News and information for supporters and friends of the Fraser Institute

FRASER INSTITUTE

THE Quarterly

Winter 2014

Your Family's Largest Expense May Surprise You*

*See page 15 for information.

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FRASER INSTITUTE

MESSAGE FROM THE INSTITUTE'S PRESIDENT

Niels Veldhuis
President, Fraser Institute

Dear Fraser Institute Friends and Supporters,

As this is the fourth and final issue of *The Quarterly* for 2014, I want to thank you for all of the positive feedback we have received on this new publication.

As the cover of this issue suggests, it is very difficult for regular Canadians to determine how much tax they really pay. That is why we produce the *Canadian Consumer Tax Index*, which analyzes spending of the average Canadian family. As Charles Lammam, Milagros Palacios, and Sean Speer highlight in their article on page 15, a typical family now spends 42% of its income on taxes, compared to 36% for food, shelter, and clothing combined.

As you probably know, a lot of that money goes to two of the largest government programs, health care and education.

Unfortunately, as Bacchus Barua and Jason Clemens note on page 28, many politicians and interest groups perpetuate the myth of "free" health care in Canada and for all the money we do spend, international statistics suggest that we are not receiving great value for money.

On the education front, many groups call for ever more government funding. This is especially true with respect to First Nations education. As Ravina Bains notes on page 2, funding for Aboriginal education has increased substantially across Canada, and yet problems remain.

Despite taking 42% of the average family's income, governments still don't have enough money to fulfill their desire to spend. That is why federal and provincial government debt now stands at $1.2 trillion (or $34,905 for every Canadian man, woman, and child).

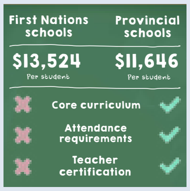
Page 10 includes a summary of our recent study *The Cost of Government Debt in Canada*, which highlights the significant interest paid on government debt. Can you believe that Canadian governments (federal, provincial and local) collectively spent $62 billion on interest payments in 2013/14? That's more than the $61 billion spent on primary and secondary education across the country!

These are the kinds of facts that Canadians need to hear. So when you're done reading this issue of *The Quarterly*, please share your copy with friends or family.

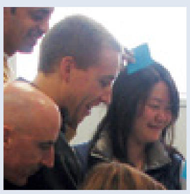
Niels Veldhuis

THE Quarterly

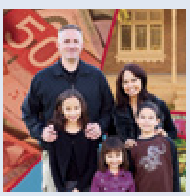
New Research



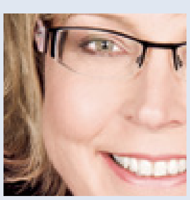
Education Programs



Recent Columns



Staff Profile



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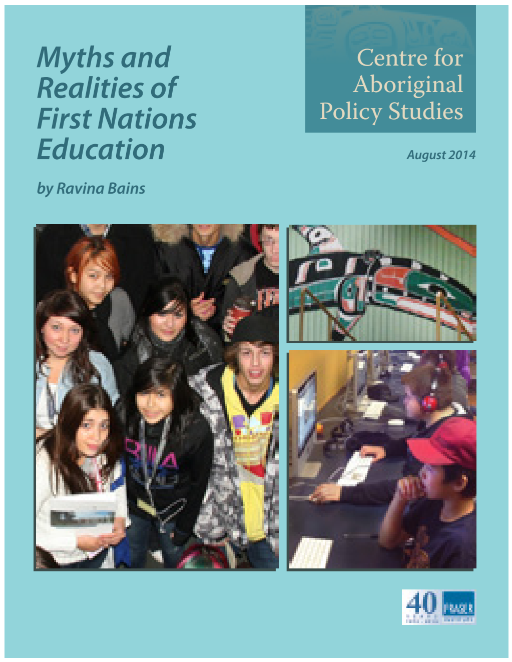
Myths and Realities of First Nations Education

Ravina Bains

Unlike in our provincial education systems, there are no minimum legislated education standards for on-reserve First Nations students. Canadian taxpayers are funding an education system in First Nations communities that has no legislated mandate for a core curriculum meeting provincial standards, no requirement that educators in First Nations schools have provincial certification, and no requirement for First Nations schools to award a recognized provincial diploma. According to the Department of Aboriginal Affairs and Northern Development, this has resulted in "situations where First Nation youth graduate from education institutions on reserve but cannot demonstrate a recognizable diploma to a workplace or post-secondary institution." This system is clearly failing First Nations children.



Several persistent myths have distorted discussion and analysis of First Nations education on reserve.

PER-CAPITA FUNDING AND THE INFAMOUS TWO PERCENT CAP

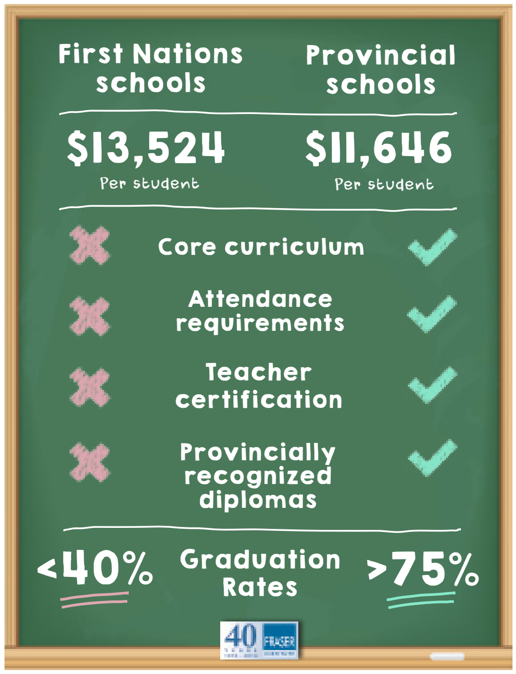
Numerous First Nations organizations have raised concerns over the two percent cap on education funding in place since the 1990s, and about the level of funding for on-reserve education in general. However, the total expenditure for First Nations education since 2006 has been growing at a rate higher than the two percent cap. The actual expenditures between 2007/08 and 2010/11 represent a cumulative increase of over 14 percent, whereas spending would have increased by 8 percent under a two percent cap. In certain years, such as 2009/10, education expenditure rose by over 4.8 percent, which was above the average provincial funding increase of 4.1 percent.

Furthermore, when comparing the overall operating expenditure for elementary and secondary students living on reserve to that for other Canadian students, elementary and secondary students on reserve receive on average the same amount as other Canadian students, and in some cases more.

TUITION AGREEMENTS FOR ON-RESERVE STUDENTS ATTENDING PROVINCIAL SCHOOLS

Forty percent of all students who live on reserve attend an elementary or high school off reserve. In 2011/12, $393,680,506 out of the $1.5 billion allocation for First Nations education was spent on tuition for students who lived on reserve but attended school off reserve. This represents over 20 percent of annual expenditure.

The tuition fees for First Nation students in Ontario vary depending on the level of "Grants for Student Needs" provided to individual school boards. Despite parameters for tuition fees, the provincial Ministry of Education and the federal Department of Aboriginal Affairs and Northern Development Canada do not keep track of tuition agreements for fees in place between school boards and First Nation communities in Ontario. This lack of oversight has resulted in cases where First Nations have been overcharged for tuition by local school boards. For example, in 2000, a provincial school board acknowledged that they were overbilling a First Nation by $700,000. In 2012, another Ontario school board was found to have been overcharging a First Nation by $1.3 million over three years for services that the community was already paying for through the base tuition fee.



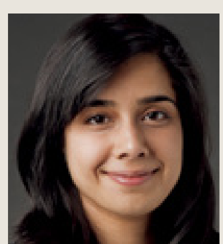
Adequate monitoring and stringent parameters for tuition agreements by the Ministry of Education or the Department of Aboriginal Affairs and Northern Development Canada can help ensure that school boards are not overcharging First Nations students to attend their schools.

WAS THE KELOWNA ACCORD THE REAL SOLUTION?

It has been claimed that if the 2005 Kelowna Accord had been enforced by the federal government, with an additional $1.05 billion provided for First Nations education, there would now be a better education system on reserves resulting in graduation rates similar to those of other Canadians.

The evidence suggests otherwise. Despite publicly rejecting the Kelowna Accord, the current federal government has in fact fulfilled the accord's on-reserve education funding commitments, providing a cumulative $1.0987 billion in additional funding to on-reserve education over the past eight years—over and above the annual $1.5 billion spent on operational education services. However, despite the funding component of Kelowna being fulfilled, the graduation rate improvements have not followed. Recently (when over 63 percent of the Kelowna Accord funding had been fulfilled), the graduation rate on reserve was below 40 percent—almost half the completion rate of other Canadian students. Simply increasing government funding for education does not result in a better education system or increased graduation rates.

In First Nation communities where issues regarding education standards and core curriculum have been addressed, there has been a dramatic increase in graduation rates among on-reserve First Nation students. For example, in 1998, First Nations in Nova Scotia entered into a legislative agreement, the Mi'kmaq Education Act, with the province and the federal government to create a legislative framework that provides services to on-reserve schools that mirror the provincial public schools. Following the implementation of this agreement graduation rates and post-secondary enrolment have substantially increased. For example, the graduation rate among Mi'kmaq students rose by over 17 percent over four years from 2008 to 2012, and by 2012/13 was over 87 percent. FI


RAVINA BAINS

Ravina Bains is Associate Director of the Centre for Aboriginal Policy Studies at the Fraser Institute. She is the author of *Myths and Realities of First Nations Education*, available at www.fraserinstitute.org.

The Benefits of Incremental Innovation in the Pharmaceutical Industry

Steven Globerman and Kristina Lybecker

Technological innovation is widely understood to be a major stimulus to real economic growth and to improvements in society's standard of living. Hence, it is unsurprising that policy makers in Canada and elsewhere have long been focused on promoting innovation through policies such as tax incentives and intellectual property legislation. While less attention has been paid to the nature of innovation, there has been recent criticism that private-sector organizations are excessively focused on incremental innovation at the expense of so-called breakthrough innovation. Incremental innovations encompass relatively modest improvements to existing products and production processes, whereas breakthrough innovations are characterized by their scientific and commercial novelty, along with higher associated financial risk. The premise underlying calls for firms to focus more on breakthrough innovations is that the social benefits of breakthrough innovations dwarf those realized from incremental innovations, and that the differences more than justify the greater associated costs and financial risks.

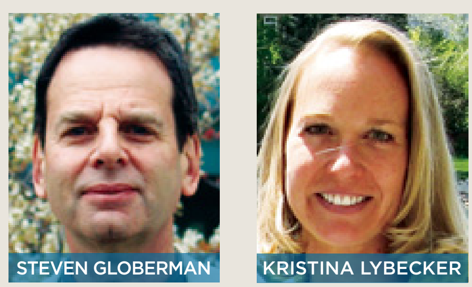
Scepticism about the benefits of incremental innovation has arguably been most pronounced in the context of the pharmaceutical industry. Regulators in a growing number of countries are exhibiting increasing reluctance to approve so-called "me-too" drugs for sale on the grounds that they offer no significant benefits to patients. In fact, incremental innovations undertaken by drug companies provide great value for both physicians and patients. Specifically, they provide physicians with the flexibility to treat the individual needs of diverse patients with precision while improving patient compliance by eliminating adverse drug reactions and side effects. Incremental innovation also promotes increased price competition among drug manufacturers, thereby generating cost savings in the health-care sector.

The knowledge and experience gained from incremental innovation often provides the basis for the future development of relatively novel innovations.

The benefits to society from incremental innovation are documented in other industries besides pharmaceuticals. Indeed, incremental innovation is typically a critical stage of technological change in which the commercial value of scientifically novel inventions is greatly enhanced, thereby expanding the number of potential adopters of the new technology. A relevant example is the jet engine, which suffered from unacceptably low performance characteristics until materials were made available to withstand high temperatures and pressures. Furthermore, the knowledge and experience gained from incremental innovation often provides the basis for the future development of relatively novel innovations. This phenomenon is illustrated by Canon's "revolutionary" 35mm camera, which drew upon that company's core knowledge of precision optics and mechanics that, in turn, derived from Canon's experience making photocopiers.

