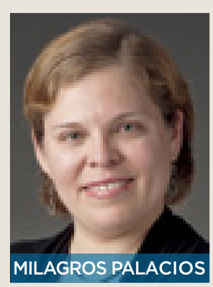
	TAX FREEDOM DAY, 2014	CHANGE IN DAYS FROM 2013
AB	23 May	+1
PE	5 June	+2
BC	6 June	+3
ON	7 June	+2
SK	7 June	+2
NB	9 June	+3
MB	10 June	+3
NS	14 June	+2
QC	14 June	+1
NL	22 June	-1
Canada	**9 June**	**+1**

According to our calculations, Tax Freedom Day would come five days later this year, on June 14, if Canadian governments covered their current spending with even greater tax increases instead of borrowing to cover the shortfall. If that happened, the percentage of income going to taxes would jump to 44.8 per cent.

In the end, it's up to you and your family to decide whether you're getting good bang for your tax dollars. But we all need a complete understanding of the total tax bill to make an informed assessment. And therein lies the value of our Tax Freedom Day calculation.

So, are you happy with working up to June 9 to pay for government? FI


CHARLES LAMMAM


MILAGROS PALACIOS

Charles Lammam and Milagros Palacios are co-authors of *Canadians Celebrate Tax Freedom Day on June 9, 2014,* available at www.fraserinstitute.org. Watch this year's Tax Freedom Day video at the Fraser Institute's YouTube channel www.youtube.com/FraserInstitute.

Proposed Ontario Pension Plan Will **Cost Ontario Workers Thousands Each Year**

Philip Cross


FRASER RESEARCH BULLETIN

FROM THE CENTRE FOR ECONOMIC POLICY RESEARCH May 2014

Evaluating the Proposed Ontario Pension Plan

by Philip Cross

SUMMARY

- The Ontario government has proposed its own supplement to the CPP in an attempt to force more saving. In reality, Ontarians typically have an above-average saving rate, double that of the rest of Canada as recently as 2009. Saving in Ontario returned to the national average after real income per capita fell outright in the last two years.
- The assumption underlying Ontario's plan is that a lack of discipline prevents households from saving. However, if saving instead is being constrained by falling real incomes, any attempt to mandate higher saving will likely be offset by lower voluntary saving, as people struggle to maintain their standard of living. This is what occurred in the late 1990s, despite rising incomes at the time.
- The ideal scenario would be stronger income growth, which allows both spending and saving to increase. Instead, the higher contributions required for the Ontario pension plan will depress household income and spending when introduced. It will cost individuals up to $3,420 a year, or nearly $7,000 for a working couple.
- Large provincial pension plans do not always generate a better return on investments than individual investors. The poor performance of the Quebec Pension Plan since 2007 is a good example, as millions of contributors were exposed to the same risk of an ill-timed investment.

fraserinstitute.org FRASER RESEARCH BULLETIN 1

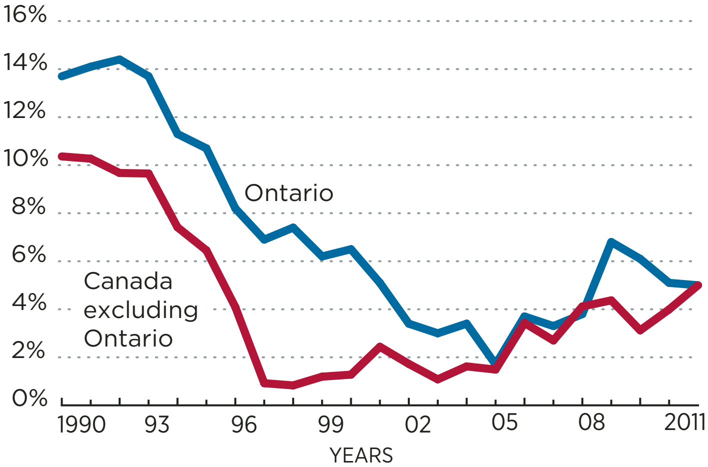
The Ontario government's proposal to supplement the Canada Pension Plan with its own compulsory pension plan is based on a series of faulty assumptions. A fundamental but unproven assumption is that people are not saving enough to support their retirement. Another faulty assumption is that workers can't make the link between insufficient saving and retirement, and unwittingly retire without saving enough to secure their own retirement; they behave as if they're richer than they really are, an amazing act of self-delusion.

A third assumption is that governments can mandate higher household saving, when the evidence is that other savings fall when government raises mandatory public pension taxes. The government assumes that large pension plans always generate higher returns and minimize risk, although Quebec's public pension plan demonstrates just the opposite. It is also assumed that investment is currently constrained by a lack of saving, and any increase in saving will boost investment. Finally, there is an assumption that higher investment automatically boosts productivity. All of these assumptions suggesting the need for a new mandatory public pension in Ontario are questionable if not downright incorrect.

It is ironic that Ontario stresses that people are not saving enough when traditionally Ontarians have one of the highest personal saving rates in the country. From 1990 to 2008, Ontario's personal saving rate was always higher than the rest of Canada. After the 2008 recession, Ontario more than doubled its saving rate to 6.8 per cent, much higher than the 4.4 per cent saving rate elsewhere in Canada.

The household saving rate in Ontario uncharacteristically has returned to the national average, reflecting the pressure on households to stretch every dollar to sustain their living standard. This squeeze on household finances exists despite lower interest rates, which saves about two per cent of income from servicing debt. However, income growth has been so weak in Ontario that people had to lower saving to maintain consumption.

HOUSEHOLD SAVING RATE



Permeating the government's thinking is the notion that Ontarians are prevented from saving more because they share the government's lack of discipline in managing their finances, not that they simply lack sufficient income to save after making their everyday expenses. To demonstrate its case, the budget cites polls of people wishing they could save more. Of course, the vast majority of people, if asked, would also say they would like better homes and cars, more travel and entertainment and so on. Simply asking people if they'd like to save more does not, by itself, demonstrate insufficient savings.

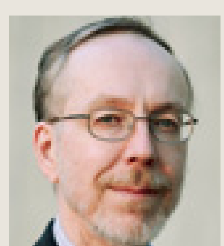
The underlying problem in Ontario is that real per capita incomes fell over the last two years, their first such declines since the early 1990s. The squeeze on household incomes means saving more would require cutting back on spending, a logic that households in Ontario seem to understand better than their government. In such an environment, raising mandatory saving will not boost household saving, as people will reduce other forms of saving (like RRSPs) to maintain their standard of living. This is what happened in the late 1990s, the last time mandatory pension taxes were increased.

The ideal scenario is stronger income and job growth, which would allow both spending and saving to increase. Instead, the higher taxes required for the Ontario pension plan will depress household income and spending. The Ontario Budget glosses over the implication of employees paying 3.8 percentage points more on nearly twice as much income as the current CPP. It will cost individuals up to $3,420 a year, or nearly $7,000 for a working couple. About three million Ontario workers will be affected.

Ontario endorses the argument that more saving would be good for the economy by increasing investment, despite no evidence that investment is currently limited by a lack of saving. In fact, firms have increased their saving substantially over the past two decades. Given the high internal saving of firms, how would more household saving increase business investment? A lack of profitable opportunities has discouraged business investment, not a lack of funds. It is noteworthy that investment has floundered the most in Ontario and Quebec, where the failure to create a positive business environment has clearly played a role. Large government deficits also inhibit investment, since they promise unknown but inevitable tax hikes and spending cuts in the future.

There are also several flaws in the design of the management of the Ontario pension plan's assets. Because the fund will be very large, its investments necessarily will be concentrated in fewer areas than individual investors would make on their own. This exposes the fund to the risk of a spectacularly poor investment decision, as happened to the Quebec Pension Plan in 2007, potentially offsetting whatever efficiencies are gained from lower management costs.

The fundamental problem behind the Ontario government's thinking about all economic problems—whether it is a perceived lack of saving, low business investment or changing the distribution of income by raising the minimum wage and taxes on upper incomes—is that it has forgotten how rapid economic growth addresses all these problems without pitting one group against another in a battle over the table scraps left from meagre economic growth. Higher growth would also reduce the government deficit, the largest contribution to higher saving the Ontario government can make. Rather than mandatory saving plans, Ontario needs policies that encourage growth. FI

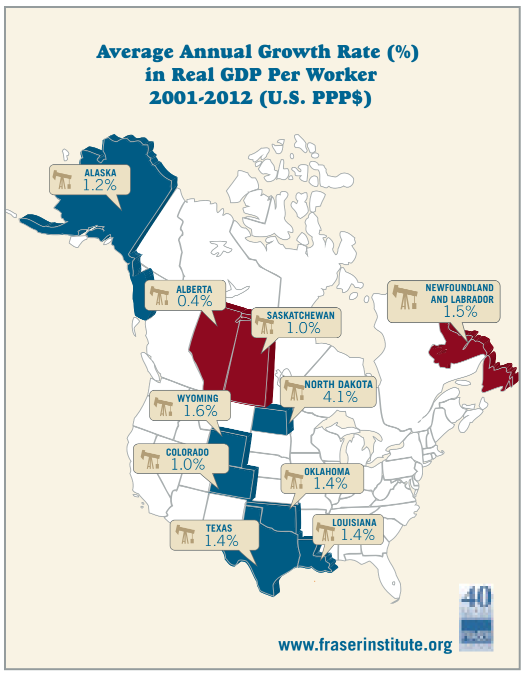

PHILIP CROSS

Philip Cross is the former Chief Economic Analyst at Statistics Canada and the author of the Fraser Institute study, *Evaluating the Proposed Ontario Pension Plan*, available at www.fraserinstitute.org.

