



# Canadian Student Review

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## The Freedom to Think for Ourselves

by Aidan Johnson

A green-haired maiden appears on the horizon armed with a squeegee, a gas mask, and a book of reasons to hate globalization. Her sister-adversary appears from the opposite direction, a commerce student wearing a Chanel business suit and a gaze hawkish enough to melt Margaret Thatcher. The two circle each other menacingly, snarling insults while visions of Crouching Tiger, Hidden Dragon dance in their heads.

That, in a cartoon nutshell, is what student politics in Canada looks like today. The leftist maiden is winning

so far. Though the anti-FTAA protests in Quebec City in April weren't nearly as much of a success for student socialism as the Holy War of Seattle in 1999, they did prove, yet again, that the mainstream student movement can ignore the virtues of free trade like nobody's business.

Fortunately for debate and civilization, the right-wing Joan of Arc figure in the Chanel suit is not yet down for the count. I found her forces refuelling last spring at The Fraser Institute.

The event was the Student Leaders Colloquium, an annual event organized in Vancouver by Canada's most prominent economic think tank. For two straight days, May 11-12 of 2001, 20 young people selected from a competitive essay contest pool sat in a

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### Welcome!

Welcome to the back-to-school edition of the *Canadian Student Review*. This issue is again filled with thought-provoking articles that present ideas from a viewpoint that you may not always see on campus. I hope that you are intrigued and perhaps encouraged to write articles of your own.

In this issue, sponsored by the Lotte & John Hecht Memorial Foundation, we are pleased to present two of this year's Student Essay Contest winning submissions. Look for the high school category winner in the next issue. There are also articles on health care reform, economic growth, and campus politics. Enjoy!

-Vanessa Schneider, Editor

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The Fraser Institute is an independent Canadian economic and social research and educational organization. It has as its objective the redirection of public attention to the role of competitive markets in providing for the well-being of Canadians. Where markets work, the Institute's interest lies in trying to discover prospects for improvement. Where markets do not work, its interest lies in finding the reasons. Where competitive markets have been replaced by government control, the interest of the Institute lies in documenting objectively the nature of the improvement or deterioration resulting from government intervention. The Fraser Institute is a national, federally chartered non-profit organization financed by the sale of its publications and the contributions of its members, foundations, and other supporters.

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**Brendan Wilson** has just completed his BA in Environmental Science at the University of Guelph. His essay, Simultaneous Improvements in Income and Environment, was the second-place winner in the Fraser Institute's Student Essay Contest. Congratulations!



**Congratulations** to 2001 "As Prime Minister..." Awards Program Finalists Aidan Johnson and Adam Daifallah, both who are featured writers in this month's *CSR*! Aidan and Adam were among 10 students who received a \$10,000 cash prize, a four month internship with Magna International Inc., valued at \$12,000 and will have their ideas for improving our living standards published in the 2001 edition of *@ stake*, "As Prime Minister I would...". For more information on this contest, see [www.asprimeminister.com](http://www.asprimeminister.com). Aidan writes, "I incorporated several of the ideas I was thinking about coming out of the Student Leaders Colloquium into the essay..."

**September 11, 2001** Our sincerest condolences go out to those who lost family and friends in the September 11 terrorist attacks in the United States. In the face of this devastating attack, citizens across North America are encouraged to renew their commitment to the principles of democracy and freedom.

As the initial shock wears off, we are beginning to comprehend the immense effect that this act of terrorism will have. Students and youth will be the ones most directly affected by the actions that world leaders will take in the months and years to come. How do you feel about the policy issues that arise? Media coverage, foreign policy, and defense each come to mind, as do freedom, liberty and security. Submit your opinions on these events for possible publication in *Canadian Student Review*.

hollow square debating public policy. Past colloquium participants have gone on to become presidents of the Nova Scotia NDP Youth, and communication directors for the Canadian Alliance. More than a few have become full-time Fraser Institute policy wonks.

The colloquium was divided into 7 different sessions, each exploring a different area: trade, education, health, environment, welfare, the role of government, and an amorphous subject called “choice/freedom,” which essentially boiled down to the question of whether voluntary euthanasia rights were best achieved in a 100 percent privatized health care system or a public health care system functioning in partnership with the free market.