Incremental innovations undertaken by drug companies provide great value for both physicians and patients.

The history of technological change in pharmaceuticals and other industries should serve as a caution against public policies that seek to discourage incremental innovation in favour of initiatives to create breakthrough innovations. While critics argue that incremental innovation represents a waste of resources and conveys only minor improvements upon existing products and production processes, the evidence indicates that they are misguided. This is arguably particularly true in the case of pharmaceuticals where there is abundant evidence documenting the benefits to society from incremental innovation. FI

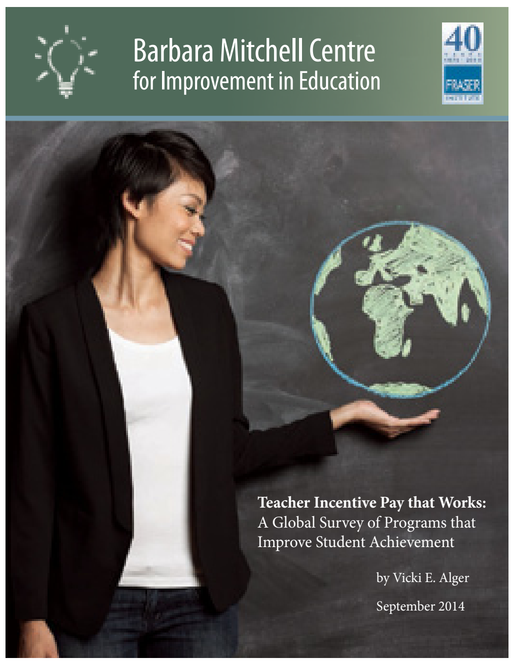


Steven Globerman and Kristina Lybecker are Fraser Institute Senior Fellows and co-authors of *The Benefits of Incremental Innovation: Focus on the Pharmaceutical Industry*, available at www.fraserinstitute.org.

How to Reward Excellence in Teaching

Vicki Alger

The one-room schoolhouse may be a relic of a bygone era, but teacher compensation in Canada remains stuck in a time warp. Currently, teacher compensation is determined by rigid salary schedules based on tenure and credentials—factors that have little if any positive impact on student achievement.



Compensating teachers for raising student achievement is a policy that's better for teachers, students, and taxpayers.

Outside of the teaching profession, close to three-fourths of Canadian employees already receive performance-based and variable pay. In fact, compensation based on results is the rule rather than the exception at more than eight out of 10 companies worldwide because this approach is one of the most effective strategies for attracting and retaining top talent.

It's well established that effective teachers can add up to one and a half years' worth of additional student learning in a single school year. They can also overcome adverse out-of-school socioeconomic factors that can hinder students' academic achievement, such as poverty, native language, parental education levels, and parental marital status.

Yet highly effective teachers are the most likely to leave the teaching profession in large part because of rigid salary schedules that do not reward their effectiveness with regard to higher student achievement. Rigid salary schedules also make teaching less appealing to talented young people able to choose from a variety of careers that recognize and reward excellence.

Ultimately, the overall quality of the teaching workforce suffers from the inability to attract and retain top teachers, which adversely affects student achievement.

Other countries facing far greater challenges than Canada realize that the education practices of the past cannot meet the needs of a competitive, 21st century world. Consequently, the number of countries implementing incentive pay for teachers is proliferating after decades of increasing education funding overall with no commensurate improvement in student achievement.

Some incentive pay programs are part of well-established national reform efforts, such as those in Chile and England. Others are smaller in scope and are supported through local public-private partnerships, including programs in India, Israel, and several local school districts in the United States.

Regardless of location or size, successful teacher incentive pay programs share a singular design feature: student achievement is the primary or sole basis for teacher incentive awards.

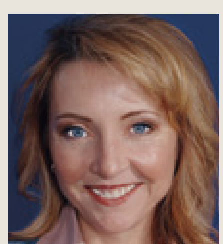
The design of successful teacher incentive pay programs is as varied as their locations. Some incentives are awarded to groups of teachers, some to individual teachers, while others are a blend. Several programs, including in Chile, Dallas, Texas, India, and Israel, distribute group incentives to teachers. Programs in England and Little Rock, Arkansas, offer incentive awards to individual teachers based on the achievement gains of their students. Several other programs offer blended group and individual incentives to teachers.

These successful teacher incentive programs award pay incentives ranging from 10 percent to more than 100 percent of teachers' average monthly salaries, depending on base salaries. These programs realize student achievement gains equivalent to one-half to more than one full academic year of learning. Additionally, official evaluations find that these successful incentive pay programs are between two and 10 times more cost effective than class-size reduction efforts and are up to nearly nine times more cost effective than simply raising teacher salaries.

Regardless of location or size, successful teacher incentive pay programs share a singular design feature: student achievement is the primary or sole basis for teacher incentive awards. Successful programs share five features: expectations for teachers are defined collaboratively with teachers; teachers are supported in meeting stated expectations; teachers are rewarded as promised; programs are built to last with smarter spending; and a culture of continuous improvement is promoted with ongoing, customized professional development.

Since Canada is currently among the top global educational performers, policymakers have the distinct advantage of crafting sound teacher incentive pay programs that work best for their specific jurisdiction's unique circumstances by design, not out of desperation over chronically poor student achievement.

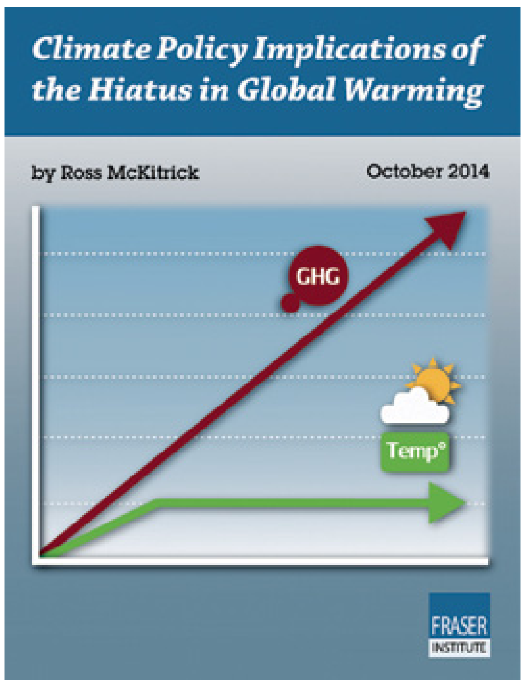
Yet the current decline in Canadian student performance, particularly in math and sciences, wide variations in student performance across the provinces and territories, chronic achievement gaps between Aboriginal and non-Aboriginal students, and the escalation of educational expenditures in virtually every province provide justification enough that now is the time to consider proven and cost-effective policy measures such as incentive pay for teachers to enhance student achievement outcomes. FI


VICKI ALGER

Vicki Alger, Ph.D., is a Senior Fellow in the Fraser Institute's Barbara Mitchell Centre for Improvement in Education and author of *Teacher Incentive Pay that Works: A Global Survey of Programs that Improve Student Achievement*. The study is available at: www.fraserinstitute.org

Climate Policy Implications of the Hiatus in Global Warming

Ross McKitrick



The fact that CO2 emissions lead to changes in the atmospheric carbon concentration is not controversial. Nor is the fact that CO2 and other greenhouse gases (GHGs) absorb infrared energy in the atmosphere and contribute to the overall greenhouse effect. Increases in CO2 levels are therefore expected to lead to atmospheric warming, and this is the basis for the current push to enact policies to reduce GHG emissions.

For more than 25 years, climate models have reported a wide span of estimates of the sensitivity of the climate to CO2 emissions, ranging from relatively benign to potentially catastrophic, reflecting a wide range of assumptions about how the climate system may or may not amplify the effects of GHG emissions.

These continuing uncertainties have direct policy implications. Economic models for analysing climate policy are calibrated using climate models, not climate data. In a low-sensitivity model, GHG emissions lead only to minor changes in temperature, so the socioeconomic costs associated with the emissions are minimal. In a high-sensitivity model, large temperature changes would occur, so marginal economic damages of CO2 emissions are larger.

Continuing climate model uncertainties have direct policy implications.

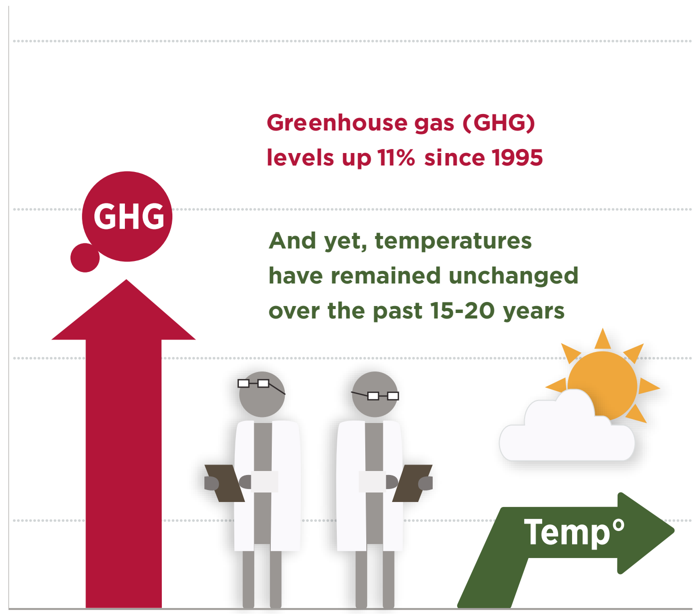
While it is common these days for politicians, journalists, and other observers to say the climate is warming "faster than expected," the data show that, over the past two decades, warming has actually slowed down to a pace well below most model projections. Depending on the data set used, there has been no statistically significant temperature change for the past 15 to 20 years. Yet atmospheric GHG levels have increased rapidly over this time period, and there is now a widening discrepancy between most climate model projections and observed temperatures. While a pause in warming is not itself inconsistent with a continuing long term trend, there is no precedent for such a large and continuing gap between models and observations. Some climatologists have argued that within another few years at most, if the pause continues, it will lead inescapably to the conclusion that climate models are oversensitive to GHGs.

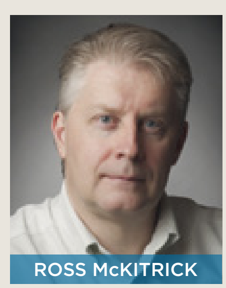
... there has been no significant temperature change for the past 15 to 20 years. Yet atmospheric GHG levels have increased rapidly over this time and there is now a widening discrepancy between most climate model projections and observed temperatures.

Since economic models are designed to match climate models, if climate models overstate the effect of CO2 emissions, economic models will overstate the social damages associated with them. In fact, economic models of climate policy allow for even more exaggerated effects of carbon dioxide emissions than do climate models. Consequently, there is good reason to suppose that economic models too may be subject to revision over the next few years.

One implication of these points is that, since climate policies operate over such a long time frame, during which it is virtually certain that important new information will emerge, it is essential to build into the policy framework clear feedback mechanisms that connect new data about climate sensitivity to the stringency of the emissions control policy. A second implication is that, since important new information about climate sensitivity is expected within a few years, there is value to waiting for this information before making any irreversible climate policy commitments, in order to avoid making costly decisions that are revealed a short time later to have been unnecessary. FI

SHOULDN'T CLIMATE POLICY REFLECT THE CLIMATE HIATUS?





Ross McKitrick is a Professor of Economics at the University of Guelph and a Fraser Institute Senior Fellow. He is the author of *Climate Policy Implications of the Hiatus in Global Warming*, available at www.fraserinstitute.org.