Alberta's Finances Poor Compared to Other Energy-rich Jurisdictions in North America

Livio Di Matteo and Jason Clemens

For more than two decades, Alberta has been a shining light in the Canadian economy, leading all provinces on almost every measure of economic performance. However, other jurisdictions in North America have also prospered from natural resources and yet rarely has Alberta been compared to these like-jurisdictions. When Alberta is assessed against other energy-producing provinces and states in North America, its stellar performance loses some of its shine.



A recent comparative analysis of Alberta and nine other energy-producing jurisdictions in North America (two Canadian provinces and seven U.S. states) with comparatively large oil and gas sectors concluded that Alberta fared well economically but performed quite poorly when it came to government finances.

There is little doubt that Albertans enjoyed one of the strongest economies in North America over the last decade. Of the ten energy-producing provinces and states analyzed, Alberta ranked second for economic growth, second for the level of per capita GDP, first for job creation, and second for its unemployment and labour-participation rates.

An area of concern in Alberta's economic performance worth noting is productivity growth. Alberta ranked dead last for productivity growth over the last decade with an average growth rate of 0.4 percent compared to an average of 1.6 percent for the other energy-producing jurisdictions. North Dakota, which ranked first in productivity growth, recorded an incredible average growth of 4.1 percent. Alberta's poor performance in improving productivity should be of great concern to policy-makers in the province since growing productivity is the key to increasing incomes and standards of living.

More worrying, though, is the lackluster performance of the provincial government when it comes to managing its finances.

Albertans should rightly expect government finances (i.e. balancing their budget) to reflect the strength of their economy. And yet, despite Alberta's economic strengths, the province has performed very poorly when compared to other energy-producing provinces and states.

Since the recession, Alberta has found it impossible to balance its total spending relative to the revenues available resulting in deficits and borrowing. In 2011-12, the most recent year with comparable statistics for both US states and Canadian provinces, Alberta was one of only three energy-producing jurisdictions to maintain a deficit. The remaining seven jurisdictions, which included Saskatchewan and Newfoundland and Labrador all enjoyed surpluses.

Unlike Alberta, Alaska imposes no personal income tax and both Texas and Wyoming impose neither personal nor corporate income taxes.

Worse, Alberta's deficit in 2012-13, the most recent Canadian data available, increased from 0.1 percent of provincial spending the previous year to almost 7 percent.

The combination of deficits and aggressive capital spending has meant a marked reduction in the province's rainy day accounts. Specifically, Alberta has run down its rainy day accounts by $19.4 billion, declining from $31.5 billion in 2007-08 to just $12.1 billion in 2012-13. This occurred at the same time as Saskatchewan and Newfoundland and Labrador were paying down their long-term debt.

The two explanations for deficits regularly offered in the province ring hollow. First, the comparisons completed are for energy-producing jurisdictions eliminating the "we're different because we're an energy-producing province" argument.

And second as our colleague Mark Milke has pointed out, since 2005-06, the Alberta's program spending increased by $22.1 billion more than needed to account for inflation and population growth. Had the government of Alberta simply maintained the real value of per person spending in the province, Alberta would have recorded successive balanced budgets. It is this marked increase in real per capita spending that generated deficits over the last number of years rather than any particular dearth of revenues.

Part of the run-up in provincial spending is reflected by the growth in public sector employment. Over the last decade, the average growth in government employment has been slightly higher than private sector job growth: 2.9% vs. 2.8%. Although it's a small difference in growth rates, its cumulative effect over a decade is to increase the size of the government sector.

The lack of provincial government spending control has meant a dearth of any incentive-based tax relief or reform since the early 2000s. This is particularly worrying when comparing Alberta's taxes to the other energy-producing states. Alaska, Texas, and Wyoming impose no personal income taxes. Wyoming and Texas also impose no corporate income tax. And generally speaking, Alberta's tax rates compared to the U.S. states that do have personal and/or corporate income taxes tend to be high.

Simply put, Alberta has forgotten the lessons of the 1990s when painful reforms were required to put the provinces' finances back in order. Surprisingly, many newly-prosperous energy-producing provinces and states seemed to have learned the lessons of Alberta better than Alberta. These provinces and states have imposed better discipline on spending, borrowing, and taxes, and reaped enormous benefits from doing so. Alberta could and should learn valuable lessons from their experiences. FI

LIVIO DI MATTEO

JASON CLEMENS

Livio Di Matteo is Professor of Economics at Lakehead University and a Senior Fellow of the Fraser Institute. Jason Clemens is Executive Vice-President at the Fraser Institute. They are authors of *An Economic and Fiscal Comparison of Alberta and Other North American Energy Producing Provinces and States*, available at www.fraserinstitute.org.

Journalists taking part in a lively activity to demonstrate buying and selling in the marketplace.

JOURNALISM PROGRAMS

June saw the return of our popular annual "Economics for Journalists" program. Due to high demand and excellent feedback from previous years, an additional program was introduced in Toronto this year as well as our traditional program in Vancouver.

Participants came from all over Canada. Some were independent journalists while others represented major national, regional, and local media outlets. They included journalists from TV, radio, print, and online news media, and included a range of positions from producers, to reporters, to feature writers, and editors.

To maintain an open forum for discussion, each program is limited to 25 journalists (50 attendees in total), so before participating in this unique, professional development opportunity, each applicant went through a rigorous selection process.

"This program not only benefits me but it will also benefit our viewers. I would take this program again and again."

During the three day program, the journalists were introduced to basic economic concepts. The instructors used a mix of presentations, videos, group activities, and real-life examples to provide journalists with the knowledge to explain financial terms, demonstrate why people behave the way they do, and analyze policies with confidence.

There were animated discussions on issues such as the minimum wage and unemployment, and journalists received a variety of economic resources to help them with their reporting. As well as the new knowledge they gained, participants were offered a rare opportunity to network with peers from across the country.

"I left buzzing with new ideas; later that night I was that person at the party who goes on and on about economics."

"I thoroughly enjoyed the presentations and the great materials we received. I will recommend my colleagues take advantage of these workshops as well."

The feedback from the two programs was overwhelmingly positive, and there was unanimous agreement from the journalists that the seminar had been invaluable to their career and they would highly recommend it to their colleagues.

TEACHER WORKSHOPS

Teachers taking part in an activity to demonstrate the negotiation process between employers and employees.

Instructor Kathy Ratté joking with participants about who should win the prize money in a tie-break between two teachers in a wage-negotiating simulation.

Over the past two months two teacher workshops were held, *Issues of International Trade* (BC) and, *Myths of the Canadian Economy* (ON).

Issues of International Trade is one of our most popular workshops and gives teachers topical information on trade deficits, free trade zones, and sanctions and tariffs. Teachers took part in activities demonstrating the role of currencies, enjoyed presentations by our two expert economics instructors, and received a range of materials that they can use in their classrooms. Teachers commented that they welcomed the opportunity to network with other business teachers from across the province and enjoyed receiving the information in a fun and understandable way.

“Based on today, all your workshops look excellent.” (from a first-time attendee)

Myths of the Canadian Economy is our newest workshop and we experienced high demand for this program, which this year took place in Toronto, Ontario. An up-to-date and comprehensive set of lesson plans covering topics such as the role of the Bank of Canada, monetary policy, GDP, and economic freedom in Canada was created and teachers found it useful and thought-provoking. All attendees gave the presentations and content top marks, and 100% agreed that the workshop would fit well into their course curriculum. As with all our workshops, teachers received a binder of lesson plans containing activities they can use with their students, a summary of the economic concepts covered, and ideas for further study.

Teachers holding cards displaying the components of GDP, which they moved up or down to show the effect of various changes in the economy, in a group activity during *Myths of the Canadian Economy.*

SUMMER 2014 INTERNS

Our internships are a great way for students and graduates to learn more about working at a think tank and potentially have their research professionally published by the Institute.

The Institute maintains a close relationship with many of our former interns who have gone on to high-ranking positions in academia, government, media, and business.