Predictably, my largely NDP/Liberal circle of friends at the University of Toronto freaked out when I announced that I was off to participate in a Fraser Institute youth forum. My friends basically told me that The Fraser Institute was a dungeon ruled by cookie-cutter right-wing ideologue clones created from the mixed DNA of Mussolini and Count Dracula.

“They’re evil!” my boyfriend exclaimed. “They work for the *Financial Post* and the *Globe and Mail Report on Business* and Stockwell Day, don’t they?”

I learned very fast that “they” do nothing of the sort. Nor are “they” affiliated with Simon Fraser Univer-

sity; the Institute is actually named for the Fraser River, which in turn is named for the great Canadian explorer whose memory is immortalized by the aforementioned school.

The youth gathered at the Student Leaders Colloquium readily followed in Simon Fraser’s tradition as a cartographer of dangerous rapids. Truly, supporting right-wing free market solutions is risky business in most Canadian university environments. Most universities are governed by student councils that belong to the Canadian Federation of Students (CFS), a dastardly anti-intellectual horde that popularized the spit-worthy slogan “education is a right, not a privilege.”

The pirate pixies of CFS recently used a “social justice budget” (gathered from leftist and non-leftist tuition-payers alike) to finance busloads of anti-globalization kids who felt like partying/protesting in Quebec City for a weekend. Some of the kids had thorough, thoughtful reasons for their wrong-headed crusade. Others were twits. I know these two general categories well, as their members rule the University of Toronto with a poisonous flower-clutching fist.

As my plane landed in Vancouver, I reminded myself of the Irshad Manji mantra that any inflexible ideology is inherently ugly, boring, and intellectually hollow. The goal of a 100 percent free market with no government at all is just as rotten and in-

valid as status quo leftism. If I’m going to side with the Chanel-wearing swordswoman against the squeegee-wielding maiden, the swordswoman had better have some mighty fine ideas. Or, as Fraser Institute executive director Michael Walker put it, “Ideas are intellectual capital. If you want people, young or old, to give up their capital, you had better give them a damn good reason.”

My refusal to identify myself as anything more daring than a “radical capitalist” immediately set me apart from the crowd. Most of the young people at the conference self-identified as pure ideological libertarians, a few more as “conservatives.” Others refused labels at all.

The capitalist kittens batted around the term “19th century liberal” a bit throughout the colloquium, though the rich intellectual innards of that yarn-ball were never quite unravelled for us to fully play with. No matter: from discussion of how school vouchers would empower wiccan witches to set up their own neo-pagan elementary schools to debate about whether NAFTA necessarily prompts corporations to buy newer and ecologically cleaner technology, the colloquium was sufficiently action-packed to keep us thinking and thinking and thinking some more about the issues facing our generation.

The young people who attended the Student Leaders Colloquium rep-

**“There are some who will try to disrupt meetings, claiming they represent the poor. To those folks I say... instead of embracing policies that represent the poor, you embrace policies that lock poor people into poverty and that’s unacceptable to the United States. Trade has been the best avenue for economic growth for all countries.”**  
— *George W. Bush, President of the United States, July 20, 2001.*

resented the full diversity and colour of the so-called “right wing.” Like The Fraser Institute policy analysts who chaired the sessions, the students were not a united right. There was no agreement as to which federal or provincial parties were the best. More importantly in the context of a think tank, no two young free market idealists thought identically about any issue.

This contrasts sharply with the student left. Though that particular movement is blessed with a bevy of heterogeneous intellectuals (as it should, seeing as how it holds a monopoly on the nation’s universities), the youth who lead it usually sound like a flock of parrots schooled in the communist manifesto by a disgruntled pet store worker.

The sporadically coherent squawks of these activists fill the pages of Canada’s campus newspapers every day. They echoed haunt-

ingly through the streets of Quebec City in April, though with weaker syntax and more tear-gas-choking noises. There, the socialist parrot hatchlings demanded affirmative action in their own brightly-feathered ranks, “safe womyn spaces” in hostels for female feminists who don’t like debating, alternation between races at the protest forum microphones—even when everyone present was white.

