Canadian student review

FRASER INSTITUTE

Quarterly
Student Magazine
Fall 2008

REFORMING MEDICARE

20 YEARS STUDENT PROGRAMS 1988 - 2008 FRASER INSTITUTE

www.fraserinstitute.org

The moment we've all been waiting for...
Entries are in for the first Fraser Institute

Student Video Contest

IT'S UP TO YOU TO DECIDE WHO WILL WIN THE VIEWER'S CHOICE PRIZES

Check out these insightful, creative, and sometimes hilarious videos and you and your friends can vote for your favourites using the YouTube star rating system before November 16th.

CASH PRIZES & ELECTRONICS TO BE WON:

Post-Secondary		*High School*	
1st Place:	*$2,000*	*1st Place:*	*$1,500*
2nd Place:	*$1,500*	*2nd Place:*	*$1,000*
3rd Place:	*$750*	*3rd Place:*	*$750*
Viewer's Choice :	*$750*	*Viewer's Choice:*	*$750*

Sponsored by The Lotte and John Hecht Memorial Foundation

For complete contest information, visit **www.fraserinstitute.org**

Canadian student review

Welcome!

The fall issue of CSR is here, and this season we proudly present you with our 2008 Student Essay Contest winners whose health care submissions won them cash prizes upwards of $1000! We have recently released the 2009 student Essay Contest topic, "Economic Freedom and Global Prosperity," so it's a great time to start researching your winning submission for next year! Check our website for full contest details.

We are also thrilled to bring you intriguing discussions about unintended consequences of minimum wage increases in our regular column, "Things Folks Know That Just Ain't So," as well as an explanation and analysis of the causes and consequences of inflation with Dr. Steven Horwitz in "Ask the Professor." And if you've seen Michael Moore's Sicko, consider our look at the hidden public costs of the Canadian single-payer health care system – what you learn might surprise you.

We would like to thank the Lotte & John Hecht Memorial Foundation for their generous support, which enables us to distribute Canadian Student Review at no cost to campuses across Canada.

Best Wishes,

Vanessa Schneider,
Director of Student Programs

Canadian
student review

is published by the Fraser Institute. The views contained within are strictly those of the authors.

Editor: Vanessa Schneider

Assistant Editor: Courtenay Vermeulen

Production: Kristin McCahon and Bill C. Ray

Contributing Editors: Nadeem Esmail, Keith Godin, Amela Karabegovic, Brett Skinner and Mirja van Herk

CSR Staff Writers: David Karp, Tim Mak and Cam Vidler

Front cover photo: Cover image © Punchstock; illustration on page 4, © Mike Miller; image on page 9, © Brasiliao-media-photo, iStockphoto; image on page 10, © Kirsty Pargeter, Fotolia; image on page 11, © Andrzej Tokarski, Fotolia; image on page 12, © Slavoljub Pantelic, iStockphoto.

Canadian Student Review is offered free of charge to students across Canada. To receive a subscription, or to write to us about articles you read in this publication, contact us at CANADIAN STUDENT REVIEW, 1770 Burrard Street, 4th Floor, Vancouver, B.C., V6J 3G7 Tel: (604) 688-0221, x 571; Fax: (604) 688-8539.

Web site: www.fraserinstitute.org.
E-mail address:
student@fraserinstitute.org

Canadian Publications Mail Agreement #40069269

Return undeliverable Canadian addresses to The Fraser Institute, 4th Floor, 1770 Burrard Street, Vancouver, BC, V6J 3G7

Date of Issue: Fall 2008.

Printed in Canada. ISSN 1192–490X (print edition) ISSN 1707-116X (online edition)

The Fraser Institute's vision is a free and prosperous world where individuals benefit from greater choice, competitive markets, and personal responsibility. Our mission is to measure, study, and communicate the impact of competitive markets and government interventions on the welfare of individuals. Founded in 1974, we are an independent research and educational organization with offices in Vancouver, Calgary, Toronto, Montreal, and Tampa, and international partners in over 70 countries. Our work is financed by tax-deductible contributions from thousands of individuals, organizations, and foundations. In order to protect its independence, the Institute does not accept grants from government or contracts for research.

REFORMING MEDICARE

By Richard Norman
University of King's College, Halifax, NS

The Canadian health care system is terminally ill. Wait times for surgery are at an all time high (Fraser Institute, 2007). Doctors and nurses are strictly rationed. In many provinces, health care spending is fast approaching half of the entire budget (Skinner, 2006).