The Institute was also thrilled to hire Taylor Jackson and Alyson Tan on as full-time staff members. FI

Our summer 2014 interns, from left to right: Matthew Lo, Jason Chau, Loreena Percy, Taylor Jackson, Alyson Tan, Aaron Jacobs and Snow Ren.

Aboriginal Title's True Meaning: Billable Hours

Tom Flanagan and Ravina Bains

Adoption of the Charter of Rights and Freedoms in 1982 made treaty and Aboriginal rights constitutional, though no one knew at the time what that meant. We are gradually finding out as the Supreme Court of Canada develops a new body of law.

The recent Grassy Narrows decision affirmed the status quo with respect to the honour of the Crown, fiduciary responsibility, and the duty to consult. It also preserved the architecture of the Canadian constitution by rejecting appellants' contention that only Canada, not Ontario, could grant timber licenses on land that was given to Ontario in 1912. Provincial control of public lands and natural resources is a cornerstone of the edifice erected at Confederation. It is startling that appellants would have chosen to challenge it. Let's hope that the Supreme Court has batted their argument out of the park for good.

The Roger William decision was more innovative. Here the Supreme Court recognized Aboriginal title to a specific tract of land that had never been surrendered by treaty. The Court had said in its 1997 Delgamuukw decision that Aboriginal title still existed in British Columbia because of the absence of treaties but William was the first decision to recognize Aboriginal title to a specific area.

In one way, this is a welcome development. The original sin of British colonialism in Canada was to ignore the property rights of native people. Indeed, the Judicial Committee of the Privy Council denied that the First Nations ever had any true ownership of the land that is now Canada, referring instead to "personal and usufructuary rights" to hunt, fish, and gather. For the

Supreme Court of Canada now to recognize Aboriginal title is a legal development comparable in importance to the American Supreme Court's overturning, in Brown v. Board of Education, of the doctrine of "separate but equal" for African-Americans.

But nothing is ever simple in jurisprudence. To paraphrase the long-suffering Job, "The Court giveth and the Court taketh away; blessed be the name of the Court." While the Supreme Court recognized Aboriginal title in the William case, it imposed three conditions that drastically reduce its value and demonstrate continuing paternalism toward First Nations in Canada.

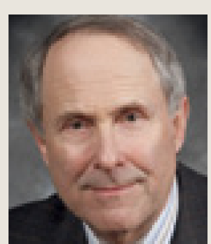
The real victors of this judgment are the lawyers and consultants who can count on additional billable hours in the years and decades to come; and unfortunately those who have been fighting to extend full property rights to First Nations members living on reserves will have to continue their fight in other ways.

First it held that Aboriginal title can only be sold to the Crown. This is an echo of the policy, first enunciated in the Royal Proclamation of 1763, that only the Crown could deal with First Nations for the surrender of their lands. The policy may have been justified in 1763, when the natives of North America were not yet familiar with British concepts of sale and negotiation; but that hardly applies to today's First Nations. To confine their right of sale to a single purchaser undercuts the value of their lands; it is a restriction that would not be imposed on any other group in Canada.

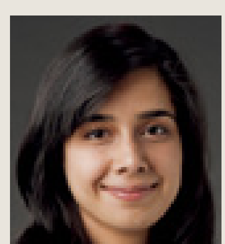
Second it held that Aboriginal title land cannot be developed or misused in a way that would deprive future generations from benefiting from that land. This makes it clear that Aboriginal title land needs to remain with the community, but there is no clarity on what type of development is allowed. For example, if a community wishes to lease its Aboriginal title land for an LNG facility, would that be recognized as depriving future generations of the benefit of the land? The only guidance provided on this condition is that particular use will be determined on a case by case basis. In other words, expect more litigation.

Finally it held that Aboriginal title is collective in nature. The judgment is sprinkled with statements that Aboriginal title land can be used for a variety of purposes as long it can be reconciled with the communal nature of the group's attachment to the land. With the recognition of collective ownership, it is clear that First Nations cannot freely sell Aboriginal title lands to whomever they choose; but it remains unclear if any form of individual property rights can be created. It is also paternalistic for the Court to think that all current First Nations communities, many of which would like to extend full property rights to their members, continue to have a "communal" attachment to their land. The Court stated that "Aboriginal title holders of modern times can use their land in modern ways," unless of course, as the conditions above demonstrate, Aboriginal title holders wish to exercise the same property rights as all other Canadians. Apparently that's too modern.

The ambiguity surrounding these conditions means there will be additional litigation to seek clarity and guidance on property rights for Aboriginal title land. So the real victors of this judgment are the lawyers and consultants who can count on additional billable hours in the years and decades to come; and unfortunately those who have been fighting to extend full property rights to First Nations members living on reserves will have to continue their fight in other ways. FI



TOM FLANAGAN



RAVINA BAINS

Tom Flanagan is Professor Emeritus of Political Science at the University of Calgary and a Fraser Institute Senior Fellow. Ravina Bains is Associate Director of the Fraser Institute's Centre for Aboriginal Policy Studies.

More School Choice the Answer for Ontario Parents of Special Needs Children

Deani Van Pelt and Jason Clemens

In her May 20th column, *Why I can't vote for Tim Hudak*, our long-time friend, Tasha Kheiriddin, raised questions concerning the Tory plan for reforming K-12 education in Ontario. Her concerns were based on her daughter's special education needs (she revealed that her daughter has Asperger's syndrome). We have no doubt that every parent who read the piece empathized with her situation.

While we would quibble with several assertions made in the column, the main problem in the analysis offered by Ms. Kheiriddin is the absence of any discussion of school choice. The word "choice" doesn't even appear in the column and yet the key issue identified by Ms. Kheiriddin is the lack of responsiveness of the public system to her daughter's individual needs and the limited choice she as a parent is able to exercise within the Ontario education system. The solution seems obvious: more education choice for parents.

But don't confuse our concerns with the column with an endorsement of the Tory platform. Our assessment is that all the parties and leaders have failed to discuss fundamental reform of the province's K-12 education system and have instead focused on tinkering with the existing system.

Ms. Kheiriddin's column implicitly endorses the status quo of Ontario's education system with some suggested incremental improvements. Apparently Ms. Kheiriddin, like most Ontarians, is unaware of just how unique the Ontario K-12 education system is within Canada.

Ontario is one of only three provinces to offer fully-funded Catholic education and one of only two provinces to offer fully-funded Catholic Francophone education. More than 30 per cent of Ontario K-12 students now attend one of these two types of Catholic public schools.

Furthermore, depending on one's school district, the majority of Ontarians have at least four competing public school boards to choose from for their children's education: English Public, English Catholic, French Public, French Catholic and, in one instance, Separate Protestant. Such a system means multiple overlapping school boards with multiple government bureaucracies.

If Ontario provided K-12 education in a manner similar to BC or Quebec, the "expensive" schools would not only be more financially accessible but the supply of educational alternatives would increase.

Despite these linguistic and religious choices within the public system, parents like Ms. Kheiriddin are left to their own devices. This is due in part because Ontario is one of five provinces that does not support parents who chose independent schools. These schools are often designed around a diversity of educational philosophies and arise from local communities working together to respond to identified student needs. The four western provinces along with Quebec fund between roughly 35 to 70 per cent of the operating costs of independent schools while Ontario and Atlantic Canada provide no support. This partially explains why almost 95 per cent of students in Ontario attend a public school.

Unlike western Canada and Quebec, Ontario relies almost exclusively on the public system to provide parents with education options, albeit quite limited. It is this latter point that Ms. Kheiriddin surprisingly misses. If Ontarians recognized the uniqueness of how they deliver K-12 education, they might be calling for more fundamental reforms. This is a missed opportunity for people like Ms. Kheiriddin who advocate for an education system that is more nimble and responsive to student and parent needs.

If Ontario provided K-12 education in a manner similar to BC or Quebec, for instance, the "expensive" schools Ms. Kheiriddin is interested in would not only be more financially accessible but the supply of educational alternatives would increase. The reduced cost to parents and the expanded supply of independent schools in provinces like BC and Quebec explain why roughly one-in-eight students in these provinces attend such schools.

Alberta's charter schools provide another possible approach to providing educational diversity and choice. These popular public schools operate with more flexibility and autonomy than traditional public schools and are increasingly being used in other international jurisdictions to offer parents alternatives from poorly performing or unresponsive public schools.

Ms. Kheiriddin deserves credit for raising an issue that has to-date largely escaped public scrutiny. Unfortunately, she misses a real opportunity to raise the possibility of more fundamental reform of the province's education system based on proven models used in other Canadian provinces.

Ontario's education system, despite an almost doubling of financial support in the last decade, remains limited in addressing needs of many students and parents. If Ontario looked across the country, it would note that more responsive, equitable, and affordable options are possible. Other provinces—and indeed other countries—excelling in education point the way to reform but Ontarians need to be aware and interested. Hopefully Ms. Kheiriddin's column will spur further genuine debate and discussion. FI


DEANI VAN PELT


JASON CLEMENS

Deani Van Pelt is Director of the Barbara Mitchell Centre for Improvement in Education at the Fraser Institute. Jason Clemens is the Executive Vice-President at the Fraser Institute and author of *Measuring Choice and Competition in Canadian Education*, available at www.fraserinstitute.org.