Debt Interest Risks Crowding Out Government Spending on Other Priorities

Sean Speer, Charles Lammam, and Milagros Palacios

FRASER RESEARCH BULLETIN

FROM THE CENTRE FOR FISCAL STUDIES

August 2014

The Cost of Government Debt in Canada

Sean Speer, Charles Lammam, Milagros Palacios, Hugh MacIntyre, and Feixue Ren

Summary

- A major theme of this year's federal and various provincial budgets is continuing deficit spending and growing government debt. The result of recent deficits and debt accumulation is that the combined federal and provincial net debt has increased from $823 billion in 2007/08 to over $1.2 trillion (or $34,905 for every man, woman, and child living in Canada) in 2013/14.
- This type of debt accumulation has costs. One major consequence is that governments must make interest payments on their debt similar to households who pay interest on borrowing related to mortgages, vehicles, or credit card spending. Spending on interest payments consumes government revenues and leaves less money available for other important priorities such as spending on health care and education or tax relief.
- Canadian governments (including local governments) collectively spent an estimated $61.7 billion on interest payments in 2013/14.
- To put that in perspective, it is more than Canada's public spending on primary and secondary education ($61.0 billion, as of 2011/12, the last year for which we have finalized data), or more than the three major federal-to-provincial government transfer programs comprising Equalization, the Canada Health Transfer and Canada Social Transfer ($58.6 billion).

fraserinstitute.org FRASER RESEARCH BULLETIN 1

Canadian headlines about government deficits and debt can be dizzying and hard for people to grasp. A few billion here and several billion there and the natural response is for one's eyes to glaze over in despair. But the increasing government debt has tangible and immediate consequences that affect Canadian families today and into the future.

After reducing debt from the mid-1990s to late-2000s, Canadian governments reversed course in 2008/09, partially because of large increases in deficit-financed spending as governments tried to stimulate the economy in the wake of the recent recession.

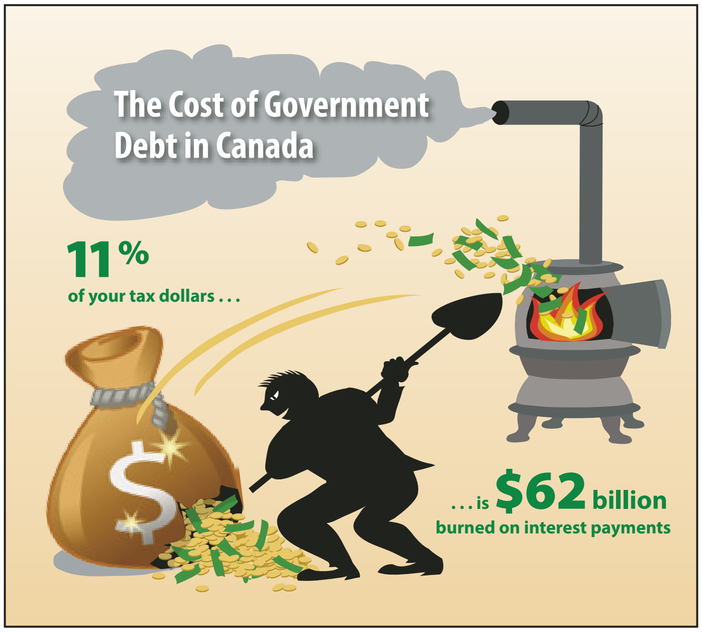
Although evidence-based research casts serious doubt on a government's ability to stimulate economies this way, we are five years past the recession and governments continue to spend more than the revenues they collect while digging deeper into debt.

Since 2007/08, combined federal and provincial government debt has grown over $400 billion (or nearly 50 percent) from $823 billion to over $1.2 trillion. If it sounds like a lot, it's because it is. Federal-provincial debt now equals over 65 percent of the Canadian economy and represents $34,905 for every man, woman, and child living in Canada, and that doesn't include indirect government debt such as unfunded program liabilities like health care and public pensions.

With several governments planning ongoing deficits for the future, don't expect the growth in debt to halt anytime soon.

But there are consequences.

Governments must make interest payments on their debt similar to families who pay interest on borrowing for mortgages, vehicles, or credit card spending. For some Canadian governments, interest payments consume more than 11 percent of their revenue; that's 11



cents of every tax dollar they collect simply to service past debt obligations.

These interest payments leave fewer resources available for important priorities such as tax relief and spending on public programs such as health care, education, and social services.

Consider the following examples from Canada's two largest governments whose interest payments are now comparable to key revenue sources and spending programs.

In 2013/14, interest payments on the federal debt totalled $29.3 billion, which roughly equals the $29.9 billion collected in GST revenue and the $32.3 billion spent on Old Age Security benefits for Canadian seniors.

In the same year, the Ontario government spent $10.6 billion on interest payments—more than the entire $10.1 billion budget for the ministry of community and social services and close to the $10.8 billion the government spent on infrastructure (roads, hospitals, schools, etc.).

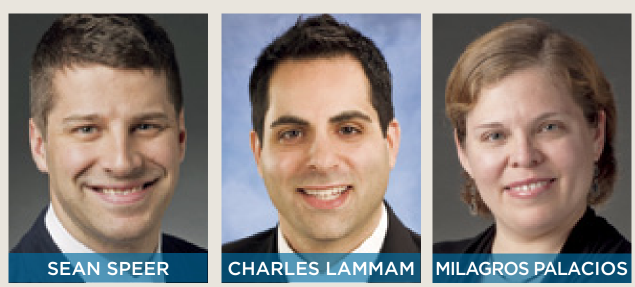
Collectively the story is equally sobering. Canadian governments (including local governments) cumulatively spent $61.7 billion on interest payments in 2013/14, outpacing all public spending on K-12 education ($61.0 billion as of 2011/12, the last year for which we have data) and the three major federal-to-provincial government transfer programs ($58.6 billion).

Interest payments clearly aren't trivial when compared to other major revenue and spending items. If governments dig deeper into debt, interest payments could grow and eat up more government resources, displacing spending on things that Canadians care about and adding to the burden of repayment on future generations.

Although debt levels are important, higher interest rates (or the costs of borrowing) pose a real threat to indebted governments. Governments have been borrowing at historically low interest rates; if rates rise, the cost of carrying debt will increase. Governments that maintain relatively high and growing debt levels, such as Ontario and Quebec, are especially vulnerable to interest rate hikes.

Bottom line: deficit spending and growing government debt is not without costs. Rising government debt can result in more resources going to interest payments and not public priorities that benefit Canadian families or improve the country's economic competitiveness.

Some may try to justify deficits and debt in certain circumstances, but they can't ignore the immediate and future consequences. Five years after the recession, now is a good time to reverse the trend and rein in government debt. FI



Sean Speer is Associate Director of Government Budgets and Fiscal Policy, Charles Lammam is Associate Director of Tax and Fiscal Policy, and Milagros Palacios is a Senior Research Economist in the Fiscal Studies Department at the Fraser Institute. They are co-authors of *The Cost of Government Debt in Canada*, which is available at www.fraserinstitute.org.

Teachers try to buy "thingamajigs" from a teacher who has limited resources during an activity demonstrating price gouging at the *Economics of Disasters* workshop.

It has been a busy start to the fall portion of our programming, with our student seminars, teacher workshops, and high school seminars in full swing—and more events still to come.

POST-SECONDARY STUDENT SEMINARS

The 300 students in attendance at the Victoria, Saskatoon, and Vancouver seminars enjoyed a series of engaging presentations and discussions. The season kicked off in Victoria where, among other topics, students heard Ken Green discuss Canada's energy export challenge and Benjamin Perrin address the future of Canada's prostitution laws. Word of this program must be spreading as we saw the highest number of Vancouver Island public school students to date. Building on the favourable response from last year, Saskatoon attendance continues to grow, part in thanks to the University of Regina's Dean of Business Administration who made it mandatory for his public policy graduate students to attend.

Included in the Saskatoon line-up was our own Ravina Bains discussing the impact of property rights for First Nations members living on reserve and Stephen Easton delving into the always popular true costs of crime. Vancouver remains our most highly attended seminar with nearly 150 students participating. Dr. Brian Day got the audience thinking with his talk on Canada's health care crisis, the Institute's Deani Van Pelt had everyone realizing that spending on education is in fact not declining, and Sonia Arrison's detailing of "How the Coming Age of Longevity will Change Everything" had discussion groups going into overtime. This list is only a few of the impressive speakers. The travel bursary program enabled 50 lucky students from outside the Lower Mainland to attend the Vancouver seminar. Over 100 applicants applied for the program, which provides those selected with travel and accommodation for two days to attend the seminar and network with like-minded students.

"It was an eye opening experience exploring public policy with intelligent people from diverse backgrounds."

STUDENT SEMINAR PARTICIPANT

TEACHER WORKSHOPS

In October we held the first of our fall teacher workshops in Surrey: *Economics of Disasters*. We worked with the British Columbia Business Teacher's Association annual conference organizers to help us ensure maximum attendance. Always a popular workshop, teachers spend the day examining the human tendency to look for the silver lining of a natural disaster and declare that "at least it was good for the economy." Teachers took a close look at the role of markets and the role of governments immediately following a natural disaster using historical cases (including the Halifax explosion of 1917) and more recent examples (like the Alberta floods of 2013). Each attendee left the workshop with a binder of lesson plans, online materials, and PowerPoint presentations that will enable them to walk into their classrooms and put into action all that they learned at the workshop.

HIGH SCHOOL SEMINARS

We welcomed 107 junior high school students (grades 7-9) to Surrey to attend our seminar, *Economics is Everywhere!* The program's effectiveness at teaching students basic economic principles and demonstrating how those principles are part of our everyday life in a

Students gathered at our largest seminar in Vancouver get the opportunity to hear Dr. Brian Day discuss Canada's health care crisis.

Travel bursary students gather after the welcome breakfast to take a quick photo before the day's activities begin.

Benjamin Perrin asks the audience in Victoria to think differently about the legislation surrounding prostitution.

Sonia Arrison challenges students at the Vancouver seminar to tell her what they think the most positive outcomes of longer lifespans will be, offering up her book as a prize for the best answer.

fun, high-energy environment has led to growing demand and a wait list of 127 students. Students return to their school having learned to think critically about decisions they make today, the future consequences of those decisions, and how their behavior influences the world around them.

> *"This is the best field trip ever. Economics is so much fun!"*
>
> *PACIFIC ACADEMY STUDENT*

ESSAY CONTEST

Over 240 students explored the topic "The Rise of Crony Capitalism: How Government and Business Gain at the Taxpayers' Expense" in our annual essay contest. For the first time we offered prizes at the graduate level, in addition to undergraduate and high school categories. While the majority of winners were Canadian, some entries came from as far away as Nigeria. The winning essays will be featured in coming issues of *Canadian Student Review*.