Not only is our system in serious trouble, but the government's monopoly control of health care is also in increasingly dubious legal standing. In the 2005 Chaoulli v. Quebec case, the Supreme Court ruled that Quebec's single-payer health insurance system violated Quebecers' rights to life and security of person under the province's Charter of Human Rights and Freedoms. Three of the seven judges also found that the system violated the Canadian Charter of Rights and Freedoms. The system's inefficiency is not only creating a huge, unsustainable financial burden for taxpayers and future generations; it is also preventing people from receiving the care their health necessitates.

It was not always this way. In a speech upon his election as president of the Canadian Medical Association in 2007, Dr. Brian Day recalled better times. "When many of us were starting out 30 years ago, Canada had an effective and efficient health care system. Since then, government policies have reduced resources and created such a shortage of doctors that millions of Canadians don't have a family physician, they can't get in to see a specialist, they wait far too long for necessary tests and procedures, and, sadly, patients languish in hospital corridors" (Day, 2007).

THE SYSTEM WAS FATALLY FLAWED FROM ITS INCEPTION

Government cuts may be responsible for some of the system's problems, but it could just as easily be said that the system was fatally flawed from its inception. The lesson should not require reiteration: government monopolies insulate economic activity from the efficiencies and innovations of competition. By limiting market mechanisms, politicians and civil servants centralize decision making. There is simply too much information, too many variables for any government cadre to effectively control the health

THE CANADIAN HEALTH SYSTEM IS TERMINALLY ILL

care market. In health care, as in other sectors of the economy, we should recognize the limits of a command-style economic policy and the distortions of such impositions. F.A. Hayek once described "the astonishing fact, revealed by economics and biology, that order generated without design can far outstrip plans men consciously contrive" (Hayek, 1989). By allowing the prices of goods and services to be arranged by the mutual consent of sellers and buyers, information can be more effectively communicated, efficiencies can be created, and consumers can receive more appropriate levels of service and support. These things do not happen when the government runs the show.

This is not to say that government should play no role in health care delivery. It should—especially as a guarantor for those who are unable to afford their own insurance. Indeed, we could take an incremental step forward by adopting a mixed public and private system akin to those found in Germany or the United Kingdom. This would allow citizens to choose what type of insurance would be best for them based on their particular circumstances, rather than having to accept the only choice offered by the government. The public system would be maintained and improved through competition with private clinics. Public health insurance would still be offered, but the "equality ceiling" would be lifted for those who could afford the benefits of private insurance and clinics.

Canada, however, is still a long way from achieving this healthy balance of public and private sector involvement. It is not politically possible in most provinces to fully embrace the principles of competition and choice when it comes to health care. A lot of groundwork must still be done. Incremental, evidence-based reforms to the public system are the best approach to take in the current climate.

Fortunately, led by a number of ambitious administrators, physicians, and politicians, such initiatives are already underway. The most promising reform is patient-focused funding. Under the current system of "block" or "global" funding, hospitals receive a lump sum of money from the government at the beginning of the year and must ration the services they provide so as not to exceed these funds. With patient-focused funding, hospitals receive a basic sum of money at the beginning of the year and then effectively bill the government for the services they provide beyond this. The result is competition among hospitals, as each hospital or clinic seeks out patients and tailors its services to meet their needs in order to receive more funding since each admission generates revenue. Administrators and health care professionals work together to maximize efficiency and provide the highest quality of care. Each patients is seen as a customer who must be well served, rather than a drain on scarce resources.

In April, the government of British Columbia announced that Fraser Health and Vancouver Coastal Health had partnered in a $75 million program to encourage new patient-focused funding models. These two health authorities provide services to approximately 60% of the province's residents (Fraser Health, 2008). In some cases, the program

OUR SYSTEM IS FAILING US AND ITS FAILURE IS UNACCEPTABLE

might involve the government paying extra money for patients admitted to a bed within 10 hours, for example; in other cases, extra money may be provided for quick treatment and discharge.

Some of the literature suggests that patient-focused funding will lead to increased health care spending as wait lists decrease and more patients are seen, but consider some of the ways significant savings can be achieved. Not only would competition increase efficiency and spur innovation, but the huge reduction in wait lists would result in related health care savings; we may even see a shift to emphasis on prevention and early detection of problems. Furthermore, this speedy, professional system would likely attract foreigners with limited health care access at home. In this case, Canadian clinics could capitalize on medical tourism, and the government could take a larger portion of these fees to bolster their health budgets.