Governments Gone Subsidy Wild: A $684 Billion Subsidy Bill Since 1981

Mark Milke

Ever wonder how Canada's net federal debt ended up at $671 billion by 2013? Or how net provincial debt among the provinces ended up at $509 billion that same year? Here is a clue: It is partially due to massive subsidies to corporations, government businesses and even consumers that over three decades amounted to $684 billion in total.

Statistics Canada once collected much useful information about government subsidies (i.e., subsidies doled out on the taxpayer dime). The statistical agency would have included everything from how some governments give tax dollars to corporations (think selected automotive, aerospace and energy companies); or to a Crown corporation like VIA Rail; or to a government-owned ferry system to subsidize consumers' ferry rides.

The data series ended in 2009 but by looking at the data between 1981 and that latter year (and adjusting for inflation to 2013 dollars to get apple-to-apple comparisons), some useful statistics pop out.

For example, the biggest subsidies dished out using taxpayer dollars came courtesy of Ottawa, with $343 billion spent on private corporations, government businesses, and consumers in that almost-three decade period.

Next up with a big subsidy bill were the provinces. Collectively, they spent $287 billion between 1981 and 2009; local governments were third with just over $54 billion spent on subsidies in those three categories over almost three decades.

Regrettably, Statistics Canada does not provide a breakdown for how much of the $684 billion was spent—i.e., how much went to private businesses versus government businesses versus consumers. That is unfortunate, as more details here would allow Canadians to debate which types of subsidies are useful.

In the 2008/09 fiscal year those who paid income tax that year were "billed" the equivalent of $1,507 in taxes for subsidies.

For example, it is one thing for a government to subsidize the heating bills of low-income Canadians (a consumer subsidy); it is quite another to subsidize private and government businesses.

Here is where other sources were more helpful in teasing out how governments subsidize and where. For example, Alberta and Ontario spent a lot on subsidies in the 1981-2009 period ($49.9 billion and $46.7 billion respectively). With the help of provincial budget documents, it turns out that a "chunk" of those figures exist because of some provincial subsidies to lower the heating bills of consumers.

In other cases, such as in Alberta, subsidies to businesses were substantial back in the 1980s, this evident from a review of provincial budget documents from the period. However, by the late 1990s, annual spending on subsidies (including business subsidies) in Alberta declined by over 90 per cent when compared with the highest-spending years in the early 1980s (from a high of $4.1 billion in 1983 to a low of $291 million in 1996).

A similar decline in the 1990s was evident in Ontario and appears driven by a political promise. In the 1994 "Common Sense Revolution" party platform from the then opposition Progressive Conservatives, the party committed to reduce subsidies to business. Once in power, the Mike Harris government did so, with overall spending on subsidies reduced to $475 million by 1999 from a decade high of $1.8 billion in 1991 under the previous government.

Then there is Quebec. There, according to my conversation with Statistics Canada officials, the subsidies were driven mainly by transfers to corporations and government-owned businesses (and not much to consumers). They were costly transfers, at $115.5 billion between 1981 and 2009.

Again, using other sources to gain a glimpse of where some money went, and back to the federal books and using Industry Canada data here, it turns out $3.3 billion went to just one company, Pratt & Whitney. And using VIA Rail annual reports (as an example of a government business), subsidies to that Crown Corporation from the federal government amounted to $4.5 billion.

However, back to the "big data" from Statistics Canada data: Per taxpayer, for those who filed a taxable income tax return, the subsides were equivalent to $3,268 for every person who paid income tax in 1984. The lowest-cost year was in 1998 when the equivalent cost per taxpayer was $797.

In the last year available, the 2008/09 fiscal year and before the massive bailout for General Motors and Chrysler kicked in, those who paid income tax that year were "billed" the equivalent of $1,507 in taxes for subsidies. While few would object to some subsidies from governments—say to low-income consumers to heat their home, others, such as subsidies to corporations, are something less than prudent. FI


MARK MILKE

Mark Milke is a Senior Fellow at the Fraser Institute and author of *Government Subsidies in Canada: A $684 Billion Price Tag,* available at www.fraserinstitute.org.

Dutch Health Care System Embraces Private Insurance, Outperforms Canadian System

Nadeem Esmail

Those opposed to market-based health care reform do their best to scare Canadians, suggesting that the introduction of private competition will lead to longer wait times, higher costs, and poorer quality, particularly for lower-income individuals and families.

Reality, however, is considerably different. International experience suggests that private competition is a fundamental feature of a high-performing, universal access health care system.

This is a key insight: private competition and the noble goal of universality aren't incompatible. In fact, private competition in the health care system supports universality, leading to better performance including shorter waiting times.

For evidence, consider the Dutch health care system where private (and even for-profit) insurance companies, private providers, activity-based funding and cost sharing combine to provide more timely access to high (if not higher) quality care than Canada's system for similar cost.

How much more timely? In 2010, 31 per cent of Canadians reported waiting four hours or more in emergency before being treated, compared to just three per cent in the Netherlands. A third of Canadians reported waiting six days or more for access to a doctor or nurse, compared to just five per cent in the Netherlands. Canada also underperformed in waits for specialist care and elective surgery: 41 per cent of Canadians waited two months or more for a specialist appointment and 25 per cent of Canadians waited four months or more for elective surgery compared to 16 per cent and 5 per cent in the Netherlands.

If Canada is to ever get the world-class universal access health care system we're already paying for, it is imperative that we pay more attention to health care models that actually work.

Key to understanding those substantial differences in timeliness is the much larger role for the private sector in financing and delivery in the Netherlands.

Unlike Canada, there is no monopoly government insurer in the Netherlands. Rather, the Dutch are required to purchase standardized universal health insurance policies from a private insurance company of their choosing. While insurance premiums do vary among insurers, government regulations require that each company offer all individuals the same premium regardless of age and medical history. Lower income individuals receive premium assistance from government to ensure they have access to the same insurance as higher income individuals.

Insurance companies must accept all applicants. But they also compete for subscribers through premiums and other competitive factors including services that reduce wait times. Some Dutch insurers even guarantee access to select treatments in as little as five working days.

When it comes to getting the care they require, Dutch residents take their private universal insurance coverage to private care providers of their choosing (insurance companies may limit choices for subscribers in search of higher quality, lower costs, or both). Patients must share in the cost of care consumed through deductibles, which can be voluntarily increased if they wish to reduce their health insurance premiums.

Finally, if Dutch residents would prefer to look after their own health care with their own resources, they are free to do so. There is no requirement that the universal insurance system pay for all medically necessary care in the Netherlands.

Combined, these policies have created a world-class health care system in the Netherlands. Just as important, reforms in recent years focused on competition and activity-based funding have successfully dealt with concerns about delays in accessing medical care, unlike in Canada where throwing a lot of money at the problem resulted in little success.

The Dutch approach of government playing a key role in funding, regulation, and oversight but leaving the operation of the health care system largely to private insurers and providers is very different from the predominant role of government in both financing and delivery in Canada. Notably, the Dutch system incorporates all of the policies Canadian defenders of the status quo say would destroy medicare. Yet the Netherlands has a far more accessible, high quality health care system for those who fall ill, regardless of their ability to pay.

If Canada is to ever get the world-class universal access health care system we're already paying for, it is imperative that we pay more attention to health care models that actually work. False claims that misrepresent the realities of sensible reform, causing Canadians to be fearful of policies that work well in top-performing universal systems around the developed world, do us all a disservice. FI

NADEEM ESMAIL

Nadeem Esmail is a senior fellow with the Fraser Institute and author of a series of studies on health care in Germany, the Netherlands, Japan, and Australia. All of these studies are available at www.fraserinstitute.org.

