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ECONOMICS 2218A
Canadian Economic Policy Issues
 September - December 2018
 Lectures: Monday and Wednesday 1135-1255
 Studley LSC-COMMON AREA C206

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In Canada, our provincial and federal governments face daily demands to “do something” about many important issues, including:

- (1) Education Funding – Who pays, How and How Much?
- (2) Population Aging – Public Pensions for the Elderly? How Large and How Financed?
- (3) Climate Change – Carbon Tax or Cap-and-Trade or Regulation or Nothing at All?
- (4) Economic Inequality – How Much Tax for the Top 1%? Basic Income for All?

Although these issues are seen as important in the economic policy debates of 2018, times do change. Thirty years ago, the list would have been different. In 1988, Climate Change and Increasing Inequality were, for example, just starting to be discussed as important public policy issues. Meanwhile, some of the issues that dominated economic policy debates then have receded in importance since (e.g. the economic implications of Quebec separatism). We can reasonably expect that change will not stop – new problems, and new evidence, will become important for Canadians over the next thirty years.

As well, thirty years ago most economic policy debates were very local in scope. In Canada, inter-provincial comparisons were common but international comparisons were rare. It is easy to see that although all countries, everywhere in the world, have many of the same problems, they have often made very different policy choices in trying to “solve” them. Which policy choice would have been “the best”? Thirty years ago it was hard to acquire good comparative international evidence and to learn from rigorous comparisons of international experiences. But the Internet now makes it easy.

Because the economic policy choices of the future are the ones which you, as citizens, will need to analyze, this course has two major themes:

- (1) the development of some general tools needed for economic policy analysis, both conceptual (e.g. the present value of life cycle earnings or the utility gains from risk-pooling), and practical, (such as the

ability to use software like Excel or databases from Statistics Canada¹ or the OECD²). This course will therefore have four real world assignments to help you develop such skills.

- (2) analysis of the advantages and disadvantages of alternative policy models now in use in specific other jurisdictions, in a way that mimics somewhat the actual policy formation process in government. In Canada, civil servants prepare “briefing notes” on the advantages and disadvantages of specific policy options, for presentation to a Cabinet minister, who then suggests a policy to Cabinet. These policy choices are debated privately within government and then subject to public critique by the opposition. To mimic this process a little bit, students will be assigned to one of three groups. Each group will prepare a briefing note which outlines the advantages and disadvantages of a particular jurisdiction’s way of dealing with a policy issue (e.g. how post-secondary education is funded).

Each broad topic area will be covered in a series of lectures, followed by a class in which students bring their briefing notes to class and the class as a whole debates the merits of the different alternatives which are now in use in specific jurisdictions.

For policy comparisons, we will be making comparisons within and between three main groups of jurisdictions:

- (1) the different states within the U.S.;
- (2) the “Anglosphere” – i.e. Australia, New Zealand, England, Scotland, Ireland, etc.
- (3) the continental member nations of the European Union.

Each group of students will be assigned to one of these three broad areas and each member of the team will prepare a briefing note of 3 or 4 pages summarizing the main aspects of a specific issue for the jurisdiction they examine within that group³.

		<u>Due Date</u>	<u>Marks</u>
September 5-24	<u>Post-Secondary Education Funding</u>		
	Assignment - Calculation of your personal rate of return	19-Sep	10%
	Presentations on post secondary financing	24-Sep	15%
September 26 - October 17	<u>Old Age, Risk Pooling and the Welfare State</u>		
	Assignment: a real person's retirement income	15-Oct	10%
	Presentations on old age security	17-Oct	15%
October 22 - November 7	<u>Climate change</u>		
	Assignment: calculation of own carbon footprint	05-Nov	10%
	Presentations on climate change policies	07-Nov	15%
November 19 - December 4	<u>Inequality</u>		
	Assignment: Inequality and Poverty where I live	03-Dec	10%
	Presentations on policies to reduce inequality and poverty	04-Dec	15%

¹ See <https://www150.statcan.gc.ca/n1/en/type/data>

² See <https://data.oecd.org/> and <https://stats.oecd.org/>

³ For example, the first module of the course looks at post-secondary education funding. This is done a bit differently within the U.K. in England and Scotland, while Australia has an interesting system of its own – but all three jurisdictions have quite a lot in common compared to the tuition and funding models now operating within the EU or the U.S. So each person in the “Anglosphere” group would choose one jurisdictions in that group to analyze. Similarly, within the EU the German, French and Swedish systems have important differences with each other, but their zero tuition approach is fundamentally different from the systems in U.S. states – so the students in the groups looking at the EU or the U.S. will examine different nations and different states, respectively.

At the start of each module, a list of relevant readings will be posted on Brightspace.

The objectives of this course are:

1. To increase your useful knowledge – both empirical and analytical – about some of big issues of Canadian public policy.
2. To develop general skills that are useful in a wide variety of contexts later in life - specifically: team work, library research, critical thinking, written and oral presentation, and the ability to give and receive constructive criticism.
3. To provide some sense of the fun and importance of rigorous thinking about issues that really matter.

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Assignment A

Due: September 19th, 2018

This assignment is to specify and evaluate the costs and benefits of your investment in higher education. You should...