In any event, a more important figure in the health care debate is not the total costs to taxpayers, but the value for money spent. What is unacceptable about the status quo is the unresponsiveness and inefficiency of Medicare; Canadians would receive much more value for their money if price signals could be introduced into health care administration. Resources would then be allocated more efficiently and wait times reduced. Once market-based reforms are made to the public system, it will be easier to argue for private insurers. Although a pure system of price signals is ideal, a feasible solution to the current problem is a mixed public-private system. Only then will we begin to see health care spending reined in.

But it is important to keep that ideal in mind, especially as it offers a chance to address serious issues of democracy and accountability. We are not simply talking about the most effective ways to treat patients; we are talking about how we want the government to treat us. These reforms devolve

A FEASIBLE SOLUTION TO THE CURRENT PROBLEM IS A MIXED PUBLIC-PRIVATE SYSTEM

power from the state to the citizen. As Brian Lee Crowley pointed out in a lecture at the Heritage Foundation in 2004, there has always been a conflict of interest at the core of Medicare. In Canada, the providers of health services are also the people who regulate the system and supposedly guarantee its quality. "This is an appalling double standard," Crowley writes, "as no responsible regulator would permit a private supplier to insurance to behave in this way" (Crowley, 2004).

There will most likely always be political opposition to increasing private competition in the provision of Canadian health care. The success of incremental reforms will hopefully lessen statists' hold on the popular imagination. We have to look at the facts: our system is failing us and its failure is unacceptable. Making the case in favour of market reforms to Medicare and eventually for private insurers should be done slowly, one battle at a time. Patient-focused funding may well be the first battle in this hard but vital fight.

References

Crowley, Brian Lee (2004). The Top Ten Things People Believe About Canadian Health Care, But Shouldn't. The Heritage Foundation. <http://www.heritage.org/Research/HealthCare/hl856.cfm>, as of April 28, 2008.

Day, Brian (2007). Inaugural Address of Incoming President, Dr. Brian Day. Unpublished speech given at the Canadian Medical Association (CMA) 140th General Council in Vancouver, BC, August 21, 2007.

Fraser Health (2008). Health Authorities Promote Patient-Focused Innovation. News release (April 24). <http://www.fraserhealth.ca/News/News-Releases/Pages/FraserHealthVancouverCoastal-Healthpromotepatient-focusedinnovationand-integration.aspx>, as of April 28, 2008.

Fraser Institute (2007). Wait Times for Canadians Needing Surgery Hit an All Time High of More than 18 Weeks in 2007. News release (October 15). <http://www.fraserinstitute.org/Commerce.web/newsrelease.aspx?nid=4967>, as of April 28, 2008.

Hayek, F.A. (1989). The Fatal Conceit: The Errors of Socialism. University of Chicago Press.

Skinner, Brent J. (2006). Public Health Insurance is Near a Financial Tipping Point. Winnipeg Free Press. <http://www.fraserinstitute.org/Commerce.web/article_details.aspx?pubID=5358>, as of April 28, 2008.

Richard Norman, the first-place winner of the post-secondary category in our 2008 Student Essay Contest, is a first-year Law student at Dalhousie University in Halifax, Nova Scotia.

The unseen costs of single-payer

Canada's system provides a lesson for our American neighbours

by Marisha Warrington and Brett J. Skinner

This year's presidential elections have generated widespread debate over the state of health insurance coverage in America, largely due to widespread publicity of the US Census Bureau's annual estimate of the number of uninsured and underinsured (US Census Bureau, 2007). Proposed reform schemes to improve insurance coverage include: Massachusetts' recent adoption of mandated health coverage; the introduction of major tax reforms; the possibility of mandating coverage for all children; and a government-run single-payer health care system.

Some proponents of a single-payer health insurance system look at Canada as a model for universal health care coverage. There is an assumption among many single-payer advocates that the existence of universal coverage generates conditions where all patients have equal access to quality health care, regardless of their ability to pay. Michael Moore's documentary Sicko further perpetuates this myth—namely, that the Canadian health care system is far superior to the American health care system because health care in Canada is "free." The reality is that, on average, Americans do spend more of their incomes on health care, but in general they get quicker access to superior medical resources in return for the money they spend (Skinner et al., 2008).

In truth, the Canadian health insurance system is not cheap (or free) at all. The latest statistics from the Organisation for Economic Co-operation and Development (OECD) show that only three other industrialized countries (United States, Iceland, and Switzerland) spend more of their national income on health care than Canada on an age-adjusted basis (Esmail and Walker, 2007a; OECD, 2008). Furthermore, there are a number of hidden costs (not all financial) in the Canadian health care system that are often overlooked by proponents of a single-payer system. These costs include extensive wait times and limited access to health care professionals, diagnostic services, advanced medical technology, and new medicines.