HEALTH SYSTEM COMPARISON BETWEEN Canada and Netherlands

Type of Insurance

Canada	Netherlands
UNIVERSAL (Government Run)	UNIVERSAL (Mandatory Private)

Financing

Canada	Netherlands
Mostly General Taxation	Insurance Premiums and Taxation

Total Health Spending as a Share of GDP

age adjusted

Canada	Netherlands
12.5	12.3

PHYSICIANS
(age-adjusted, per 1,000 pop.)
CANADA 2.6
NETHERLANDS 3.0

NURSES
(age-adjusted, per 1,000 pop.)
CANADA 10.3
NETHERLANDS 8.6

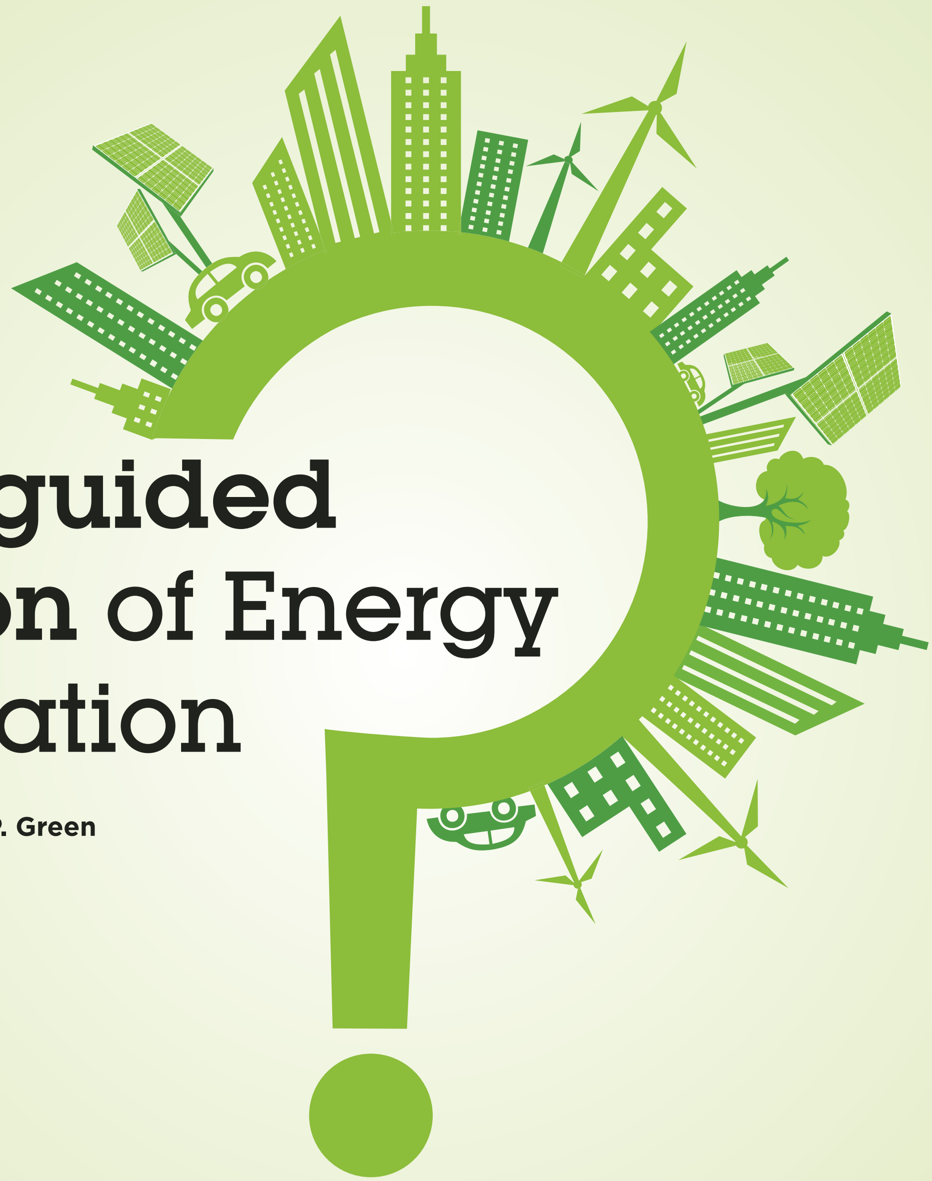
CURATIVE-CARE BEDS
(age-adjusted, per 1,000 pop.)
CANADA 2.0
NETHERLANDS 3.2

CT SCANNERS
(age-adjusted, per million pop.)
CANADA 15.2
NETHERLANDS 11.6

MRI MACHINES
(age-adjusted, per million pop.)
CANADA 8.8
NETHERLANDS 11.3

Canada		Netherlands
31%	**Waited 4+ hours** in emergency room before being treated (% of patients, 2010)	3%
33%	**Waited 6+ days** for access to doctor or nurse when sick or needed care (% of patients, 2010)	5%
41%	**Waited 2+ months** for specialist appointment (% of patients, 2010)	16%
25%	**Waited 4+ months** for elective surgery (% of patients, 2010)	5%

Source: *OECD Health at a Glance: OECD Indicators*, 2011, calculations by author; and *Commonwealth Fund*, 2010.



The Misguided Attraction of Energy Conservation

Ross McKitrick and Kenneth P. Green

At the end of March, the CEO of the Ontario Power Authority (OPA) issued a directive regarding the implementation of Ontario's "Long term energy plan," which spells out what the provincial energy regulator plans to do to spur energy conservation. The Ontario Clean Air Alliance summarized it by saying: "According to the OPA, the directive actually requires that utility driven conservation programs will ensure that electricity consumption is 5% or 7 billion kilowatt-hours less than it is now by 2020, which is a tremendous step forward."

While we're grateful to the Clean Air Alliance for clarifying the OPA's goal, we respectfully disagree that it is any kind of step forward. We are baffled why a group concerned with clean air views forcing down energy consumption as an end in itself. There is overwhelming evidence that as energy consumption and economic activity have grown over the past few decades, Ontario air quality has improved dramatically. If you don't believe it, check for yourself—detailed charts are online at yourenvironment.ca, a website created specifically to disseminate federal and provincial pollution records in an easy-to-use graphical format.

So if cutting energy consumption is not necessary for improving air quality, is it at least good for the economy? The most recent evidence strongly suggests that it is not: putting constraints on energy availability today means economic losses tomorrow.

The Fraser Institute recently published a study examining the relationship over time between energy consumption and economic growth. Many previous studies have explored this relationship but were inconclusive about causality: it was well known (and easily demonstrated) that energy consumption and economic growth were fellow-travelers, rising and falling, more or less in tandem over time. A few studies that tried to tease out causality found indications that energy consumption leads economic growth while others were inconclusive. Until recently, the relationship was murky. But it is becoming more clear.

Policies that engineer increased energy scarcity are likely to lead to negative effects on future GDP growth.

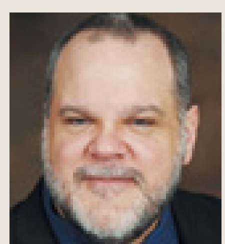
In our study, Ross McKitrick, economics professor at the University of Guelph and Fraser Institute senior fellow, and graduate student Elmira Aliakbari applied time series econometric techniques to Canadian provincial data (1995-2010) to see if the direction of influence could be inferred out of the correlation between energy consumption and economic growth. In a nutshell, the answer was "Yes." That is, the study found that energy consumption (which can also be defined as energy abundance or energy affordability) is a limiting factor in economic growth. This discredits the notion that energy consumption and economic growth are merely random fellow-travelers or that energy consumption only grows as a sort of "luxury good" following periods of rising incomes.

The study concludes: "These considerations are important to keep in mind as policymakers consider initiatives (especially related to renewable energy mandates, biofuels requirements, and so forth) which explicitly limit energy availability. Jurisdictions such as Ontario have argued that such policies are consistent with their overall strategy to promote economic growth. In other words, they assert that forcing investment in wind and solar generation systems—while making electricity more expensive overall—will contribute to macroeconomic growth. The evidence points in the opposite direction. Policies that engineer increased energy scarcity are likely to lead to negative effects on future GDP growth."

If the government of Ontario, or other governments across Canada want to foster economic growth, the current thinking that "less energy is a primary goal" should give way to an understanding that energy consumption is the means to economic prosperity. Cutting energy use should not be seen as an end in itself or as a proxy for environmental improvement, or as an instrument for promoting economic growth.

Energy abundance is a fundamental input to a growing economy and is necessary if Canadians want to enjoy the economic prosperity and robust social services that are funded by a strong economy. Fostering energy abundance, not trying to ration, reduce, or overprice energy, should be the guiding principle of energy policy whether at the local level, the provincial level, or the federal level. FI


ROSS R. MCKITRICK


KENNETH P. GREEN

Ross R. McKitrick is a professor of economics at the University of Guelph, a Fraser Institute senior fellow and author of *Energy Abundance and Economic Growth,* available at www.fraserinstitute.org. Kenneth P. Green is senior director, natural resource studies, at the Fraser Institute.

While Politicians Dither, Patients Die

Bacchus Barua

Over the past two decades, the general Canadian attitude toward wait times for medical treatment seems to have evolved into a resigned acceptance of this ostensibly "mild nuisance" in an otherwise excellent system.

It's time for a reality check.

Since 1993, the average wait for treatment has almost doubled (to 18.2 weeks in 2013), per capita public healthcare expenditures have increased by about 40 per cent (after adjusting for inflation), and it is becoming increasingly apparent that patients are suffering the consequences.

And yet, there is no real indication that politicians intend to introduce meaningful reforms to solve this problem.

It seems we have become comfortably numb to this fundamental flaw that is now a defining feature of Canadian healthcare.