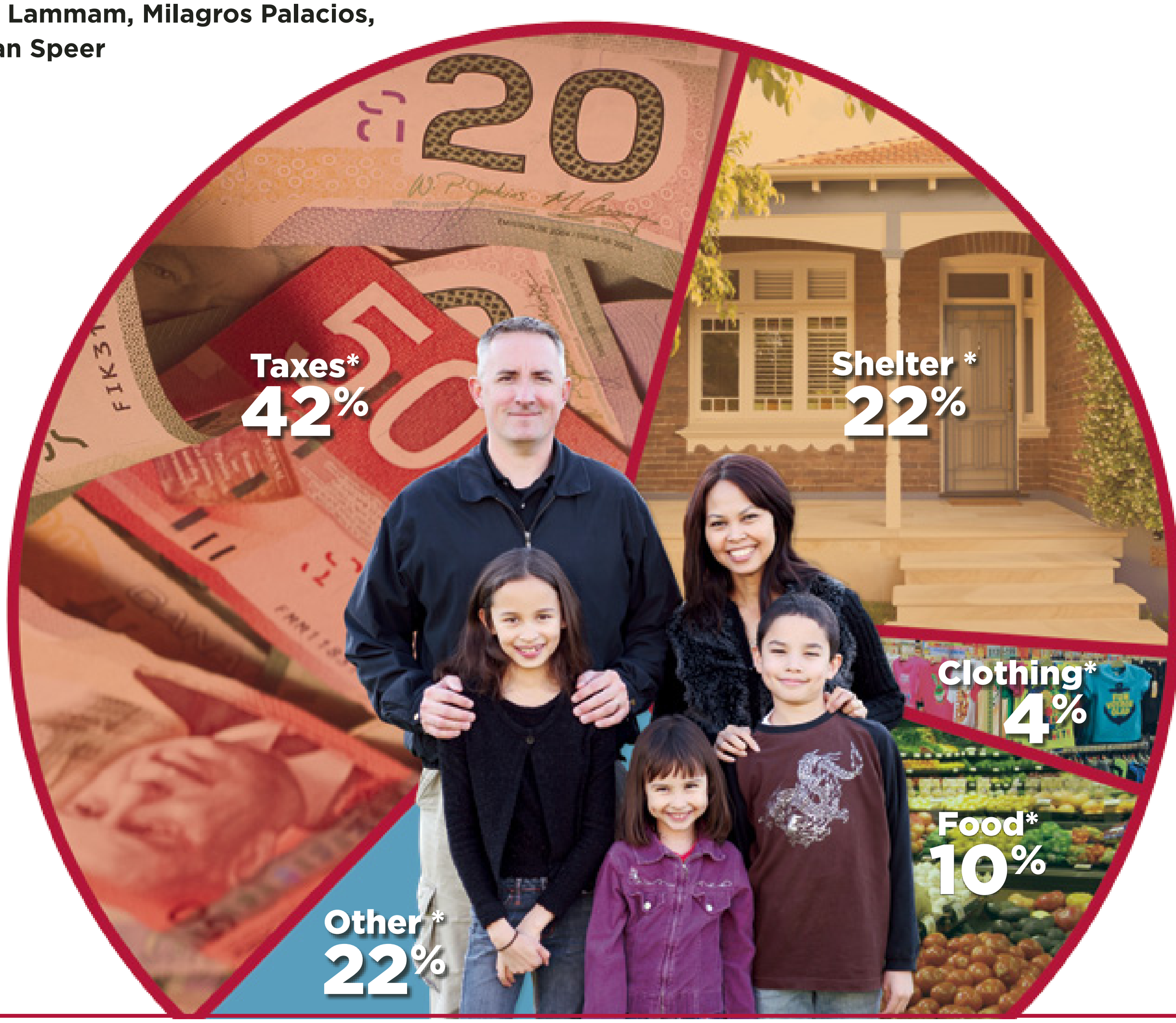
OUR INTERNSHIP PROGRAM

We continue to introduce young, energetic people to the think tank world through our internships. This fall we welcomed the return of Snow Ren, a summer intern. We also brought on Josef Filipowicz, who holds a Bachelor's degree in urban and regional planning (B.URPl) from Ryerson University and an MA in Political Science from Wilfrid Laurier University.

When Sonia Arrison, a former intern with the Fraser Institute, recently agreed to come from California to present at one of our student seminars and talk about her best-selling book *100+*, she also graciously agreed to talk to staff the day before at a brown bag lunch. Her compelling work had staff and students alike talking long after she had left the building. Twenty years have passed since Sonia was an intern, so we thought we would ask her a few questions about her experience with us. She explained, "I found my time at the Institute intellectually engaging and it offered me the chance to be part of a network of like-minded people... My internship here opened my eyes to a new path I didn't know existed before; that was the path of being an ideas entrepreneur". FI

Your Family's Largest Expense May Surprise You

Charles Lammam, Milagros Palacios, and Sean Speer



*Percentage of the average family budget.

If you asked average Canadian families what their largest expense is, many would probably say housing. And you can't blame them. Mortgage and rental payments are a painful monthly reminder of how much we pay for this basic necessity.

But what if we told you that the average family's largest expense is, in fact, taxes?

When we say taxes, we don't just mean income taxes. We're talking about all the taxes you pay to all levels of governments (federal, provincial, and local). This includes a combination of both visible and hidden taxes—everything from income taxes, which are less than a third of the total, to payroll taxes, health taxes, sales taxes, property taxes, profit taxes, fuel taxes, vehicle taxes, import taxes, alcohol and tobacco taxes, and much more.

For 2013, we estimate that the average Canadian family earned $77,381 in income and paid $32,369 in total taxes or 41.8 percent of income (the average family here includes single people). In the same year, just 36.1 percent of the average family's income went to food, clothing, and shelter combined. Indeed, Canadian families spend more on taxes than on the basic necessities of life.

With more money going to the government, the reality is that families have less to spend on things of their own choosing whether it's a new car, technological gadget, or family vacation.

But it wasn't always this way.

Back in 1961 (the first year for which we have calculations), the average family earned approximately $5,000 and paid a much smaller portion of its household income in taxes (33.5 percent) while spending proportionately more on the basic necessities (56.5 percent).

In *Taxes versus the Necessities of Life: The Canadian Consumer Tax Index, 2014 edition*, published by the Fraser Institute, we track the total tax bill of the average Canadian family from 1961 to 2013. Since 1961, we find that the total tax bill increased by 1,832 percent, dwarfing increases in shelter costs (1,375 percent), clothing (620 percent), and food (546 percent). Even after accounting for inflation, which is the change in overall prices, the tax bill shot up 147 percent over the period.

Over the past five decades, the total tax bill grew much faster than the cost of basic necessities and now taxes eat up more income than any other single family expense.

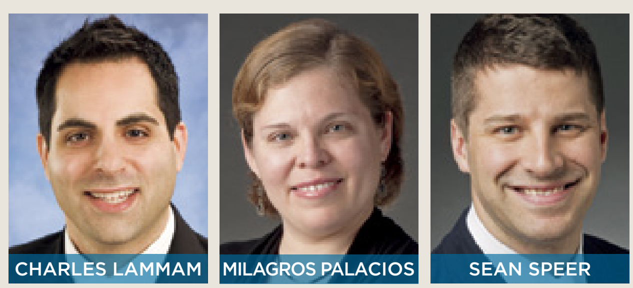
With more money going to the government, the reality is that families have less to spend on things of their own choosing, whether it's a new car, technological gadget, or family vacation. They also have less money available to save for retirement or their children's education, or to use to pay down household debt.

While there's no doubt that taxes help fund important government services, the real issue is the amount of taxes that governments take compared to what we get in return. With almost 42 percent of income going to taxes, Canadians should ask whether they get the best value for their tax dollars.

Are we paying too much, too little, or just the right amount? That's up to you and your family to decide.

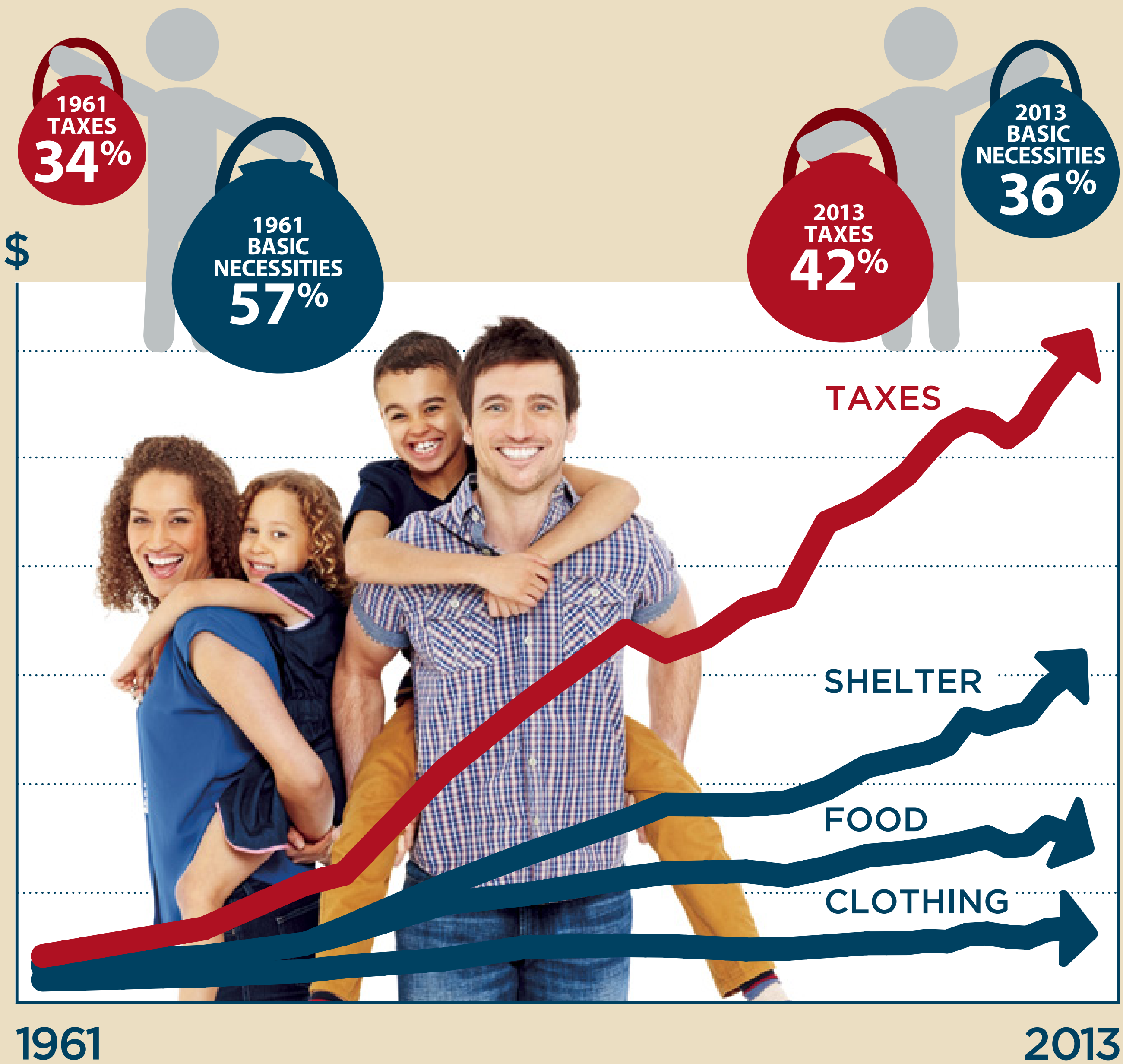
But to make an informed assessment, you must have a complete understanding of all the taxes you pay. Unfortunately, it's not so straightforward because the different levels of government levy such a wide range of taxes, many of which are buried in consumer prices and hard to discern. Therein lies the value of our calculations.

Armed with this knowledge, we can hold our governments more accountable for the resources they extract and continue a public debate about the overall tax burden, the amount and scope of government spending, and whether we're getting our money's worth. FI



Charles Lammam is Associate Director of Tax and Fiscal Policy, Milagros Palacios is Senior Research Economist in the Fiscal Studies Department, and Sean Speer is Associate Director of Government Budgets and Fiscal Policy at the Fraser Institute. Their study, *Taxes versus the Necessities of Life: The Canadian Consumer Tax Index, 2014 edition* is available at www.fraserinstitute.org

Taxes Outpace Other Spending; Now Largest Share of Family Budget



Once All the Costs are Counted, the Canada Pension Plan Isn't a Model of Efficiency

Philip Cross and Joel Emes

In the recent debate over an expanded Canada Pension Plan (CPP), its low cost was offered as one of the main benefits for larger government-managed pensions. The Ontario government, introducing its own version of the CPP, argues that lower costs helped to justify public pension plans. Not surprisingly, the Canada Pension Plan Investment Board (CPPIB), which manages the CPP's investments, burnishes this image of high efficiency and low cost. Every year it publishes its operating expense ratio, narrowly defined as operating expenses relative to assets under management. Last year, these operating expenses totaled $490 million, or 0.28 percent of its average assets. Sounds like quite a bargain.