Another false economy of the Canadian health system is the money saved by delaying access to necessary medical care—money is saved at the beginning but, over time, these delays result in more money being wasted than saved. Canadian patients wait much longer than Americans for access to medical care (Schoen et al., 2005). In fact, Canadian patients wait much longer than what their own doctors say is clinically reasonable (Esmail and Walker, 2007b). Many Canadian patients wait so long for treatment that in practical terms, they are no better off than uninsured Americans. In Canada, the government promises everyone that they have health insurance coverage for all medically necessary services, but in reality, access to treatment is often severely limited or restricted altogether. It is important to remember that access to a waiting list is not the same thing as access to health care.

Canadian patients who want to escape the delays in the public system are also effectively prohibited[1] from paying privately for health care services (in addition to what they already pay in taxes for the public system). In practical terms, Canadian patients are unable to buy quicker access or better care than what the government health insurance program provides. In this sense, Canadian patients on

health insurance

waiting lists are worse off than uninsured Americans who are at least legally allowed to use their own money or credit to buy health care in their own backyard if they lack insurance coverage.

Canadian patients can only pay privately for health care if they leave their province of residence. Consequently, the Canadian health care system encourages under-served patients to spend their money in other provinces and, in fact, often in other countries, usually the United States. The absurdity of such a policy is that, because Canadian patients are not allowed to spend their own money on medical care provided at home, the economic benefit of this spending is lost for their province, and sometimes for Canada altogether. Canadian patients end up purchasing care abroad because they are not allowed to buy health care at home .

Note

1 Health care providers are not legally allowed to accept private payment for services that are eligible for public insurance coverage if they want to keep the right to bill patients served under the public insurance scheme. Naturally, doctors are reluctant to give up their right to bill the public insurance program. There are nuances to this situation and some providers have found exceptions to this general rule in various provinces.

Marisha Warrington is a Policy Analyst in the Department of Pharmaceutical and Health Policy Research at The Fraser Institute. She holds a B.A. (Hon.) in Sociology and Law and Society from York University and a M.A. in Public Policy from Queen Mary, University of London (U.K.). Ms. Warrington has contributed research on urban policy issues related to the Fraser Institute's annual Canada Strong and Free Series publication and health and pharmaceutical policy issues.

Brett J. Skinner is the Director of Bio-Pharma & Health Policy, as well as the Director of Insurance Policy, at the Fraser Institute. He earned a B.A. (Hon.) from the University of Windsor (Ontario) and an M.A. in Public Policy and Political Science through joint studies at the University of Windsor and Wayne State University (Michigan). He has written about health policy issues for the Atlantic Institute for Market Studies (AIMS) in Halifax, Nova Scotia, and has worked as a consultant for the Insurance Bureau of Canada (IBC) in Toronto, Ontario.

References

Canadian Constitution Foundation [CCF] (2007). Ontario's Health care Monopoly Challenged in Court: Brain Cancer Would Have Killed Lindsay McCreith. <www.canadianconstitutionfounda-tion.ca>.

Esmail, Nadeem, and Michael Walker (2007a). How Good is Canadian Health Care: AnInternational Comparison of Health Systems. Fraser Institute.

Esmail, Nadeem, and Michael Walker (2007b). Waiting Your Turn: Hospital Waiting Lists in Canada (17th ed.). Fraser Institute.

Organisation for Economic Co-operation and Development [OECD] (2008). OECD Health Data 2008: Statistics and Indicators for 30 Countries. CD-ROM. OECD.

Schoen, Cathy, Robin Osborn, Phuong Trang Huynh, Michelle Doty, Kinga Zapert, Jordan Peugh, and Karen Davis (2005). Taking the Pulse of Health Care Systems: Experiences of Patients with Health Problems in Six Countries. Health Affairs (Web exclusive). <http://content.health-affairs.org/cgi/reprint/hlthaff.w5.509v3>.

Skinner, Brett J., Mark Rovere, and Marisha Warrington (2008). The Hidden Costs of Single Payer Health Insurance: A Comparison of the United States and Canada. Studies in Health Care Policy. Fraser Institute.

US Census Bureau (2007). Income, Poverty, and Health Insurance Coverage in the United States: 2006. <http://www.census.gov/prod/2007pubs/p60-233.pdf>.

Things folks know that just ain't so

High minimum wages are the key to alleviating poverty

Why it ain't so...

by Courtenay Vermeulen

This year, every province and territory except British Columbia and the Northwest Territories increased its minimum wage. Next year, this trend will continue as minimum wages increase again in four provinces: Newfoundland & Labrador, Nova Scotia, Ontario, and Saskatchewan.