Unfortunately, wait times are not benign inconveniences—especially not when they are as long and ubiquitous as those in Canada. Many patients face physical pain and suffering, mental anguish, and lost economic productivity (about $1,200 per patient) while waiting for treatment in this country.

For example, Statistics Canada found that about one fifth of patients who visited a specialist, and about 11 per cent of those waiting for non-emergency surgery, were adversely affected by their wait. Many reported experiencing worry, stress, anxiety, pain, and difficulties with daily activities.

Protracted wait times may also result in potentially treatable illnesses and injuries becoming chronic, permanent, debilitating conditions. In such circumstances, requiring patients to accept inordinately long waiting times, without the opportunity to seek alternative treatment denies them their basic human right to lead healthy lives (as recognized by the Supreme Court in 2005). It is precisely for this reason that Dr. Brian Day, former head of the Canadian Medical Association, is fighting a court case in British Columbia to allow private treatment for those patients who have fallen through the cracks of the public system. One of his co-plaintiffs has already died while waiting for the trial, while another is permanently disabled because of neglect on the public wait list.

We estimated between 25,456 and 63,090 Canadian women may have died as a result of increased wait times between 1993 and 2009.

Sadly, their stories are not isolated cases. In a recent study, Nadeem Esmail, Taylor Jackson and I investigated whether the changes (mostly increases) in wait times between 1993 and 2009 had any impact on mortality rates. After controlling for relevant factors (physicians, health expenditures, age, Gross Domestic Product, inequality, and gender), we found that there was, indeed, a statistically significant relationship between wait times and the incidents of female deaths.

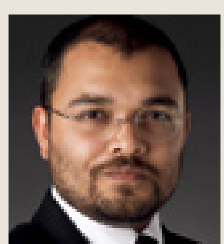
Specifically, after crunching the numbers we estimated between 25,456 and 63,090 Canadian women may have died as a result of increased wait times during this period. Large as this number is, it doesn't even begin to quantify the possibility of increased disability and poorer quality of life as a result of protracted wait times.

Clearly, wait times may have serious consequences for some patients. It is inhumane and immoral to force these patients to choose between long waits in the public system (risking their health and well-being) and leaving their homeland (and families) to seek treatment elsewhere.

Fortunately, the noble goal of universal healthcare can be achieved without paying for it with patients' lives. In fact, the experience of other countries suggests that wait times and single-payer insurance are neither necessary, nor common features of successful universal healthcare systems around the world. Data from the Commonwealth Fund, and studies by Fraser Institute have repeatedly shown that countries like Switzerland, the Netherlands, Germany, Japan and Australia ensure universal healthcare for their residents without the long wait times found in Canada.

How do they do it? By encouraging competition between regulated private insurers, requiring patient cost-sharing (through co-payments and deductibles with annual limits), and replacing global budgets with activity based funding for hospitals (so that money follows the patient).

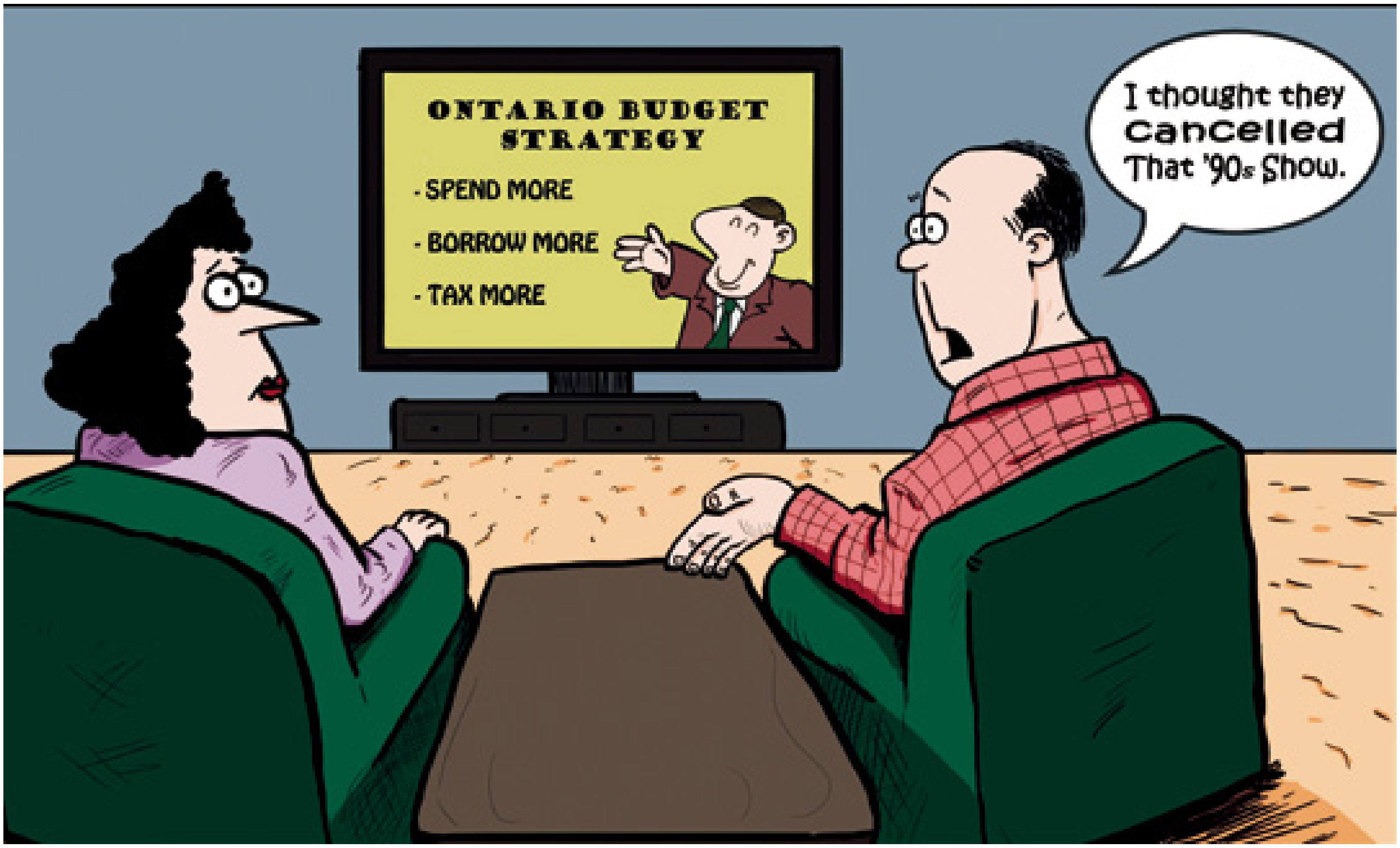
Defenders of Canada's status quo will likely balk at these suggestions and cling to their dream of government-delivered universal healthcare—ignoring the fact that it simply doesn't work for many patients. But those who are pragmatic, and truly committed to fixing our broken system, should seriously consider implementing reforms that seem to have worked in other countries that are equally committed to universal access to health care. FI


BACCHUS BARUA

Bacchus Barua is senior health economist at the Fraser Institute and co-author of *The Effect of Wait Times on Mortality in Canada,* available at www.fraserinstitute.org.

Are "Wynne Days" Coming?

Sean Speer and Charles Lammam



We've seen this script before. Higher spending. Tax increases. Persistent deficits. Growing debt. Warnings from credit rating agencies. A government unwilling to make the tough choices to turn things around.

That's the Ontario of the 1980s and early 1990s. It's also where the province finds itself today. The parallels are striking. Ontarians have been down this path before and it doesn't end well.

The experience in the 1990s offers a powerful case study of the consequences of such fiscal policy. Pressure from bond markets, poor economic conditions, and the sobering reality of fiscal arithmetic ultimately forced the Ontario government of the day to change course.

So much for learning from history. The current Ontario government appears steadfastly committed to its agenda of spending, taxing, and borrowing more. Its latest budget does nothing to address the province's fiscal challenges, despite repeated and strong warnings from credit rating agencies. What the government fails to realize is that bond markets, concerned about its ability to repay its debt, will eventually impose the tough decisions to get provincial finances on track. The longer the delay, the more painful the adjustments will be.

Ontario fiscal policy in the 1980s and early 1990s was also punctuated by a series of tax hikes, massive spending increases, and debt expansion. Personal income taxes were raised to 58 per cent from 53 per cent of basic federal tax in 1990 (and from 48 per cent in 1985); new surtaxes and capital taxes were enacted; program spending grew by more than 25 per cent between 1989/90 and 1991/92; government debt grew by nearly $50 billion between 1990 and 1995; and interest payments on the debt jumped from 11.3 per cent of revenue in 1990/91 to 17.5 per cent in 1995/96.

The consequences were felt across the province. The economy faltered. Welfare rolls exploded. And the government got caught in a spiral of persistent deficits, mushrooming debt, and rising interest costs.