No such clumsiness impeded the Student Leaders Colloquium. Though a certain reasonable level of snarling could be detected, the discussions were largely and remarkably free of claptrap. My theory is that free market solutions to public policy problems are so alien to the mainstream of student activism today that capitalist-friendly claptrap tailored to youth is simply not allowed to congeal.

Hero worship is arguably irreconcilable with a capitalist intellectual system that regards all people as perfectly equal, perfectly free, and perfectly responsible for the mapping of their own thoughts. That said, if a citizen chooses to bow to a throne, far be it from the free market to stand in her way. Several heroes were invoked in debate at the Student Leaders Colloquium, ranging in talent from the brilliant economists Milton and Rose Friedman to the syntax-challenged novelist Ayn Rand, nee Alice Rosenbaum.

Leaders like the participants at the Student Leaders Colloquium exhibit a kind of freedom that goes beyond “free markets” and “free choice”: the freedom to think for oneself, without student councils dictating who sits where for the bus ride to Quebec City. ☞

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**SUBMISSION DEADLINE: JUNE 3, 2002**

# The State has no Place in the Classrooms of the Nation

✧ *By Christopher Glover* ✧

The appropriate role for the state in education has become very topical lately. The Ontario government has recently affirmed its responsibility to finance education by offering tax credits of \$3,500 to the parents of students who attend private schools. Yet many of the groups who enjoy the bounty of public provision are critical of this more expansive governmental role. They warn that any child who slips from the clutches of the public sphere represents a real threat to the public financing of schools. Surely the inherent contradiction in their argument is inescapable. How can the government be seen to be abdicating its role in education funding by reducing the cost of non-public schooling? If anything, the opposite is true; it is an attempt by the government to expand the scope of its funding, if only in an indirect manner. The reality is that the state educrats begrudge the loss of even a single student, because they know it to be a threat to their monopoly on state funding. Reasonable outsiders recognize the public choice problem here, yet much of the public remain susceptible to the rent-seeking eulogists of public education.

Clearly one must ask whether it is philosophically desirable for the public to subsidize state control of our children's earliest thoughts. One must also ask if dumping public schooling in the education services sector results in an economically efficient outcome.

Early schooling is a facet of public life the state has long coveted, yet

few question the desirability of having the state in the classroom, nor do they ask what the state gains in return. This early nurturing role is of great benefit when the government later asks for expansive or intrusive powers, or insists on ever-increasing confiscatory powers. Still more dangerous is the use of students as pawns in the never-ending battles between governments and teachers. Beyond legislative coercion (which governments are understandably reluctant to use), governments in these instances have very little leverage. Because there is a very illiquid market for teachers, a market price cannot be ascertained, and because teachers enjoy a monopoly on government financing and incredible market share, they expect—and demand—economic rent. Most troubling, teachers maintain a psychological control over their consumers which Madison Avenue could only dream of matching. During Ontario's province-wide strike in 1998, an undiagnosed case of Stockholm syndrome descended on a large majority of the student body at my alma mater; teachers used their unchallenged market access to unfairly bias students in favour of the furtherance of their monopoly. While these risks are unavoidable with a public system, they can be mitigated by decentralization, competition, and the provision of choice. Provided governments recognize their obligation to finance education, there is little need for them to dump standardized, subsidized pub-

lic schooling on the education market.

Many argue that our children deserve public schools, and I would agree, but do our public schools deserve our youth? Public schools face no other suitors for the hearts and minds of our children than cable television, and still they fight a losing battle. The cabal of teachers unions implores us not to "cut the heart out of public education," yet how can this be done if the hearts of our children have not been wooed?

The issuance of a tax credit by the Ontario government assists students by opening more choices to them, yet it does not address the need for competition and decentralization. Moreover, while the tax credit is economically desirable because it reduces the marginal cost of choice to consumers, it still does not achieve the optimal level of consumer choice, because financial constraints prevent students from lower income households from attending the schools they desire.

The monumental task undertaken by The Fraser Institute of rating all the schools in Ontario was an important first step in breathing competition into Ontario's schools, but still more can be done. While now the dangerous collusion that has so long survived to the detriment of education is beginning to wane, students still can't effectively choose the schools they wish to attend, and schools that don't perform still face no real curtailment of their access to scarce resources. Moreover, while

schools are now being subjected to a modicum of scrutiny, within schools there exists no competition at all. The teachers unions determine hiring choices, have standardized compensation, and brook no outsiders—a veritable closed shop.