1. Write a page or two describing what you think your most likely lifetime career path:
 - a) would have been if you had not attended university;
 - b) will be if you complete your present educational plans.
2. Use your best guess to forecast your earnings until age 65 and the costs of your education under each assumption. Discuss the basis for your forecasts.
3. Using your forecasts, and a spread sheet programme such as Excel, calculate the net present-value at 5% discount and the internal rate of return of your planned investment in university education.
4. Would it make a difference to your educational plans if university tuition fees were abolished and post-secondary education were entirely financed from taxation?

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Assignment B

Due: October 15th, 2018

Aging and Retirement in the Real World

The percentage of Canada's population who are over 65 years of age is forecast to increase significantly in coming decades, so governments will have to adjust public policies to accommodate this change in the age distribution of the population. Assignment A asked you to forecast your earnings until the age of 65. The purpose of this assignment is to illustrate the actual factors which determine the level of spending and the uncertainties of income of real people over the age of 65.

The "real person" whose retirement income you will be calculating can be you (i.e. the hypothetical you whose career path and earnings you forecast in Assignment A) or it can be a real person whom you interview (such as a parent or grandparent).

The spending of people over 65 depends on (1) any earnings they receive from continued employment; (2) any CPP/QPP benefits they receive from past employment; (3) any other transfer payments from government which they may receive; (4) any pension plan retirement benefits for which they are eligible; (5) drawing down the savings they accumulated in earlier years; (6) income transfers they receive from other households (e.g. other family members); (7) "in kind" income (such as rent-free housing or vegetables grown at home) and (8) taxes paid.

Your assignment is to specify the amount of each type of income [i.e. (1) to (7) above] which your real person can expect to receive, how long they can expect to receive it and any uncertainties which are associated with that income source. Add up the expected incomes from each source. Be specific about the assumptions and calculations which underlie your forecasts – for example, show the calculations on which any forecast of pension income is made.

How adequate is the anticipated stream of income for the needs of this person? What are the main income and expenditure risks which this person can anticipate?

The Carbon Footprint of Personal Transportation

Canada is a big country and some people have argued that our large geographical distances are an important reason why Canadians have a relatively large carbon footprint, compared to other nations. Some then go on to argue that because Canada is so large, putting a price on carbon emissions would be an onerous, useless tax. The purpose of this assignment is to calculate the actual carbon footprint from personal transportation of a real person (who can be you, or a real person whom you interview, such as a parent or grandparent or sibling) and to estimate the financial and behavioural impacts of carbon pricing on personal travel.

For this assignment you should itemize the total distance, over the past year, that this real person travels, specify the mode of travel, and calculate the tons of CO₂ emissions associated with that travel. [For example, if the person is you and you commuted 25 Kilometres in a Ram Charger V8 diesel pickup to your summer job every day for 106 days, you could calculate $106 * 2 * 25 * (\text{litres diesel consumed by a Ram Charger per kilometre travelled}) * (\text{CO}_2 \text{ content per litre diesel})$ or you could specify how many litres of diesel you purchased every week and calculate the CO₂ content]. Be specific about your assumptions and explain why they are reasonable.

1. How large is this carbon footprint from personal travel compared to average CO₂ emissions in other rich countries (e.g. Germany) or in poor countries?
2. What would the financial impact of carbon pricing be (e.g. at \$10 per tonne, \$30, \$50, \$100, \$200 or \$300) if travel behaviour did not change? How large would this be as a fraction of income?
3. What would the behavioural impact of carbon pricing be? If the carbon price were \$10 per tonne, or \$30, \$50, \$100, \$200 or \$300, would there be any change in travel behaviour? If so, what behaviour would change – how much do you think that behaviour would change and at what carbon price? What would the implications be for CO₂ emissions?
4. Taking into account any change in travel behaviour, how much revenue would carbon pricing generate? What should be done with that revenue? Why?

Inequality and Poverty where I live

How much inequality and poverty is there where you live? Compare the level and trend of economic inequality and poverty in the area in which you live with the level and trend of inequality and poverty [1] in Canada as a whole and [2] in other rich countries.

Note that although Statistics Canada reports consistently use the term “low income” instead of “poverty”, Statistics Canada does collect a great deal of data on income and poverty trends. This data can be accessed at <https://www150.statcan.gc.ca/n1/en/type/data> and can very often be obtained on specific census districts and urban areas, as well as for provinces and the nation as a whole. OECD data can be accessed at <https://data.oecd.org/> Be sure to footnote your data sources exactly.

Other useful web sites are:

<https://www.wider.unu.edu/project/wiid-world-income-inequality-database>

<https://ourworldindata.org/incomes-across-the-distribution>

<http://www.worldbank.org/en/topic/poverty>

<http://povertydata.worldbank.org/poverty/home/>

<http://stats.oecd.org/Index.aspx?DataSetCode=IDD>

<http://www.oecd.org/social/inequality.htm>

<http://inequality.org/>

<http://www.lisdatacenter.org/>

<http://www.rich-bastards.com/default.htm>

<https://www.credit-suisse.com/corporate/en/articles/news-and-expertise/global-wealth-report-2017-201711.html>