Unfortunately, the logic used to justify these increases is far too simplistic. It just doesn't follow that if you increase the minimum wage, then you will reduce or eliminate the number of people living in poverty. Though the increases may be well intentioned, high and increasing minimum wages are not an effective tool for alleviating poverty. In fact, high minimum wages do more harm than good, especially for the people these increases are intended to help.

Let us first consider who is earning the minimum wage. The people who earn minimum wages are typically young, living at home, and attending school (Godin et al., 2008). Statistics Canada (2008) data reveals that close to 62.4% of minimum wage workers in Canada are between the ages of 16 and 24, and that about 87.0% of these individuals still live at home with their families. In other words, the vast majority of workers earning the minimum wage in Canada are young people who are just starting out in the labour market and are gaining valuable skills that will help them earn higher wages in the future.

Those who advocate higher minimum wages may respond by saying, "It wouldn't be inherently bad for those living at home or earning a supplementary wage to benefit from a wage increase if it means that those living in poverty could live a better quality of life." But, again, the logic used here is far too simple. The money spent on increased wages has to come from somewhere, and often businesses react to higher payroll costs by substituting workers for more capital (i.e., technology) or high-skilled labour (i.e., hiring one highly skilled technician instead of three labourers).

Perhaps the most significant consequence of high minimum wages is the negative impact they have on employment opportunities. A study by Professor Morley Gunderson (2005) of the University of Toronto reviewed 23 Canadian studies on minimum wages and concluded that a 10% increase in the minimum wage is associated with a 3% to 6% reduction in the employment of teens. This means that a major increase in the minimum wage could lead to a loss of thousands of jobs for young people.

Courtenay Vermeulen is the Student Programs Assistant at the Fraser Institute. She obtained her bachelor's degree in Commerce, specializing in International Business, from the University of Victoria in British Columbia. She is the Assistant Editor of Canadian Student Review and also acts as administrative support for the Fraser Institute's educational programs for students, teachers, journalists and professionals.

Another unfortunate reality of high minimum wages is the negative impact they have on fringe benefits such as on-the-job training. A worker who gets a state-mandated wage increase will find that their company now has fewer resources to devote to training, which would make them more productive workers and thus able to demand a higher wage in the future (Even and Macpherson, 2003). Job security can also be threatened since many minimum wage jobs have a three-month probationary period during which a company may decide to let their high-cost minimum wage earners go. Instead of bringing prosperity to those living in poverty, raising the minimum wage can bring uncertainty, hardship, and often more poverty.

High minimum wages can also lead to higher school dropout rates because higher wages encourage young students to drop out of school and work instead (Landon, 1997; Chaplin et al., 2003). By dropping out of school, these students hinder their education and drastically reduce their chances of earning higher wages in the future.

Another reason why minimum wages do not have a significant effect on poverty is that earning the minimum wage is largely a temporary experience. In fact, a large body of research shows that as workers gain skills they experience upward income mobility. For example, one study (Long, 1999) of minimum wage workers from 1991 to 1995 in the United States found that the 69.4% of workers earning the minimum wage earned more than the minimum wage after one year of work; this number increased to 80.2% after two years of work.

We all want those living in poverty to be able to enjoy a higher standard of living and to participate more fully in the community, but the unintended consequences of raising the minimum wage move us farther away from reaching that goal. What is the solution then? The good news is that apathy and indifference is not our only alternative. Real solutions can be found in creating the right environment for workers and businesses to succeed. Lowering taxes would provide incentives for people to work, save, invest, and act entrepreneurially; eliminating overly prescriptive and biased labour laws would improve labour mobility; and generally getting rid of counter-productive regulations would be a good place to start.

The study *Measuring Labour Markets in Canada and the United States: 2008 Edition* can be downloaded free of charge from the Fraser Institute website at **www.fraserinstitute.org.**

References

Chaplin, Duncan D., Mark D. Turner, and Andreas D. Pape (2003). Minimum Wages and School Enrollment of Teenagers: A Look at the 1990s. Economics of Education Review 22: 11–21.

Even, William, and David Macpherson (2003). The Wage and Employment Dynamics of Minimum Wage Workers. Southern Economic Journal 69, 3: 676–90.

Godin, Keith, Milagros Palacios, and Niels Veldhuis (2008). Measuring Labour Markets in Canada and the United States: 2008 Edition. Studies in Labour Markets No. 5. Fraser Institute.

Gunderson, Morley (2005). Minimum Wages in Canada: Theory, Evidence and Policy. Prepared for the Federal Labour Standards Review Commission, December 2005.