In order for education to become effective in this country, it needs to be decentralized, which is also the key to solving the two other issues: competition and choice. In the current public system there is ostensibly no division of responsibilities and thus there is a bias towards unaccountability. When the province is responsible for the evaluation, supervision, and management of the education sector, a conflict exists. A failure to manage schools properly is ignored by those who supervise schools, and those who ought to be evaluating the schools ignore their subsequent poor performance, because the same institution responsible for management performs evaluation, namely, government.

This country needs a total rethinking of the way education services are delivered. Rather than having the provinces funnel money to the school boards, and the boards allocate it as they see fit, each school ought to be spun off as its own non-profit private entity with the principal as CEO, in much the same way universities are organized. Thus, the boards of education could be done away with and the provincial ministries of education could restrict themselves to setting the curriculum, evaluating, and supervising, thereby dividing the two competing interests of evaluation and management.

Achieving decentralization need not occur at the expense of equality of opportunity. By apportioning equal funding to schools on a per stu-

dent basis, and with students free to attend the school of their choice, all students are still treated equally regardless of their original means. However, with a decentralized system, the proper balance between consumer and supplier is restored.

Thus, decentralization would simultaneously achieve free choice for students and solve the conflict of interest present in the public system. Moreover, competition would be achieved by ending the harmful collusion of disinterested parties. By aligning the economic interests of the schools with the desires of the consumer, the schools would be more interested in customer satisfaction than in meeting the needs of the education system.

An additional advantage would be that teachers could be hired and compensated by the principal as he or she sees fit, rather than on the basis of an irrelevant funding formula. This would mean that teachers who are experts in a discipline that is experiencing shortages would see their compensation rise, while compensation for qualified teachers in another discipline where there is a surplus would fall until both markets achieved equilibrium. Moreover, teachers who were perceived as vital to student needs or a school's strategic objectives would receive appropriate compensation, while those who were perceived as secondary to student needs would receive less of society's limited education resources. In other words, market discipline and efficiency would be achieved.

While this system would put a great deal of control in the hands of principals, they would not become tyrants. Ultimately, they would have to answer to a board of governors and to the province for school per-

formance, and any misconduct would not go unpunished.

An additional economic efficiency could be achieved by such a system: the de-linking of the housing and schooling markets. While it is impossible to estimate these gains, it is inconceivable that consumer choice is optimized when parents are forced to locate in neighbourhoods that possess good schools rather than optimal housing.

With a "voucher" system of student financing, not only could the education system be made more responsive to student needs, enhanced economic efficiency would increase the marginal return to additional tax dollars and thus open the door to greater education financing. It would also achieve the philosophical objective of keeping the state out of the classrooms of the nation, and in the process de-politicize education, a move that could only be of benefit to our children.

Recognizing that kindergarten-to-grade-12 (k-12) education is a public good, it is enough for the state to fund every individual's schooling; it needn't also command where and by whom students are to be taught. It is often claimed that the aim of K-12 education is to teach children how to learn, yet how is this possible when students can't even choose by whom they're taught? If we wish our students to take a greater interest in their schooling, then we will have to give them more and better choices first.

*[Editor's note: This essay won the \$1,000 first prize in The Fraser Institute's 2001 Student Essay Contest.]* 📖

# Simultaneous Improvements in Income and Environment: How the Free Market Can Benefit Canadians

✧ *By Brendan Wilson* ✧

Canadians have always recognized the importance of maintaining a clean environment as one of the key ingredients for a high quality of life. The environment is regularly identified by political leaders as one of the primary areas of concern for our nation, as a healthy environment leads to fewer illnesses, lower health care costs, safer living conditions, and a longer life expectancy. Canada, as well as most other developed nations, has implemented various environmental laws, tariffs, and policies to help preserve the environment and reduce harmful emissions. While these programs have met with various degrees of success, most—if not all—have distorted markets, lowered economic growth, and infringed on economic freedom. The trade-off of economic freedom for environmental quality is often seen as an unfortunate but necessary way to protect the ecosystem. Fortunately, this is not the case. Recent academic research indicates that economic growth and well-defined private property rights are strongly correlated with environmental quality. Indeed, the operation of the free market is the most effective way of ensuring increasing environmental quality in Canada. The implication of this finding is dramatic: environmental regulations that restrict economic freedom and private property rights may actually be doing more harm to the Canadian environment than good.