However, the operating expenses cited by the CPPIB cover only a select subset of the total costs involved in running the CPP, according to a recent study, *Accounting for the True Cost of the Canada Pension Plan* that we co-authored for the Fraser Institute. These total costs include those related to the CPP's design and routine operations like collecting contributions and paying benefits that are done on its behalf by the federal government. Some of these functions are analogous to costs incurred by a private annuity fund, notably, verifying eligibility and issuing cheques.

The total cost of the CPP should also include all its external management fees and the transaction costs of executing its investment strategy. There seems no apparent reason to exclude these costs, especially external management fees, which have increased to $959 million last year, except the "customary practice," in the words of the CPPIB, of reporting "investment returns net of fees paid." These costs multiplied after the Board convinced governments, starting in 2006, to allow it to pursue a more aggressive investment strategy beyond the traditional stocks and bonds to assets such as infrastructure and real estate.

Contracting out investment strategy consultations may be justifiable, but excluding these rising costs from its reported expense ratio is not. After all, designing and executing its investment strategy is the very reason the CPPIB exists. The CPPIB's first and only loyalty should be to taxpayers, not the "customary practice" of the pension industry.

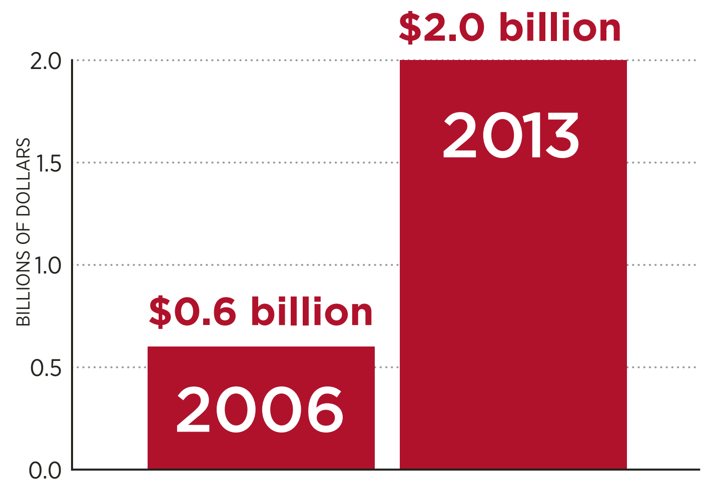
Currently, one needs to consult the Public Accounts and annual reports from both the CPPIB and CPP to get a complete picture of costs and investment returns. It is also worth noting that these costs do not include the compliance costs imposed on employers and self-employed individuals for calculating and remitting their CPP payments. Accounting for all the costs of the CPP is an important exercise, because every dollar spent is one less dollar available for beneficiaries. As well, it helps answer the question of whether government-run pension plans are significantly more efficient than private plans.

Unlike the benign picture of a minuscule expense ratio portrayed by the CPPIB, a fuller accounting of all the costs associated with the CPP paints a different picture. These "all-in" costs are at least four times higher than the narrowly-defined operating expenses ratio touted by the CPPIB. Most of the difference is higher external management fees, which have risen from $25 million to $782 million in just six years. Overall, the investment strategy of the CPP now costs twice as much as all its operating expenses.

In addition, the cost for the federal government's collection of all contributions and paying of benefits rose to $586 million last year, also more than its narrowly defined operating expenses. As a result, the total cost of running the CPP has grown from $0.6 billion to $2.0 billion, or from 0.54 percent of assets to 1.15 percent, over the last seven years.

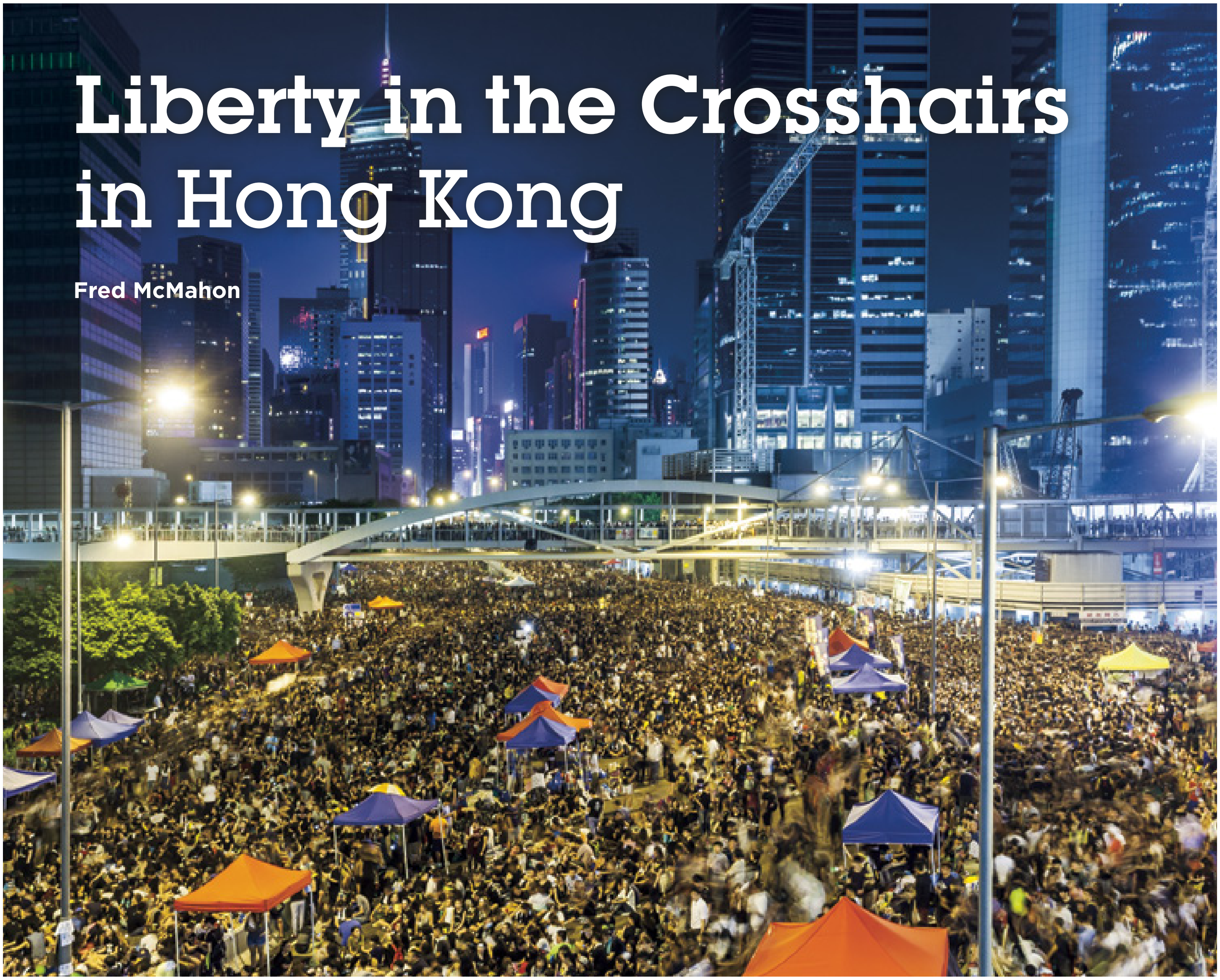
The CPP is Canada's largest pension fund. As such, it is in a unique position to set and not just follow industry standards for transparency in reporting all its expenses. As well, a full accounting of all its costs, including those incurred by the government of Canada, is necessary. The reporting of all costs should be explicitly made by the CPP in its annual reports and by the CPPIB in theirs.

THE TOTAL COST OF RUNNING THE CPP



As part of the overhaul of the CPP in 1997, governments agreed to continuously seek ways to reduce the plan's administrative and operating costs. Given this fundamental directive, it is surprising that the total costs of the CPP are not presented more clearly by both the government of Canada and the Plan's Investment Board. Canadians should be informed of the total cost of administering the CPP's operations and the total costs involved in its investment strategy. Otherwise, the expressed intent to relentlessly search for lower costs will appear to be just another politically-motivated bromide disappearing into the ether of a self-serving bureaucracy. FI

Philip Cross is a former chief economic analyst with Statistics Canada. He and Joel Emes, Fraser Institute Senior Fellow, are co-authors of *Accounting for the True Cost of the Canada Pension Plan*, which is available at www.fraserinstitute.org.



Liberty in the Crosshairs in Hong Kong

Fred McMahon

As pro-democracy demonstrations flare across Hong Kong, it continues to rank first in the world in economic freedom. Hong Kong has been at the top since 1970, according to the recently released Fraser Institute *Economic Freedom of the World* index, a collaborative effort of more than 100 research groups in 90 nations and territories. The 2014 report is based on 2012 data, the most recent available.

Democracy is no guarantee of prosperity, and Hong Kong has never been a democracy—so why is democracy important now? More than democracy is at stake—and that is why democratic evolution is crucial.

Hong Kong is a world miracle. We forget how desperate it was at the end of the Second World War. The territory was devastated by the war, poorer than most African nations, with no natural resources, not much potential as a trading hub, big neighbour China in turmoil (soon to be communist), Japan ruined, and Asia as destitute as Hong Kong itself. Yet Hong Kong rose to become one of the world's great cities.

Democracy is a human right, but it and freedom are not the same thing. Democracy is a power structure; freedom is the ability to do with your life what you want.

Economic freedom, not democracy, has driven Hong Kong's great growth. In creating prosperity, the ingenuity of individuals and families triumphs over government planning and the greedy elites of crony capitalism. Hong Kong boasts high levels of other freedoms: personal, speech, association, media, and religion.

All is now under threat. Despite its one country/two systems pledge, China clearly aims over time to impose its system on Hong Kong. A media chill has long been evident in Hong Kong as the press self-censors. Now China wants to halt what it once promised—Hong Kong's evolution to democracy.

The issue is the selection of candidates for the next elections. China has promised universal suffrage, but only if it gets to choose all the candidates for Chief Executive Officer—long a trick of communist regimes, which sometimes offered people a vote, but only for communists.

Why is Hong Kong's prosperity threatened? Western media portrays China itself as an economic miracle, open to free markets and wisely charting the turbulent waters that lead to turbo-charged growth.

This is fallacy. China is consistently about 100th in economic freedom—the best available measure of free markets—among the 152 jurisdictions the Fraser Index measures. Compare this to Hong Kong's number one status.

To understand what's going on, imagine a nation with abysmal policy, as China had under Mao. Policy is so horrid the economy cannot grow beyond a per capita income of $1,000 a year. Then it moves from abysmal to bad policy, as it did after Mao's death, and that level of policy can produce an income of about $10,000 per capita. This is what happened in China. It moved from abysmal to bad policy, and that generated new growth, creating the impression of an economic miracle.

Yet if a nation does not continue to reform and expand economic freedom, it stalls out at the new income level—it is called the middle income trap—and the "miracle" ends.

China is reaching that point. It is rife with state economic interference, state-owned "companies," corruption, crony capitalism, and failure of the rule of law.

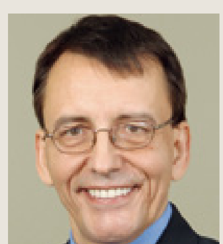
General Secretary Xi Jinping's anti-corruption drive appears largely aimed at rivals. That is certainly the case in Hong Kong. There "anti-corruption" forces have raided the home of media mogul Jimmy Lai, who just happens to be a supporter of democracy. He has faced death threats, a fake obituary, and the withdrawal of advertising from his newspaper by firms like HSBC and Standard Chartered, reportedly under Chinese pressure.

This highlights the greatest threat to Hong Kong—its besieged rule of law. The rule of law is the infrastructure of economic and other freedoms. Without it, the rich and powerful use their position to undermine the freedom of others.

Earlier this year, China issued a report on Hong Kong calling judges "administrators" who had a "duty" to be patriotic to China—in other words, toss out the rule of law and obey Xi and the Beijing clique. Xi is promoting further economic reforms. That may help China continue to grow for a while, but unless Beijing addresses the rule of law issue, China cannot move to the top ranks of prosperity as has Hong Kong.