An unsustainable trajectory forced the government to reduce spending in 1993/94 and unilaterally undo public sector contracts, imposing wage freezes and unpaid "holidays" that became famously known as "Rae Days." These reforms were followed by further action to cut spending, lower taxes, and reform government programs following the 1995 election.

Government debt is set to reach $324.5 billion by 2017/18 (almost 40 per cent of Ontario's economy), a more than doubling of where the debt stood in 2003/04.

The shift in fiscal policy was painful for many Ontarians but necessary. The pressure from capital markets ultimately gave the government little choice but to act, and act quickly and aggressively. It is impossible to escape the reality of higher borrowing costs and the expectation of further increases.

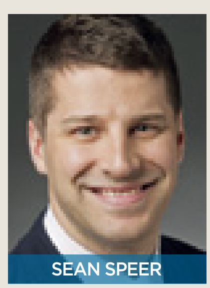
There is a real risk that history is repeating itself. Following several years of poor policy choices, the current government's latest budget is recreating similar fiscal conditions that preceded the reforms in the 1990s.

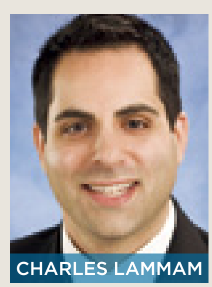
The budget deprioritizes short-term deficit targets and projects this year's deficit to be $12.5 billion—$2.4 billion higher than previously projected. It adds $29 billion in additional spending on transit initiatives and $2.5 billion for a new corporate welfare slush fund. It raises taxes on personal income and aviation fuel. It proposes an unnecessary mandatory provincial pension program that would see a dramatic increase in payroll taxes.

The same budget estimates that interest payments on the debt will swallow nearly 11 per cent of total government revenues in the next four years, up from 9.2 per cent today (and this assumes that interest rates will remain historically low). Government debt is set to reach $324.5 billion by 2017/18 (almost 40 per cent of Ontario's economy), a more than doubling of where the debt stood in 2003/04.

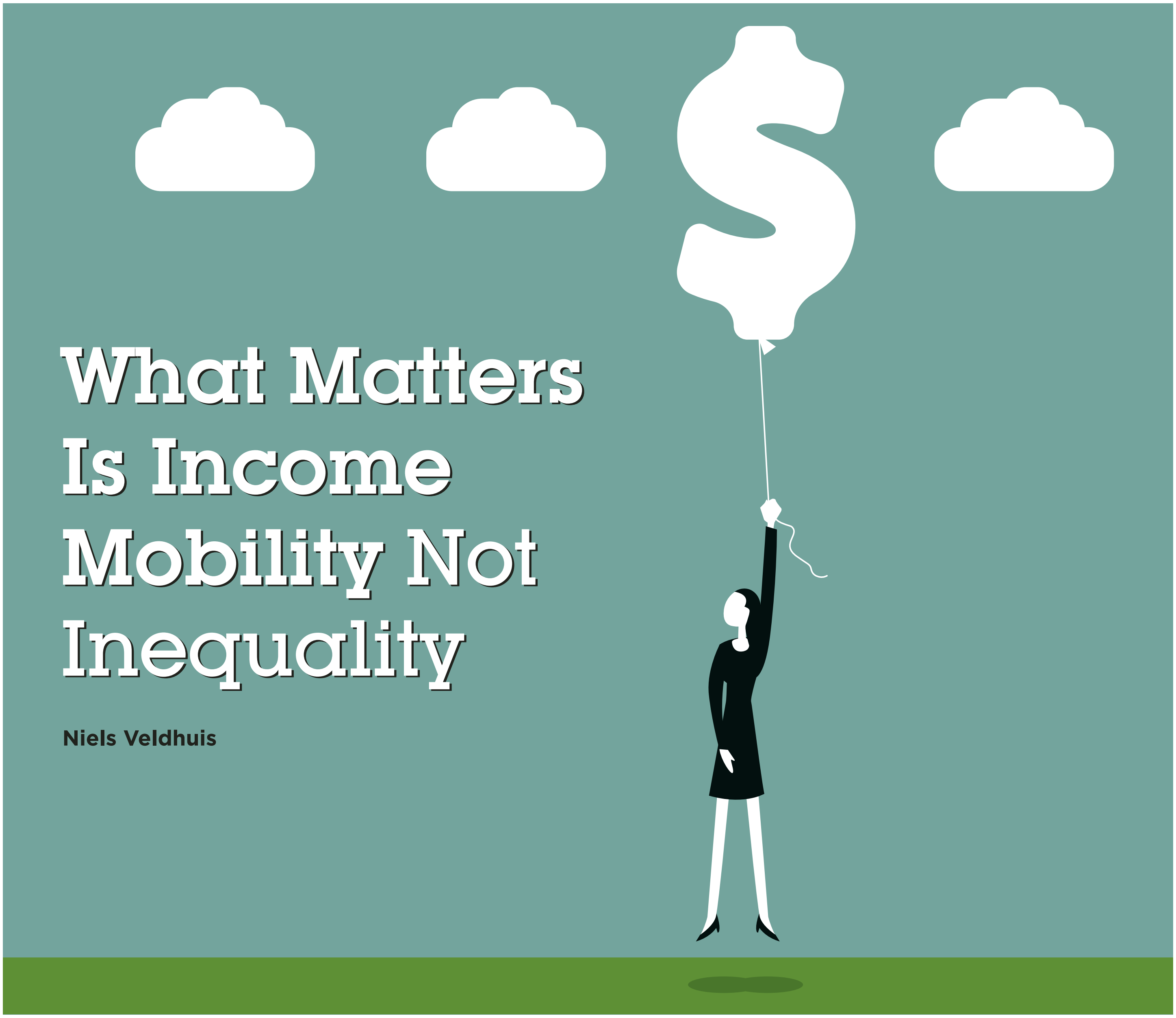
The government says it will balance the budget by 2017/18 but with a plan that lacks credibility, there's reason to be skeptical. How exactly it will balance the books in the absence of meaningful reforms while growing spending is a mystery. Credit rating agencies and the bond markets already seem to be questioning the math.

They say those who fail to learn from history are doomed to repeat it. While the provincial budget does nothing to put public finances on the right track, Ontario's fiscal problems can't be ignored forever. The problem will eventually be solved; it just may soon be out of the government's hands. FI





Sean Speer is associate director of fiscal studies and Charles Lammam is resident scholar in economic policy at the Fraser Institute.



What Matters Is Income Mobility Not Inequality

Niels Veldhuis

Given the continuous stream of media stories highlighting growing income inequality, it's understandable that Canadians are worried about the implications. Thankfully however, the story of rapidly rising income inequality in Canada is just that, a great fictional tale.

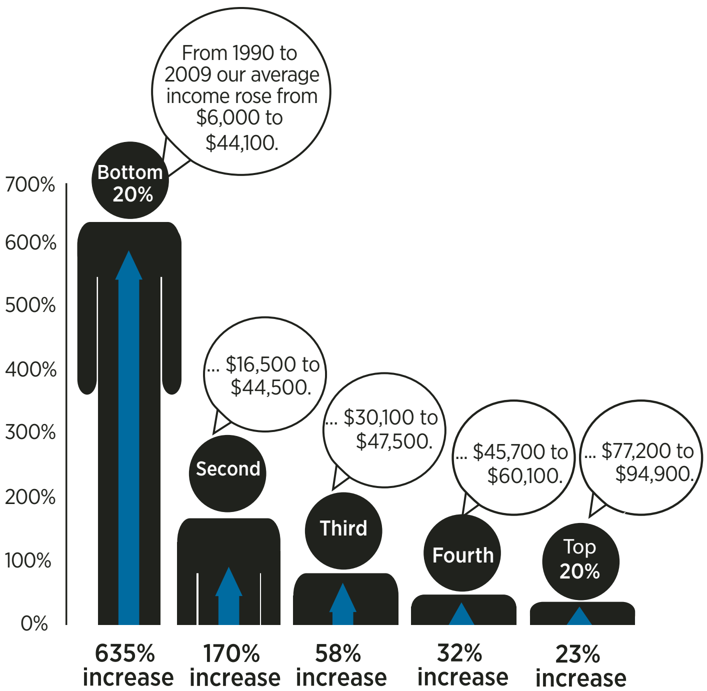
Let's start with the typical analysis of income inequality which compares the income of people or households in say the top 10 or 20 percent with the income of those in the bottom 10 or 20 percent.

In 1969, the first year for which we have data, the top 10% of households earned 7.8 times the average income of the bottom 10% of households. In 2008, the latest year for which we have data, the top 10% of households earned 9.3 times the average income of the bottom 10% of households.

Based on this data, income inequality has increased over the past 40 years though not as dramatically as most Canadians are led to believe.

Unfortunately, this analysis like most others of inequality is fundamentally misleading because it ignores income mobility.