For decades, environmentalists have argued that the free market—and the economic growth it generates—is the cause of environmental destruction. They argue that more environmental laws and restricted trade are the best ways of limiting environmental problems. Recently, this argument has come under increasing scrutiny as academic research has shown that limiting trade may actually be forestalling improvements in environmental quality. Many empirical studies indicate that environmental quality initially declines, then increases with income. Grossman and Krueger originally discovered this result in their study of the effects of the North American Free Trade Agreement on the environment. They tested 13 environmental pollutants and found that 11 of them exhibited this rising, then falling, relationship to income. Since then, dozens of additional empirical studies have confirmed this result for a great number of air and water pollutants (Panayotou, 1997; Seldon et al., 1994; Shafik et al., 1994; Kaufman et al., 1998).

There exist several reasonable explanations for this relationship. As economies develop and move from an agrarian to manufacturing focus, they tend to increase their energy demands and consume more resources, which leads to increasing environmental stress. However, as incomes increase and economies move from a manufacturing to service-oriented fo-

cus, they tend to reduce their energy demands and improve their environmental quality (Arrow et al., 1995). Another plausible explanation states that at low levels of income (and relatively pristine environmental quality), the marginal benefits of economic growth far outweigh the marginal benefits of more environmental protection. Rational individuals trade units of environmental quality for units of economic growth, leading to lower levels of environmental quality. After some threshold level, however, the environment is like any normal good: as incomes increase, the demand for more environmental quality increases. Beyond the threshold income level environmental quality improves as individual wealth increases.

Most economists who have studied this relationship agree that the best way to increase national wealth is to engage in free trade and promote free-market principles domestically and abroad (Beckerman, 1992; Beltratti, 1996). Open economies benefit from economies of scale, foreign investment, and comparative advantage, allowing them to grow at higher rates. It is not in spite of, but because of the free market and open trade policies that the environment will improve. As environmental quality and income levels increase, simultaneously Canadians will experience a greater quality of life.

One particularly important free-market principle that can help to protect the environment is strong property rights. In Canada, new laws to protect endangered species and wetlands often infringe on the rights of property owners. These laws limit their ability to use the land in its most productive way, thereby depriving the owners of economic revenue and individual sovereignty over their property. In contrast to this regulatory approach, strengthening private property rights can serve as one of the most effective ways of protecting the land and water. It gives the individuals with the incentive to conserve and protect their resources the ability to do so.

When private rights and responsibilities are unclear or undefined, environmental disasters often result. Despite the enormous amount of resources devoted to East Coast fisheries in Canada, unclear property rights resulted in the collapse of the fish stocks. The old story of the tragedy of the commons occurred again. Fortunately, property owners need not suffer from the irresponsible behaviour of others. The common law tradition gives owners the right to protect their property and, by taking the matter before the courts, to extract compensation for any damages suffered.

A property rights system administered through the courts has many advantages to a regulatory approach. First, the ability to seek compensation allows individuals directly affected by pollution to take action to stop or diminish its effects. This means that victims do not have to wait for third-party government representatives to arrive before a resolution can be reached. Property rights give those with the strongest incen-

tives to protect their property the power to do so. Second, it reduces the need for costly government enforcement programs because victims of the pollution will do their own policing and enforcement through the courts. Limited public resources can then be used for other socially desirable activities. Third, it allows victims to receive their just compensation for the damages they suffer. When regulatory regimes are in place, the money generated by emission taxes or environmental tariffs rarely reaches the victims of the pollution. Under the courts, however, victims are compensated directly for the damages they suffer. Fourth, well-defined property rights encourage negotiation between polluters and victims in order to achieve mutually beneficial results. Polluters often end up compensating victims for the damages they incur while still continuing to pollute at some established level. Under a regulatory regime, the government-established outcome always rules, whether or not it is socially desirable or mutually beneficial. And fifth, property rights regimes provide owners with the incentive to conserve their resources. When the rights of owners are clearly protected, they have no reason to foolishly overexploit resources, which they do when they fear that those resources may one day be expropriated by the government or captured by others.