A senior justice administrator in Hong Kong once told me that busloads of mainland Chinese passed through Hong Kong offices to hear explanations of what the rule of law is. When I asked this administrator if they got it, the response was, "not a clue."

All this is why democracy is important, and for more than just its own intrinsic value. The people of Hong Kong need it to protect the rule of law and their freedoms from the Chinese onslaught—potentially turning the rule of law into a political instrument. Corrupting the rule of law in Hong Kong and eroding the freedoms of its people would be an attack on Hong Kong's future prosperity and international standing. With democracy, the people of Hong Kong will never allow it. FI


FRED McMAHON

Fred McMahon is the Dr. Michael A. Walker Research Chair in Economic Freedom at the Fraser Institute.

Independent Schools Offer BC Parents Shelter From Labour Strife

Deani Van Pelt and Jason Clemens

Although this past summer's labour dispute between the BC government and the BC Teachers Federation left many parents and students struggling with the uncertainty of a delayed school year, it's worth understanding how and why one in eight students (and their parents) in the province was unaffected by the strike.

British Columbia is one of five provinces that offer support to parents who send their children to an independent school. Specifically, eligible independent schools in BC receive per-pupil government operating grants between 35 and 50 percent of those provided to nearby public schools. The remaining costs are covered by tuition fees and fundraising.

Independent schools are unaffected by the teachers' strike because they're not part of the government-provided education system. The distinction between supporting education through public grants and actually providing public education through government schools is an important one. If our collective aim is to ensure children have access to a quality education, then the provider of that education is a secondary consideration. This is distinct from those who advocate for government-provided education. The costs of the latter are seen every day in BC because government-provided education by definition is a monopoly and thus imposes all the standard costs of a monopoly.

The relief valve from this monopoly has been the province's independent schools. BC has the second highest rate of independent school enrolment in the country, behind only Quebec. Specifically, in 2012-13, some 74,000 children attended independent schools, representing a little over 12 percent of all K-12 students in the province.

In addition, enrolment in independent schools is growing at the same time as enrolment in the public system is declining. Since 2000-01, the number of K-12 students enrolled in the public system in BC has declined by 11.5 percent while independent school enrolment has increased by 24 percent.

These figures do not, however, capture the entire demand for independent schools. A 2012 Fraser Institute study (*Wait Lists for Independent Schools in British Columbia's Lower Mainland*) measured wait lists for independent schools in the region and found significant unmet demand. Specifically, 57.3 percent of independent schools in the Lower Mainland reported wait lists and almost four-fifths of those schools indicated the wait lists were "normal" for the previous three years. This represented 2,172 students waiting for entry to independent schools.

The distinction between supporting education through public grants and actually providing public education through government schools is an important one. If we want children to have access to a quality education, then the provider of that education is a secondary consideration.

Too many British Columbians have a misperception of independent schools. Visions of high-cost prep schools tend to dominate. The reality is quite different. The independent school sector includes religious, alternative pedagogies, specialization, as well as preparatory schools. In other words, there is a wide diversity of schooling options offered by independent schools that buttresses the basic education offered by government schools.

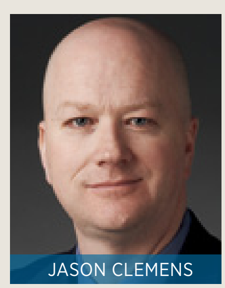
A key advantage to independent schools is their flexibility and ability to adapt compared to government schools. While the basic provincial curriculum must be provided and accredited teachers employed, independent schools in the province retain a much higher degree of autonomy than their government counterparts, which allows them to better innovate and adapt. International research consistently shows high parental satisfaction with the responsiveness offered by independent schools to individual student needs.

The benefits of independent schooling are more readily apparent during times of labour strife when the costs of a monopolized government system come into focus. Extending the benefits of independent schooling to more parents and their children could be achieved through a number of reforms.

One incremental change that would improve access to independent schools is for the provincial government to more forcefully "encourage" local school boards to lease out idle and vacant government schools. There is enormous unmet demand for independent schools and one of the main barriers in meeting this demand is the cost of acquiring additional land for expansion or the creation of new schools. Leasing out unused, idle government schools seems like a no-brainer.

There are also larger scale reforms that could be considered such as increasing the percentage of costs covered by government grants, which is the case in a number of jurisdictions ranging from Alberta to Sweden. BC could also investigate covering part of the capital costs for schools as is done in Australia.

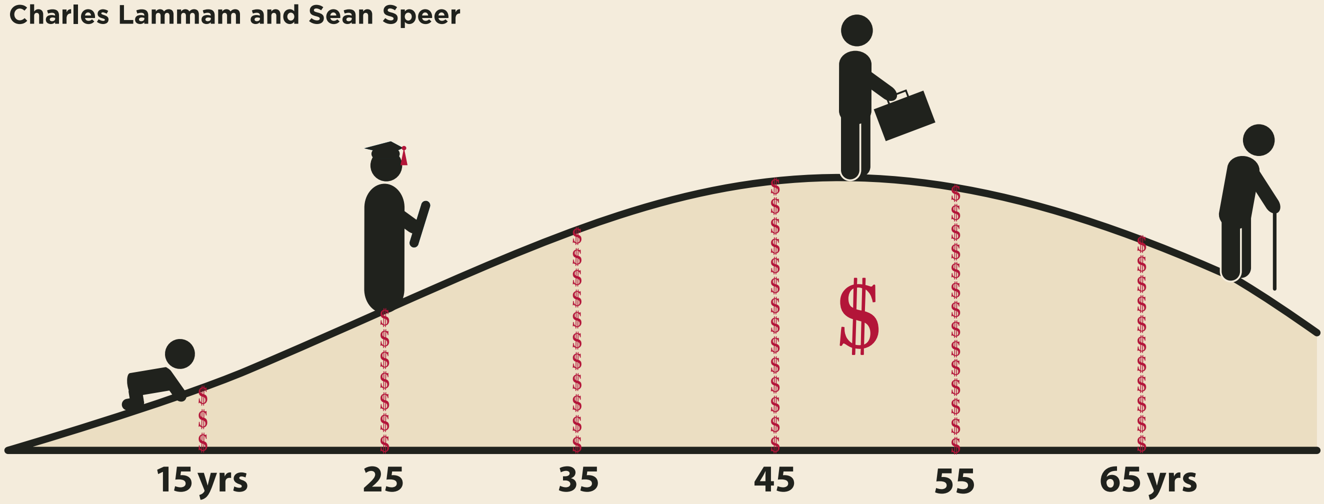
There is little doubt that BC parents and students would benefit from more school choice by extending the independent school options available to them. FI



Deani Van Pelt is the director of the Barbara Mitchell Centre for Improvement in Education at the Fraser Institute. JJason Clemens is Executive Vice-President of the Fraser Institute.

Another Report, Another Misleading Analysis of Inequality in Canada

Charles Lammam and Sean Speer



You'd think that we live in a caste society with an exclusive few perpetually "controlling" the vast majority of wealth given the stream of media stories on a recent report from the Broadbent Institute. Headlines in the *Globe and Mail*, *Toronto Star*, and CBC all trotted out the cliché that the rich are getting richer while the poor are getting poorer, giving the impression of a doomsday-like wealth inequality gap. Fortunately, nothing could be further from the truth.

This latest analysis, like most others on inequality, is fundamentally misleading because it relies on snapshots of the income and wealth distribution, failing to account for important changes that happen over time. The report implicitly assumes that people with low income today are the same people who will have low income in the future. In reality, the income and wealth of Canadians is anything but stationary over the course of their lives.

Just think of your own life experience. Many of us start off with low-paying jobs when we're young, in school, and have little work and life experience. After finishing college, university, or other training, a high wage isn't necessarily guaranteed. But with hard work and skills development, earnings increase over time as we get promoted or switch to higher paying jobs.

There are then periods in our lives when income is higher than previously experienced and/or expenses are lower (think of when kids finish school and move out of the house). These periods allow older Canadians to save and reduce their debt and thus accumulate assets and increase their net worth.

Consider the results from a 2012 Fraser Institute study, Measuring Income Mobility in Canada, which uses Statistics Canada data to track a sample of a million Canadians to see how their incomes change over time. The study puts individual tax filers into five income groups from lowest to highest income, with each group containing 20 percent of the total.

In 1990, the lowest 20 percent of income earners had an average income of just $6,000 (in 2009 dollars). By 2009, the last year for which we have data, 87 percent of those in the bottom income group had moved to a higher group and their average income climbed 635 percent to $44,100. Put differently, almost nine out of 10 Canadians who started in the bottom 20 percent moved out of low income.

Of course, people also move down the income ladder. Among those initially in the highest income group in 1990, 36 percent moved to a lower income group by 2009. The average income of those originally in the highest 20 percent of income earners in 1990 increased only 23 percent from $77,200 to $94,900 by 2009.

The reality is clearly different from the cynical and incomplete narrative portrayed in the Broadbent report. It's inexcusable to assume or even imply that Canadians are permanently stuck in the same income groups year after year. The truth is that Canadians are on escalators with income rising and falling depending on their life circumstances. A complete analysis should follow the income of specific people rather than compare the average of different groups of people at different points in time.

Wealth (or net worth) follows a similar lifecycle path, as research from Statistics Canada consistently demonstrates. Nobody really expects a 25-year-old to have the same net worth as a 55-year-old, but this is precisely the assumption underlying the Broadbent report.

The report's main finding is that the top 10 percent of income earners in 2012 account for 47.9 percent of all wealth, while the bottom 30 percent account for less than 1 percent. Although probably shocking at first blush, it's less so when we consider how wealth is distributed by age.

Accounting for the age of a family's primary income earner paints a dramatically different picture of Canadian society. The same Statistics Canada data used in the Broadbent report shows that median net worth increases with age.

Families with primary earners under the age of 35 have the lowest median net worth in 2012 at $25,300 (see table). This makes sense as young families are still early in their career, carrying a mortgage with little paid off, and likely raising children, which means other financial priorities leave less money for saving and investing. By contrast, older families in the 55 to 64 age group have a much greater median net worth ($533,600) since they're later in their lifecycle, have homes that are paid off, and more financial assets saved up as they near retirement.

CANADA'S WEALTH DISTRIBUTION BY AGE IN 2012

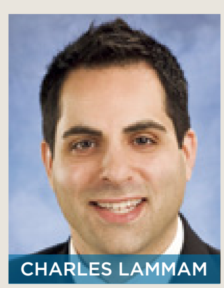
	Median net worth	Collective net worth (in billions)	Percent of total net worth
under 35	$25,300	$524	6.5%
35 to 44	$182,500	$1,056	13.1%
45 to 54	$378,300	$2,014	24.9%
55 to 64	$533,600	$2,298	28.5%
65 and older	$460,700	$2,181	27.0%
Total for Canada	$243,800	$8,074	100.0%

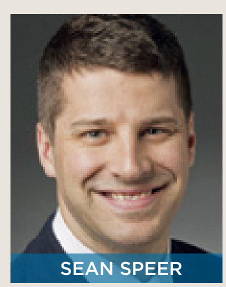
Note: Net worth is for family units, whereas age is for the major income recipient in the family.

Source: Statistics Canada's Survey of Financial Security www.statcan.gc.ca/daily-quotidien/140225/dq140225b-eng.htm.

We therefore shouldn't be surprised that families in the under 35 age group hold just 6.5 percent of the over $8 trillion in wealth in Canada, while families in the 55 to 64 age group hold 28.5 percent.

Unfortunately, the Broadbent report doesn't touch on either income mobility or the age distribution of wealth. The fact is that Canadian society has a high degree of mobility and that's something we should celebrate. The real focus of the debate should be on how to protect and expand opportunities rather than stoking fears of a problem that doesn't exist. FI





Charles Lammam is Associate Director of Tax and Fiscal Policy and Sean Speer is Associate Director of Government Budgets and Fiscal Policy at the Fraser Institute.