Landon, Stuart (1997). High School Enrollment, Minimum Wages, and Education Spending. Canadian Public Policy 23, 2: 141–63.

Long, James (1999). Updated Estimates of the Wage Mobility of Minimum Wage Workers. Journal of Labor Research 20, 4: 493–503.

Neumark, David, and William Wascher (2007). Minimum Wages and Employment. Foundations and Trends in Microeconomics 3, 1–2: 1–182.

Statistics Canada (2008). Employed Employees in Canada and the Provinces by Minimum Wage or Less and by $10.00 per hour or less, Annual Averages 2007, in Thousands. Special tabulation. Received February 8, 2008.

HOT TOPICS!

STUDY RESULTS

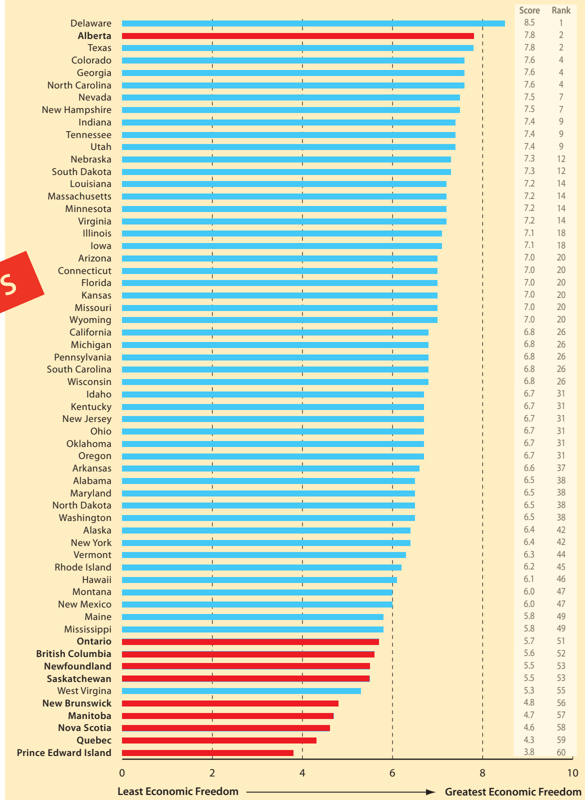
Albertans enjoy highest levels of economic freedom in Canada

The Fraser Institute's *Economic Freedom of North America: 2008 Annual Report* shows that Alberta has the highest level of economic freedom in Canada, and is tied with Texas for the second highest level in North America.

However, the rest of Canada badly trails Alberta. Ontario has the second highest economic freedom ranking in Canada, but is 51st overall in North America, behind every US state except West Virginia. British Columbia (52nd), Newfoundland & Labrador (tied for 53rd), and Saskatchewan (tied for 53rd) follow Ontario.

"Economic freedom is one of the main drivers of prosperity and growth. Provinces with low levels of economic freedom reduce the ability of their citizens to prosper economically, leaving people poorer than they need be," said Fred McMahon, co-author of the report and director of globalization studies at the Fraser Institute.

Figure 1.1: Summary of 2005 Ratings at the All-Government Level



"Provinces with high levels of economic freedom are those that tend to have lower taxes, smaller government, and flexible labour markets. These conditions create jobs and opportunities leading to economic growth." ■

A free PDF version of *Economic Freedom of North America: 2008 Annual Report* is available at **www.fraserinstitute.org**.

CANADA LAGGING

Canadian provinces trail US states on key measures of entrepreneurship

Canadian provinces are failing to keep up with the US states on some of the most important measures of entrepreneurial activity.

"The US states appear to be doing a better job of encouraging entrepreneurial activity than Canadian provinces. It is critical that Canada develop the right policies to encourage entrepreneurial activity," said Niels Veldhuis, co-author of *Measuring Entrepreneurship: Conceptual Framework and Empirical Indicators* and the Fraser Institute's director of fiscal studies.

"There is growing recognition that entrepreneurship is critical to economic prosperity. Entrepreneurship encompasses the process of bringing new ideas into the market, is a key driver of economic change, and creates jobs, opportunities, and wealth."

A free PDF version of *Measuring Entrepreneurship, Conceptual Framework and Empirical Indicators* is available at **www.fraserinstitute.org**.

