

Economics 336: Public Economics  
Term paper

Your assignment is to write a short position paper on a current policy issue in Canada. Select one of the topics from the list below, and read (most of) the suggested papers. In addition, you should read some more papers on the real-world issues. Good sources include:

- statistics and reports from government departments
- papers published by economic think tanks like the C.D. Howe Institute, Institute for Research on Public Policy, and Canadian Centre for Policy Alternatives
- articles in policy journals like *Canadian Public Policy*, *Journal of Economic Perspectives*, and *Policy Options*.
- more technical articles in academic journals like *American Economic Review* or *Journal of Public Economics*.

Your paper should be approximately 2500 words in length and should be written in the form of a policy memo suitable to be read by a government Minister, senior bureaucrat, or other Important Person with a short attention span. In particular, it should begin with an “Executive Summary” of no more than 300 words that succinctly states the issue, and concludes with a clear policy recommendation or short list of reform options. The main text should provide more detail, including relevant facts, graphs and so on, and discuss the conclusions from the academic literature.

It is important that you incorporate facts and arguments from the secondary sources into your paper, and that you cite your sources correctly. For a beginner’s guide to citations and academic writing, see <http://www.writing.utoronto.ca/advice/using-sources/how-not-to-plagiarize>.

The paper is due on March 1. Late submissions will be penalized 10% per week. From the Office of Academic Integrity: “Students agree that by taking this course all required papers may be subject to submission for textual similarity review to Turnitin.com for the detection of plagiarism. All submitted papers will be included as source documents in the Turnitin.com reference database solely for the purpose of detecting plagiarism of such papers. The terms that apply to the University’s use of the Turnitin.com service are described on the Turnitin.com web site.”

### Topics

1. *Equalization*: The federal Equalization program costs about one per cent of GDP, most of which goes to the governments of just four of the 10 provinces. What are the economic rationales for the program, how does it affect the economy, and should it be reformed?

Expert Panel on Equalization and Territorial Formula Financing, 2006, *Achieving a National Purpose: Putting Equalization Back on Track* (Ottawa, Department of Finance), [link to online version](#).

Boadway, R. and F. Flatters, 1982, “Efficiency and equalization payments in a federal system of government,” *Canadian Journal of Economics* 15, 613-633.

M. Smart, 2007, “Raising taxes through equalization,” *Canadian Journal of Economics* 40 (4), 1188–1212.

2. *Federal block grants*: Federal transfers to the provinces for health, education and social services total over \$40 billion annually, or about 20% of program spending. These transfers are due to

“expire” in 2013-14. How do block transfers affect provincial government choices? Should the transfers be renewed or reformed, and how?

Department of Finance, 2006, “Restoring Fiscal Balance in Canada,” especially Annexes 1–3, [link to online version](#).

Hines, J.R. and Thaler, R.H., 1995, “Anomalies: The flypaper effect,” *Journal of Economic Perspectives* 9, 217–226.

Gordon, Nora, 2004, “Do federal grants boost school spending? Evidence from Title 1,” *Journal of Public Economics* 88, 1771–1792.

3. *Pension reform*: Some people have recently called for an expansion in Canada’s retirement pension system, particularly to increase replacement rates for middle class households. Should such a change take the form of mandated individual retirement accounts, or an expansion in the existing pay-as-you-go Canada Pension Plan?

Jack Mintz, 2009, “Summary Report on Retirement Income Adequacy Research,” Department of Finance Canada; available at <http://www.fin.gc.ca/activity/pubs/pension/riar-narr-eng.asp>

Martin Feldstein, 2005, “Structural Reform of Social Security,” *Journal of Economic Perspectives*, 19, pp. 33-55.

Thomas F. Crossley and Byron G. Spencer, eds., 2008, “Private Pensions and Income Security in Old Age: An Uncertain Future,” Special Issue of *Canadian Public Policy*, November 2008; see especially papers by Robson, Ambachtsheer, and Baldwin.

4. *Harmonized sales tax*: In July 2010, the governments of Ontario and British Columbia replaced their retail sales tax systems with a value-added tax, the Harmonized Sales Tax. What are the likely effects of the reform on excess burden, business investment, and tax incidence? What changes in HST should be contemplated, and how should British Columbians vote in the 2011 referendum on HST?

TD Economics, 2009, “The impact of sales tax harmonization in Ontario and B.C. on Canadian inflation,” Special Report, September 18, 2009.

Mick Keen, 2007, “VAT attacks! Second best perspectives on the value-added tax,” *International Tax and Public Finance* 14, 365-381.

R. Bird and M. Smart, 2010, “The impact on investment of replacing a retail sales tax by a value-added tax: Evidence from Canadian experience,” *National Tax Journal*.