Nova Scotia Opts for High Taxes Rather Than Fracking

Mark Milke

From the fur trade to fisheries and forests, Canada was built on the toil and sweat of those who wanted to prosper. But these days, it's harder to create opportunity. And sometimes, government is to blame.

The latest example comes from Nova Scotia. There, the provincial government recently imposed a moratorium on hydraulic fracturing used to produce both oil and natural gas. Some people will be quite happy, asserting that fracking is dangerous.

But as my colleague and environmental scientist, Ken Green, tirelessly points out, while portrayed as something new and radical, fracking is a relatively straightforward combination of two technologies (horizontal drilling and hydraulic fracturing) that date back to the 1920s and 1940s respectively.

On safety, Green cites a literature review in the journal *Science*, which observes how "more than one million hydraulic fracturing treatments have been conducted, with perhaps only one documented case of direct groundwater pollution resulting from injection of hydraulic fracturing chemicals used for shale gas extraction."

Of course provincial governments can ignore the science and announce whatever they want. But Nova Scotia is a have-not province desperately in need of something more than just another Ottawa equalization cheque. Last year, own-source revenues amounted to $5.7 billion; transfer payments from the federal government were worth just over $3.1 billion, or 55 percent of what the province raised on its own.

In contrast, Saskatchewan's own-source revenues were about $9.8 billion. Federal transfers were $1.7 billion or 17 percent of the revenues produced at home. In Alberta, the province reaped $33.8 billion from the locals; Ottawa added $4.8 billion, equivalent to 14 percent of at-home revenue. One critical difference in revenue flows between Nova Scotia and the other two provinces: royalties and taxes that accrue from oil, gas, and other resources that are extracted on the prairies.

When politicians opt out of reasonable development options such as fracking for oil or gas, they leave nothing but high personal taxes and few at-home, in-province opportunities.

The decision by Nova Scotia's politicians to turn down potential resource revenues means Nova Scotians will experience more of the same; among other ills, high taxes, which could be alleviated by new energy royalties.

How bad are Nova Scotia's taxes? Consider some examples.

In Nova Scotia, the general corporate tax rate is 16 percent; that compares with 12 percent in Saskatchewan and 10 percent in Alberta. Small businesses pay a 3 percent tax in Nova Scotia below a $350,000 threshold. In Alberta and Saskatchewan, the rate is 3 and 2 percent respectively on a $500,000 threshold. Nova Scotia and Saskatchewan impose a 4 percent and 3.25 percent capital tax, respectively, on financial institutions (which pass it on to consumers). Alberta imposes no such tax.

Nova Scotians pay a 10 percent provincial sales tax (embedded in the HST), compared to 5 percent in Saskatchewan and zero in Alberta.

More numbers: The total provincial tax bill for a one-income family with two children and a $35,000 income in Alberta: a $1,128 refund; in Saskatchewan, a $923 bill; and in Nova Scotia, a whopping $4,089 provincial tax hit.

A one-income, two-child family with $75,000 in earnings pays $3,212 in total provincial taxes in Alberta, $5,095 in Saskatchewan, and $10,159 in Nova Scotia.

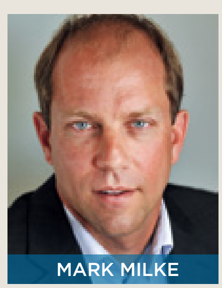
A two-income, two-child family with an income of $100,000 pays provincial taxes of $5,258 in Alberta, $7,445 in Saskatchewan, and $12,116 in Nova Scotia.

Twenty years ago, governments taxed everything that moved. Some, such as Nova Scotia's ruling politicians, still do. They're reinforced in such behaviour by anti-development purists who reject any sensible and safe way of obtaining new revenue. Those foregone royalties and tax receipts could be used to finance government operations or lower taxes. The latter option is a crying need in a high-tax province.

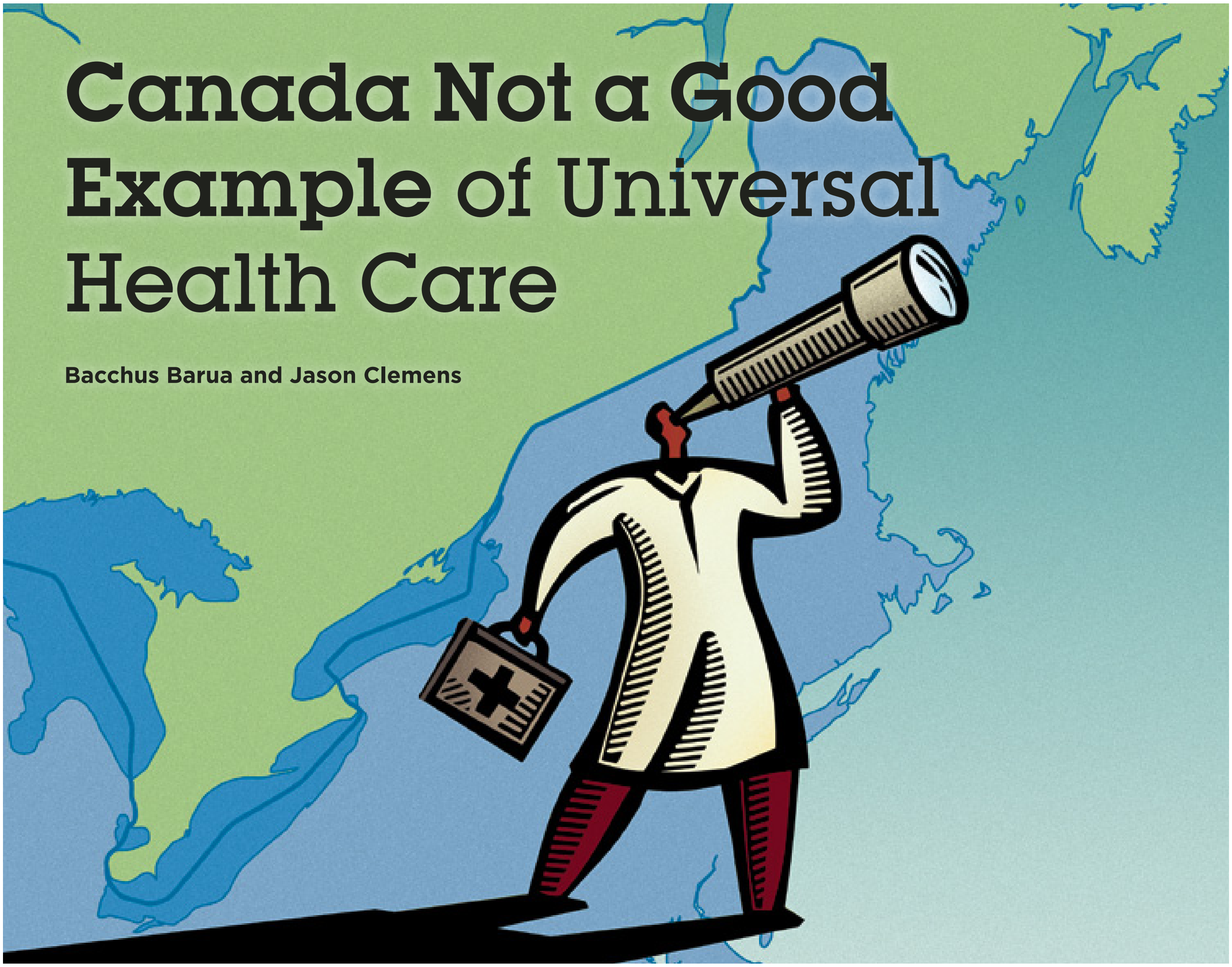
Defensible development is desirable. Centuries ago, Canadians trapped animals to sell fur to the English and Europeans. Now we hawk beef, oil, gas, automobiles, environmental services, financial know-how, and high-tech Blackberries to countries around the world.

The result? Jobs, incomes, and an enviable standard of living.

But when politicians in Nova Scotia opt out of reasonable development options such as fracking for oil or gas, they leave nothing but high personal taxes and few at-home, in-province opportunities. That's not exactly helpful for Nova Scotians. FI



Mark Milke is a Fraser Institute Senior Fellow.



Canada Not a Good Example of Universal Health Care

Bacchus Barua and Jason Clemens

The heated and often emotionally charged debate over the Affordable Care Act (aka Obamacare) hasn't subsided despite it being the law of the land for more than four years. Indeed, with the continuing problems in the rollout of aspects of Obamacare, the likelihood of increased acrimony is high.

One aspect of the health care debate in the United States that is, unfortunately, riddled with misinformation, is the state of Canada's single-payer health care system. Too often advocates of Canadian-style health care in the US present limited or even misleading information about the true state of Canada's health care system; worse, they often present the ideal of Canadian health care rather than its reality.

It is first important to recognize that a single-payer model is not a necessary condition for universal health care. There are ample examples from OECD countries where universal health care is guaranteed without the imposition of a single-payer model.

Amongst industrialized countries (members of the OECD) with universal health care, Canada has the second most expensive health care system as a share of the economy after adjusting for age. This is not necessarily a problem, however, depending on the value received for such spending. As countries become richer, citizens may choose to allocate a larger portion of their income to health care. However, such expenditures are a problem when they are not matched by value.

The most visible manifestation of Canada's failing health care system lies in wait times for health care services in 2013.

The most visible manifestation of Canada's failing health care system lies in wait times for health care services. In 2013, Canadians, on average, faced a four-and-a-half month wait for medically necessary treatment after referral by a general practitioner. This wait time is almost twice as long as it was in 1993 when national wait times were first measured.

Wait times are not a general characteristic of countries with universal health care systems. The Commonwealth Fund's research consistently shows that Canada has longer wait times than a number of other countries with universal health care. For example, in 2010, 41 percent of Canadian patients waited for two months or more for a specialist appointment compared to only five percent in Switzerland. Further, 25 percent of Canadians waited for four months or more for elective surgery compared to just five percent in the Netherlands. There is also evidence from the OECD showing that some nations with universal access health care systems—Belgium, France, Germany, Japan, Luxembourg, Korea, the Netherlands, and Switzerland—report no problems with wait times.

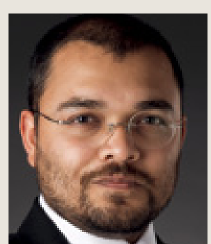
Long wait times in Canada have also been observed for basic diagnostic imaging technologies that Americans take for granted and which are crucial for determining the severity of a patient's condition. In 2013, the average wait time for an MRI was over two months, while Canadians needing a CT scan waited for almost a month.

These wait times are not simply "minor inconveniences." Patients experience physical pain and suffering, mental anguish, and lost economic productivity while waiting for treatment. One recent estimate (2013) found that the value of time lost due to medical wait times in Canada amounted to approximately $1,200 per patient.

There is also considerable evidence indicating that excessive wait times lead to poorer health outcomes and, in some cases, death. Dr. Brian Day, former head of the Canadian Medical Association recently noted that "[d]elayed care often transforms an acute and potentially reversible illness or injury into a chronic, irreversible condition that involves permanent disability."

New research also suggests that wait times for medically necessary procedures may be associated with increased mortality. A recent report concluded that between 25,456 and 63,090 Canadian women may have died as a result of increased wait times between 1993 and 2009. Large as this number is, it doesn't even begin to quantify the possibility of increased disability, poorer quality of life, and mental stress as a result of protracted wait times.