POWER COSTS

Securing Ontario's power supply

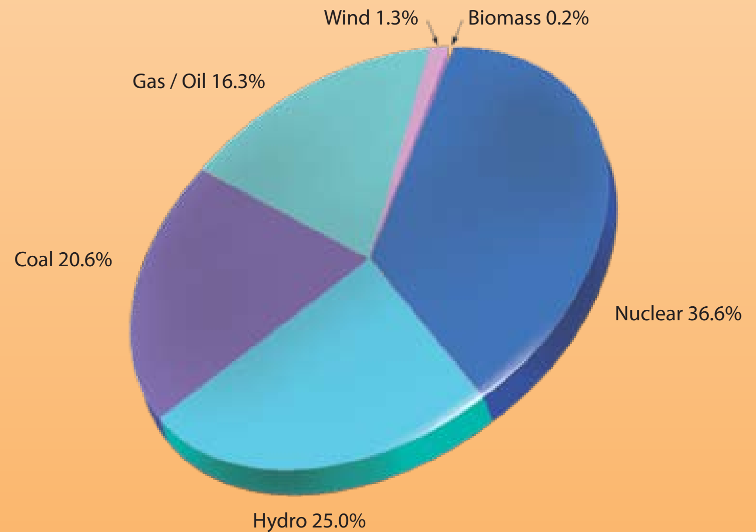
The Ontario government's proposed Integrated Power System Plan, which will increase regulation of electricity supplies, will likely force consumers to pay more for power.

One of the main drivers of increased costs found in the province's plan is the requirement that the province increase the generating capacity of renewable energy by a whopping 47% over the next two decades.

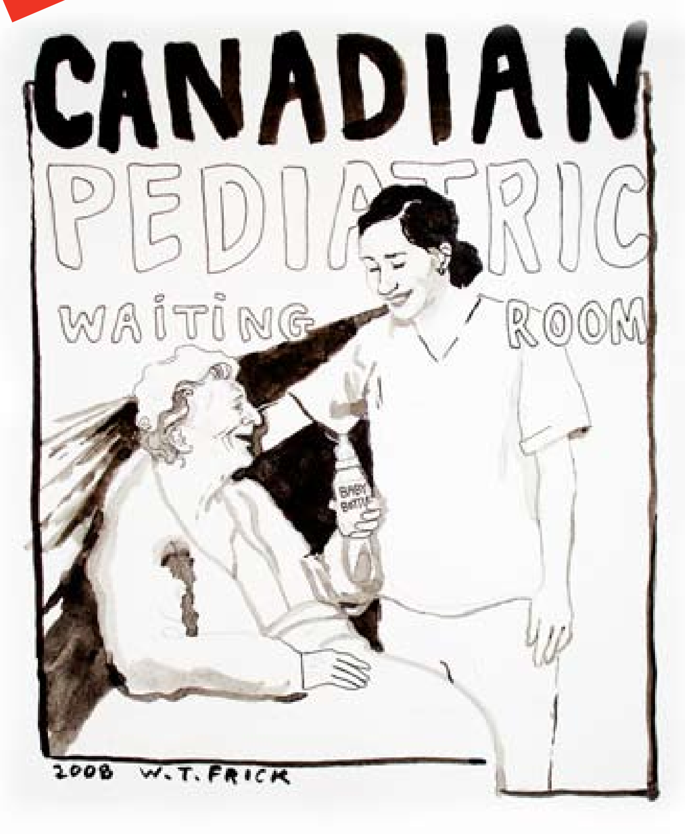
"This proposal will certainly win Dalton McGuinty some green points, but it also represents a hefty new energy tax," said Gerry Angevine, Fraser Institute senior economist and author of *Securing Ontario's Power Supply*, a review of the Integrated Power System Plan.

"If renewable energy was affordable and efficient, a government mandate to force people to buy it wouldn't be necessary."

A free PDF version of *Securing Ontario's Power Supply* is available at **www.fraserinstitute.org**.



EDITORIAL CARTOON



"We hope that Canadian policy makers continue to consider the implications of queuing on a medical level, and give much more thought to the implications of queuing at the personal level, as they design alternatives to our present health care arrangements."

--Nadeem Esmail, Director of Health System Performance Studies

Ask the Professor

This monthly column examines a new topic each month through the lens of economics, philosophy, and history. Join us each month for a live online discussion with students across Canada.

Here's a taste of what you've been missing (taken from August's discussion on Inflation). Steven Horwitz is the Charles A. Dana Professor of Economics at St. Lawrence University in Canton, NY and an Affiliated Senior Scholar at the Mercatus Center in Arlington, VA. An extensive writer, he has authored two books on economics and has been published in various professional economic journals.

This month's topic: Inflation

Inflation, according to economists, can be understood as a rise in the general level of prices. An increase, even a dramatic one, in the price of a specific goods is not "inflationary"; rather, it presumably reflects the good's increased scarcity due to higher demand and/or lower supply. A rising price in such a situation is keeping with what prices are supposed to do—higher prices communicate a good increased scarcity.