Elizabeth Brubaker, a strong defender of property rights regimes, explains their effectiveness: "The simple rule that one may not harm his neighbour's property, or interfere with his enjoyment of it, has protected the environment from an infinite variety of insults for over 700 years" (1995). Instead of over-riding

the rights of property owners, new environmental legislation should seek to capitalize on their many benefits. Not only are they an effective way of protecting the earth, they are also a prerequisite for economic growth (Keefer et al., 1982; Norton, 1998). By minimizing transaction costs and removing the threat of expropriation, property rights allow economic agents to use their resources in the most economically efficient manner possible. Once again, the free market system makes it possible for the environment to improve while the economy grows, leading to an overall improvement in the quality of life.

It is no surprise to find that many of the most polluted countries in the world are socialist countries where property rights rarely exist and economic freedom is limited. One need only look at the environmental devastation that occurred in the Soviet Union during the twentieth century to see the effects of an overbearing regulatory regime. In an essay on the relationship between economic growth and the environment, Wilfred Beckerman explains that, "in the end the best—and probably the only—way to attain a decent environment in most countries is to become rich." Another economist, Bruce Bartlett, comments that, "existing environmental regulation, by reducing economic growth, may actually be reducing environmental quality" (1994).

Within the Canadian regulatory regime there are numerous cases where this truth should be applied. One recent topic of interest has been the Kyoto Protocol and its influence on the environment and economy. If implemented, the protocol will force Canada to limit its carbon dioxide



emissions until the year 2012. The expected effect of the protocol on the total carbon content of the atmosphere will be almost negligible, and even scientists admit that it will not have any significant effect on issues of concern like rising sea levels (McKittrick, 2001). At the same time, however, the protocol is expected to reduce economic growth rates by two or three percentage points over the course of its existence (McKittrick, 2001). Market distortions will arise as companies will have to invest in expensive abatement technology and consumers will have to pay higher prices for their goods.

This is an example of an environmental law that will seriously affect the economy while providing little environmental benefit. All of the studies on carbon emissions suggest that at higher income levels carbon emissions levels will begin to fall (Kahn, 1998; Holtz-Eakin et al., 1995). As incomes rise, production techniques will become more efficient and emissions levels will decrease through the action of the free market. With higher incomes, consumers will be able to purchase hybrid cars, solar paneling, and other environmentally beneficial products that will reduce carbon emissions. This result can take place without slowing the economy and imposing foolish environmental laws like the Kyoto Protocol.

There is no question that those who support proposed legislation like the Kyoto Protocol have good intentions. The preservation of the environment is a worthy goal that the government and citizens of Canada should pursue. Unfortunately, few environmentalists recognize that the free market provides the most ef-

fective and efficient mechanism for promoting environmental protection and resource conservation. Establishing strong private property rights and increasing economic freedom are the best ways to simultaneously achieve both economic growth and a healthier environment. As incomes and environmental quality increase, so too, will the quality of life in Canada.

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*[Editor's note: This essay won the \$500 second prize in The Fraser Institute's 2001 Student Essay Contest.]*

*Editor's note:* The "Things Folks Know That Just Ain't So..." series on Overpopulation will be continued with "Part III: Population Density," in the December 2001 issue. If you missed "Part I: Food Production and Famine," and "Part II: Scarce Resources," they can be found in the on-line CSR archive at [www.fraserinstitute.ca](http://www.fraserinstitute.ca).

# Health Care's Glory Days Are Gone

✎ By Dan Mader & Adam Daifallah ✎

Like those really old athletes long past their prime who just can't see that it's time to hang up the equipment for good, Canadian health care apologists continue to cling to the utopian fantasy that there is life left in our Soviet-style system. It may be going through a bit of a slump, they think, but its glory days are still to come.

The sad truth is obvious to anyone who has recently visited a hospital. The glory days of our health care system (assuming they ever existed in the first place) are long gone and without swift, drastic reforms they will never return.

Over the past couple of months, we have witnessed the beginnings of a long overdue public debate about the future of health care. Although initially triggered by the announcement of the Commission on the Future of Health Care in Canada (Roy Romanow's new gig) it really started to get serious with the stunning revelation that the federal government is contemplating introducing user fees.