AVERAGE INCOME OF THE SAME GROUP OF PEOPLE IN 1990 AND THE INCREASE IN DOLLARS AND PERCENTAGE



Note: Income is measured by wages and salaries and adjusted for inflation

Sources: Statistics Canada (2012b), special request from the Income Statistics Division using data from the Longitudinal Administrative Databank (LAD); calculations by the authors.

The assumption upon which almost all inequality analyses are conducted assumes that the people who are in the bottom and top income groups remain in those groups over time.

This, of course, does not equate with the life experience of the great majority of Canadians.

Using Statistics Canada's Longitudinal Administrative Databank, a recent study, *Measuring Income Mobility in Canada*, tracks a sample of a million Canadians to see how their incomes change over time.

In 1990, the lowest 20% of income earners (Canadians were put into five income groups from lowest to highest income, with each group containing 20% of the total) earned an average income of just $6,000 in wages and salaries in 2009 dollars.

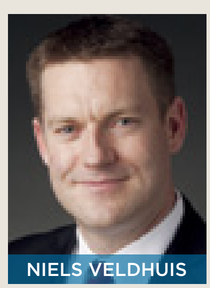
By 2009 (the last year for which we have data), 87% of those in the bottom income group moved to a higher group (an almost equal proportion moved into each of the four higher groups). In other words, almost nine out of 10 Canadians who started in the bottom 20% had moved out of low income. By 2009, their average income was $44,100.

Of course, people also move down the income ladder. For example, 36% of those initially in the highest income group in 1990 moved to a lower income group by 2009. The average income of those originally in the highest 20% of income earners in 1990 increased from $77,200 to $94,900 by 2009.

Perhaps the most powerful conclusion from this study is with respect to income inequality. Consider that the average income of those initially in the top 20% in 1990 ($77,200) was 13 times that of those initially in the bottom 20% ($6,000).

By 2009, the income of those who were initially in the top 20% ($94,900) that was only twice as high as the income of those who were initially in the bottom 20% in 1990 ($44,100). Put simply, income inequality decreased, not increased from 1990 to 2009 when we consider the same group of people.

The conclusion that inequality is on the rise couldn't be further from the truth and misses one of the great Canadian virtues: We live in a dynamic society where the majority of us experience significant income mobility over the course of our lives. FI



Niels Veldhuis is President of the Fraser Institute. He is co-author of *Measuring Income Mobility in Canada*, available at www.fraserinstitute.org.

Kenneth P. Green

What's your role at the Institute?

I'm Senior Director of Natural Resource Studies. Largely, that means I study public policies relating to energy and mining, though we may also stray into other areas of natural resource policy. I work with both internal and external researchers to shed light on how public policy—government rules and regulations—affects the lives of Canadians. Our two best known publications in my Centre are annual surveys that assess how a jurisdiction's regulatory regime might make that jurisdiction more or less inviting to potential investors in energy development and mining. Promoting energy and environmental literacy is also important to me—we can't get either energy policy or environmental policy right unless we have a sound understanding of how things work.

How did you arrive at the Institute?

I was actually first hired by the Institute to work on environmental policy in 2002, based in Vancouver, where I worked for three years. When the opportunity came for me to rejoin Fraser in 2013, and to build on a program of fundamental importance to Canadians, my wife and I were happy to return to Fraser, this time, working out of the Calgary office with a focus on natural resource policy.

Something exciting you're working on now for the immediate future.

I'm particularly happy to be working toward a study on the subject of energy poverty. Energy access and affordability is critical to all Canadians' well-being, but especially to those of modest means. Poorly thought out energy policy can needlessly elevate the costs of energy, and those costs fall disproportionately on the poor, who may face, at the end of the day, a hard choice between paying for food or paying for fuel. Other work I'm excited about is expanding energy literacy among Canadians and working with students through Fraser's student program.

What you enjoy doing in your spare time that your colleagues might not be aware of?

I'm a nut for Scrabble and Words with Friends. Other than that, I'm a voracious reader of hard science fiction, urban fantasy, and modern mythology, and have a thing for raw oysters. FI

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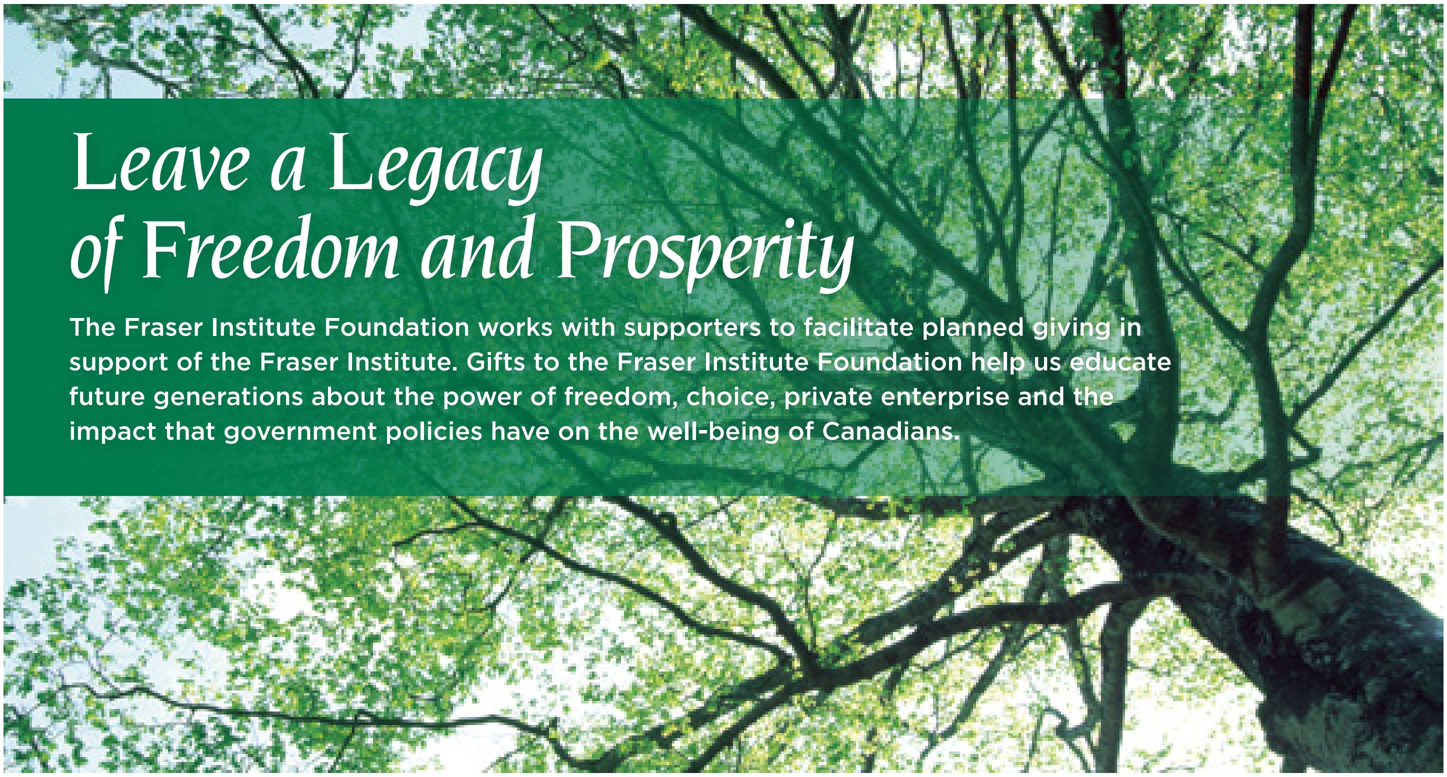

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Enduring Powers of Attorney

Most of us would like someone we trust to look after our financial affairs should we become incapable by reason of an accident or illness, but people often overlook the need to deal with this aspect of their estate plan. A relatively simple way to address it is by putting in place an enduring power of attorney. If an individual doesn't have one and becomes incapable, a government representative like the Public Guardian and Trustee, or someone appointed by a Court, may take control of his or her assets. Neither outcome is ideal and both can result in legal complexity and unnecessary expense.

When putting in place a power of attorney, the most important decisions will be around who to appoint. Primary and alternate attorneys should be named. In all cases, the people selected should be trustworthy and have experience or skills relevant to the role and the assets they will be responsible for administering. Another consideration is where they reside.

There are also many specific provisions one might include. Examples include the power to use assets to benefit the individual's spouse and children, and the power to satisfy charitable pledges made by the individual or to continue to make annual gifts he or she historically made.

Finally, you'll need to review the power of attorney provisions periodically. Laws change, people's circumstances evolve, and this document will occasionally need revision to ensure it is still relevant.

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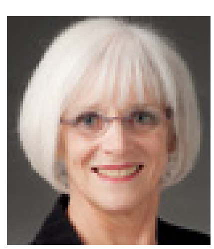
For more information visit: www.fraserlegacy.org



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