As Americans struggle with determining the next steps for health care reform, whether that means continuing to tweak the Affordable Care Act or "repealing and replacing it," they should keep in mind that the success of any reform depends in part on the degree to which facts dominate fiction and ideology. Discussion of the Canadian model is worthy of inclusion in such a debate, but more in terms of "what to avoid" than as a model for reform. The reality of Canadian health care is that it is comparatively expensive and imposes enormous costs on Canadians in the form of waiting for services and limited access to physicians and medical technology. This isn't something any country should consider replicating. FI



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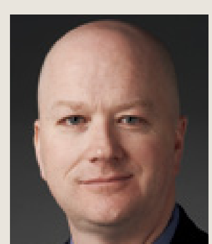


JASON CLEMENS

Bacchus Barua is senior health economist at the Fraser Institute. Jason Clemens is Executive Vice-President of the Fraser Institute.

Look to Chile to Stop Illegal Immigration From Central America

Fred McMahon

The presidents of Guatemala, Honduras, and El Salvador just visited U.S. President Barack Obama to urge him to change course in combatting the flood of illegal immigrants into the United States. The three heads of state recommend the American president focus on fighting violent gangs in Central America, rather than protecting the border and deporting illegal immigrants.

Problem: Neither set of policies will work. Desperate people will find ways around, under, or over the proposed "Great Wall of Mexico," just as they do with stretches already built (and then there are the sea routes). The US has already spent $250 million over the past decade and built 1,000 kilometers of new walls, added cameras, sensors, and drones, and yet the crossings continue.

As for throwing American military resources into a violent, corrupt environment to fight gangs, that will do little good, as "corrupt" is the operative word. People who recommend this should ask themselves this question: Who gets to keep the weapons? Rogue military and police units thrive in Central America.

Such measures may provide short-term relief before they are corrupted and ways around barriers found.

But the long-term solution is legal, regulatory, and economic reform to increase the economic freedom of the residents of Central America and provide opportunity for all.

The lack of economic freedom propels the flood of illegal immigrants. Even in relatively peaceful times, people flow across the border to seek economic opportunity. The same lack of opportunity also drives young men into gangs, propelling the violence that Central Americans flee.

A recent study published by the Fraser Institute, *Free Markets and Civil Peace: Some Theory and Empirical Evidence* by Indra de Soysa and Krishna Chaitanya Vadlamannati of the Norwegian University of Science and Technology show that economic freedom reduces conflict by creating more profitable alternatives.

While gangs and drugs catch headlines in Canada and the United States, the truth is few young people here consider the dangerous options of drug running and gang warfare as a route to wealth. Some will, nonetheless, due to personal inclination, family and friend connections, perverse role models, or their own sense of lack of opportunity, but this tiny minority doesn't threaten most people's everyday lives.

But in much of Latin America and places like Afghanistan the only path to wealth (or even economic comfort) is criminal activity. Grasping elites manipulate law and regulation to deprive the poor and dispossessed of opportunity.

Guatemala, Honduras, and El Salvador all score miserably on the Fraser Institute's economic freedom of the world index, particularly on legal and property rights and regulation. You want to compete against the elite, and the laws and regulations will stop you.

Canadian leftists promote socialist alternatives but these fare no better. In the Fraser Institute index for legal system and property rights, Guatemala ranks 101st, Honduras, 99th, and El Salvador, 103rd, compared to the socialist havens of Bolivia, 104th, and Venezuela, 122nd out of 152 nations in the index.

But don't listen to us. According to Transparency International's corruption index, the socialist-oriented nations fare equally badly: Bolivia is 106th and Venezuela, with its soaring murder rate, is 160th, compared to Guatemala, 123rd, Honduras, 140th, and El Salvador, 83rd of the 179 nations in that index.

Sadly, populists use state power and socialist rhetoric to transfer power and privilege from one elite to another, with an awful lot of overlap.

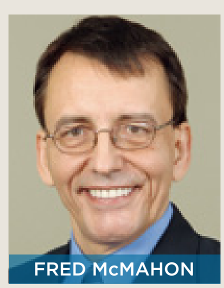
One Latin American nation has firmly turned to economic reform: Chile. It ranks 36th for legal system and property rights and 22nd on the corruption index, roughly equivalent to many European nations. It also ranks in the top 10 of the overall economic freedom index.

This shows in its economic performance. Since Chile turned to free markets in the mid-1970s, Chile's per capita GDP is almost four times larger. Opportunity and open markets flourish. El Salvador, which had about the same per capita GDP in the mid-1970s, grew less than 30 percent.

Venezuela, remarkably with its resources, is actually poorer than it was 40 years ago, while Bolivia, Honduras, and El Salvador all have minimal rates of growth compared to maximal rates of poverty and violence.

The difference in violence is striking: in Chile there are three murders per 100,000 people; in Bolivia, 12; in Guatemala, 40; in El Salvador, 41; in Venezuela, 54; and in Honduras, 90 per 100,000.

The real solution to the flood of illegal immigrants from Central America is not higher walls or more guns to combat gangs, but to follow the path of Chile. Increased economic freedom, open to all, not just the elites, would give youth an alternative to gangs and create the prosperity, opportunity, and calm that will keep people at home. FI



Fred McMahon is the Dr. Michael A. Walker Research Chair in Economic Freedom at the Fraser Institute.

Deani Van Pelt

What's your role at the Institute?

The *Barbara Mitchell Centre for Improvement in Education* is the Fraser Institute's newest policy centre. As the centre's first director, I will build on the Institute's previous work in education policy. I plan to generate a solid direction for the years ahead. Our focus will be expanding educational choice, improving teacher effectiveness, and improving K-12 curricula. We will produce a wide variety of studies that will focus on improvements in teaching and learning, and, through various means, engage others who are similarly motivated.

How did you arrive at the Institute?

A decade ago the Institute featured research I was doing on home education and then a few years later published a paper on choosing private schools that I co-authored. In the intervening years, I completed my doctoral studies and served as a professor and director of teacher education in an Ontario faculty of education. All the while I remained attracted to education policy and had great respect for the quality and effectiveness of the Fraser Institute's work. It was a tremendous privilege to receive an invitation to join the Institute to lead the new *Barbara Mitchell Centre.*

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

Most exciting is the opportunity to engage in research and its dissemination with an expanding network of Canadian scholars and practitioners. These people recognize that education is at the edge of a new era and they care deeply about what this could mean for improvements in education in our country. Education is delivered quite differently in each province, so creating awareness and sharing best approaches among provinces is also exhilarating. I am also looking forward to working on an update of one of the Institute's most frequently downloaded papers: *Homeschooling: From the Extreme to the Mainstream*.

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

As I am involved in digitizing the education collection of a small British museum, I often plan trips to the Lake District with Charlotte Mason scholars and educators. I also find a lot of joy in building our family's collection of children's "living books" and hanging out with other similar collectors. One of my particularly quirky attractions is to a 14th century fresco in Florence that cleverly depicts "the full education of a child." FI

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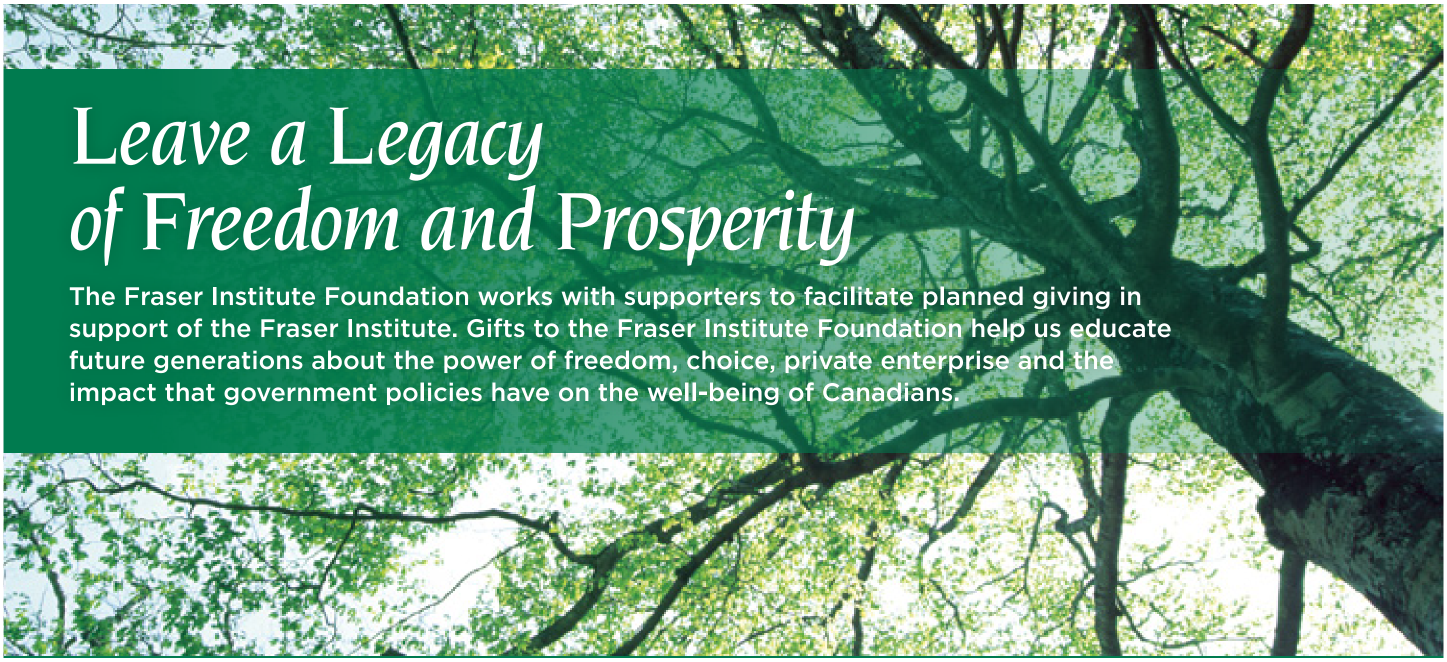

Leave a Legacy of Freedom and Prosperity

The Fraser Institute Foundation works with supporters to facilitate planned giving in support of the Fraser Institute. Gifts to the Fraser Institute Foundation help us educate future generations about the power of freedom, choice, private enterprise and the impact that government policies have on the well-being of Canadians.

As 2014 comes to a close, we thought it would be useful to highlight some of the innovative, cutting-edge projects that would not have been completed this past year without funding from the Fraser Institute Foundation. Legacy and endowed gifts donated by long-time supporters of the Institute to the Fraser Institute Foundation provide general support for Institute research and education projects. These monies, along with the generous contributions of many of our annual donors, support research and education projects that are nearly impossible to fund raise for specifically. These projects are often on the frontier of public policy.

Many projects in 2014 fit this description. For instance, Senior Fellow and Lakehead University economics professor Livio Di Matteo released an innovative study that calculated the optimal level of policing based on crime rates and socio-economic variables. The study, *Police and Crime Rates in Canada* compared actual policing levels with the optimal policing levels for all of the metropolitan areas in Canada.

A related study, the *Cost of Crime in Canada*, was also published in 2014. It updated previous work calculating the total cost of crime in this country. Together, these two studies spurred debate across the country about policing levels and spending, and about crime policy more generally. The two studies garnered almost 1,500 media mentions.

Another project that could not have been completed without the Fraser Institute Foundation's support relates to health care reform. As Canadians increasingly recognize the problems in our health care system, more and more are searching for solutions. To that end, the Institute's Centre for Health Policy began publishing a series of studies in 2014 profiling industrialized countries that provide universal health care at the same or lower cost as Canada, but that outperform us with respect to wait times, access to medical professionals and health technologies, and health outcomes.

The countries profiled in 2014 included Switzerland, Germany, and the Netherlands. These studies have led to improvements in the debate about health reform; the choice is no longer limited to the status quo or an American system, but now includes many options from high-performing countries with universal health care systems.

These are just a couple of examples of the important work done by the Institute that is made possible thanks to general support from the Fraser Institute Foundation. Our ability to produce more timely research of this kind depends on the Foundation's increased support.

For more information visit:
www.fraserlegacy.org

For more information on the Fraser Institute Foundation and its support of the Institute's research and education efforts, or to discuss donation options, please contact Linda Ashton at (604) 714-4571 or by email at linda.ashton@fraserinstitute.org.

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