The "steal 'em and water 'em down" approach is exactly what the Liberals are planning to do in "re-forming" our crumbling health care system, presumably when the Romanow Commission files its final report next year.

After ridiculing Alliance leader Stockwell Day during last November's campaign for having a "hidden agenda" of user fees and more privatization of health care, Chrétien appears ready to introduce exactly those things himself. The terrible danger is that by introducing half measures, the Liberals will squander

an historic opportunity to enact real reform and truly improve the system.

They will lose this chance if they do one of the two things they seem most likely to do, namely, minor tinkering with the structure of the present state-managed system or altering the way in which the current system is funded.

In a recently-published article, Liberal Senator Michael Kirby wrote that, "more money is likely to be needed," and went on to discuss ways to raise more money such as raising taxes or introducing user fees and ways to save money such as de-listing services.

A few days later, Dr. Michael Rachlis responded with a strong rejection of user fees. Yet he went on to state that, "public payment and non-profit delivery have served Canadians well," and that the answer was for us to "identify the best practices already in use and ensure they become common practice."

What Rachlis fails to realize is that structural inefficiency is the inevitable result of a direct single-payer system.

What incentive is there for a hospital to treat its patients in the most efficient way possible when its budget will be determined by the trade-off between politicians' desire to appear committed to health care and their need to find money for their other pet projects? How can the system possibly improve when patients have no choice but to accept the service that the hospital provides and politicians, realistically, have little choice but to cough up more money year after year?

The Liberal recipe for saving health care is missing the key ingredient: competition for dollars. In the private sector, companies feel pressure to provide the best service to their customers for one simple reason—if they don't, someone else will. They must also do it efficiently because if they don't then someone else will offer the same quality of service for a lower price. It is this competitive pressure that the Canadian health care system lacks. The key role of the government in health care delivery must be to ensure that all Canadians are receiving a decent level of insurance, regardless of ability to pay. Yet its role as the guarantor of accessibility doesn't necessarily imply that it must also manage delivery.

Put power in the hands of the patients. Give hospitals the flexibility and independence to innovate and compete for patients. Fund them for whatever other forms of delivery emerge (such as urgent-care clinics) based on how many patients they attract.

If the Romanow commission is bold enough to recommend this dramatic change, then it could finally build some incentive to improve into our system. If, on the other hand, its Liberal masters order it to avoid proposing real change, then they will have forgone a chance to finally fix our ever-deteriorating health care system. ☹

*[Editor's note: This article was originally published in the **Hamilton Spectator**, July 25, 2001.]*

“It’s time, I think, that we started to argue vigorously as to why free trade is right. It’s the key to jobs for our people, prosperity and to development in the poorest parts of the world.

The case against [free trade] is misguided, and worse, unfair. However sincere the protests, they cannot be allowed to stand in the way of rational argument. We must start to make this case with force and determination.”

— *Tony Blair, British Prime Minister. Speech to Canadian Parliament on Feb. 22, 2001.*

## Bulletin Board

FRASER INSTITUTE ROUND TABLE LUNCHEON with **Bill Emmott**, Editor, *The Economist*, the world’s leading weekly magazine on current affairs and business.

“How the World Changed on September Eleventh”  
Wednesday, November 14, 2001  
12:00 Noon at the Sheraton Centre Toronto Hotel, Toronto, ON

FRASER INSTITUTE ROUND TABLE LUNCHEON with **Conrad Black** on Thursday, November 15th at the Hyatt Regency Hotel, Vancouver

FRASER INSTITUTE CONFERENCE on “**Reforming Politics: The B.C. Blueprint**”  
Thursday, November 22, 2001 from 8:30a.m. - 5:00 p.m. at the Delta Pinnacle Hotel, Vancouver, BC

For more information on these events, visit the Fraser Institute website at [www.fraserinstitute.ca/events/](http://www.fraserinstitute.ca/events/) or call the Events Facilitator at 1-800-665-3558, ext. 578.

### Fraser Institute Student Seminar Program

VANCOUVER HIGH SCHOOL SEMINAR  
**Friday, October 5, 2001**  
Empire Landmark Hotel, 1400 Robson Street

VANCOUVER STUDENT SEMINAR ON PUBLIC POLICY ISSUES  
**Saturday, October 20, 2001**  
Delta Pinnacle Hotel, 1128 West Hastings Street

VICTORIA STUDENT SEMINAR ON PUBLIC POLICY ISSUES  
**Saturday, October 27, 2001**  
Coast Harbourside Hotel, 146 Kingston Street

TORONTO STUDENT SEMINAR ON PUBLIC POLICY ISSUES  
**Saturday, November 3, 2001**  
Sheraton Centre Toronto Hotel, 123 Queen Street West

QUESNEL STUDENT SEMINAR ON PUBLIC POLICY ISSUES  
**Friday, November 16, 2001**  
Tower Inn, 500 Reid Street

KELOWNA STUDENT SEMINAR ON PUBLIC POLICY ISSUES  
**Thursday, November 29, 2001**  
Ramada Lodge Hotel, 2170 Harvey Avenue

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# How Does Economic Growth Work?

**Q**: It is well known that we have finite resources at our disposal. We also know that economic growth doesn't always reflect positive events; the GDP also rises when goods and services are required to replace damaged goods, or to clean up after destructive events. It has also been shown that technology won't solve all of our problems (for example, we still produce more than enough food to feed the world, but millions still starve). Why does The Fraser Institute assume that economic growth is a good thing?

—James Phillips, *University of Alberta, Edmonton*

**A**: This student raises an important issue regarding economic accounting. His specific criticism is that negative events, like oil spills, often result in increased GDP because of clean-up services and related activities. His criticism, however, relates to the technical issue of measurement as opposed to the issue of economic growth. The following information, taken from previous articles, illustrates the power of economic growth.

According to the Organisation for Economic Co-operation and Development (OECD), Canada outperformed the US in only 6 years since 1984. In other words, the US economy grew faster than Canada's for 62.5 percent of the years between 1984 and 2000. This divergence in economic growth has resulted in large income differences between Canadians and Americans. For instance, in 2000, Industry Canada estimated that the average US state

enjoyed a 22 percent higher standard of living compared with the average Canadian province. In fact, the study concluded that the standard of living in the US states was anywhere between 10 and 50 percent higher than the standard of living in the Canadian provinces. Similarly, a Statistics Canada study completed last year concluded that the average American worker enjoyed a 29 percent higher income than a comparable Canadian worker. In short, poor economic growth in Canada has resulted in lower incomes and prosperity than that enjoyed by our southern neighbours.

This lack of economic growth has resulted in a perverse situation in which Canadians pay more as a percent of the economy for government-provided programs than Americans, but receive nearly the same amount in dollar terms. For example, the OECD estimates that Canadian governments will spend about 37.4 percent of GDP in 2001, while US governments will spend about 29.0 percent, a difference of 29.0 percent.

The perversity materializes when we translate these percentages into per capita spending. The dollar amounts are nearly identical. Canadian governments will spend about \$11,111 (US dollars) per person in 2001 while US governments will spend about \$11,067, a difference of \$44. In other words, Canadians bear a nearly 30 percent higher level of government spending than Americans, but receive only \$44 each in additional spending. Because of a lack of growth we pay more but get about the same.

But Canadians need not look south of the border to understand the power of economic growth. The growing prosperity gap between British Columbia and Alberta provides yet another example of the influence of economic growth. British Columbia now spends 25.5 percent of provincial GDP and provides its citizens with \$7,911 in per capita spending. Alberta, on the other hand, because of its tremendous economic performance over the 1990s, is able to provide its citizens with \$8,426 in per capita spending while only accounting for 19.8 percent of provincial GDP. In other words, Albertans enjoy smaller government as a percent of the economy, but receive more in spending than do British Columbians.

This is the power of economic growth. When countries or regions pursue policies that encourage and facilitate economic growth it results in higher incomes and greater opportunities while at the same time reducing the burden of government-provided programs. Implementing policies that support economic growth, such as reduced government spending (as a percent of the economy) and lower taxes, could not only increase incomes and growth but also secure the resources we need to finance the programs we want government to provide. This powerful combination should find allies on both sides of the political fence; unfortunately, too few in this country embrace economic growth.

—Jason Clemens, *Director of Fiscal Studies, The Fraser Institute*