When central banks create too much money, people begin to spend more money, which drives up the prices of goods and services. Notice that these rising prices are not due to any change in the underlying scarcity of the goods and services, just the increased money supply. During inflation, market prices are not as reliable as indicators of the value of goods. They have an additional amount of "noise" in the signal they send, making it harder for producers and consumers to know what part of the price is "real" and what part is the result of inflation.

As Milton Friedman once said, inflation is always and everywhere a monetary phenomenon. It is also one of the most destructive things that a government can do to an economy, which is one reason why we should make sure we understand what inflation is and what it isn't, and always look for ways to prevent governments from abusing the power of the central bank.

Econ Sean inquires:
I read in the paper recently that the currency in Zimbabwe is inflating at a rate of over 11 million percent! And they are apparently continuing to print money to SAVE the economy? Why would they do this? Does it ever work?

Steven Horwitz responds:
They are doing this because they are crazy. :) Somewhat more seriously, once governments get caught in an inflationary spiral, the only way for them to stay ahead of it and keep power is to keep printing more money and making inflation run ahead of expectations. If they stop, the economy will quickly collapse. If they keep printing, it will collapse but more slowly. What's happening there is not rational in any economic sense—it's a regime that is desperately trying to keep its power.

Alan Forrester queries:
You say that central banks "are likely to err on the side of inflation not deflation in order to please their political overseers." Why do politicians want inflation or policies that lead to inflation?

Steven Horwitz answers:
Great question. There are a couple of reasons.

1. Inflation transfers resources to the inflator—in this case, the government. Inflation allows politicians to spend the new dollars into existence on their favourite programs, especially those likely to get votes.

2. Inflation reduces the real value of debt because the debtor pays back in dollars that are worth less than those they borrowed. Governments are HUGE borrowers, so inflation reduces the real value of government debt, which also creates room for governments to spend more.

Aaron Hajdu questions:
Are central banks and governments essentially passing on the cost of their debts to the general population via inflation?

Steven Horwitz writes:
I think that's one way to look at it. Ultimately, we all pay for government debt one way or another. The more

". . . central banks are likely to err on the side of inflation . . ."

government borrows, the less there is for the private sector to borrow, so we pay a cost in terms of foregone private investment and the benefits it brings. In addition, we pay the interest on the debt through taxes, and if one assumes the debt will eventually have to be paid off, we'll pay for it that way as well.

Inflation passes the costs of the debt on to the current generation by implicitly transferring resources from us, through higher prices, to government, in the form of the lower real value of the debt.

We always bear the costs of government debt, but inflation puts the burden on the current generation in a sneaky, haphazard way.

Econ101 asks:
Prof. Horwitz, Is there an appropriate role for central banks? What is that role? Thanks.

Steven Horwitz comments:
This is a matter of some debate among economists who generally favour free markets. For some, a central bank is not a problem as long as it sticks to a publicly announced, clear rule that guides the growth rate in the money supply. For these folks, the problem is when central banks exercise too much discretion.

Other free market oriented economists argue that there really isn't any need for a central bank as individual banks already produce most of the money supply (via checking accounts), and if we gave them the power to issue their own currency (as was common in the United States and Canada in the nineteenth century and before), and those were redeemable in some commodity (gold, perhaps), the money supply would better track money demand and inflation and deflation would be avoided. For this group, central banks cause much more harm than good.
www.fraserinstitute.org

Log on !

Ask the Professor

At the Fraser Institute website

www.fraserinstitute.org

This column examines a new topic each month through the lens of economics, philosophy and history. Steven Horwitz, Charles A. Dana Professor of Economics at St. Lawrence University in Canton, New York will lead a live online discussion following the release of each column.

Live online discussion with students across Canada!

Upcoming live chat dates:
November 28 and December 19
at 11:00 am Pacific

sponsored by The Lotte and John Hecht Memorial Foundation

Canadian student review

Write for CSR!

Are you passionate about public policy and economics? We are always looking for new students to join our pool of contributing writers. Send your article for consideration as a Word attachment to:

Vanessa Schneider, Editor
Vanessa.schneider@fraserinstitute.org
The deadline to submit for our
Winter 2008 issue is

November 30th

Have you Moved?

Don't miss an issue of CSR, or important programupdates in your area! Send your address update to
student@fraserinstitute.org
Or use the online form at
www.fraserinstitute.org/studentsandlearning/

Become a friend of the Canadian Student Review

The ***Canadian Student Review*** is proud to be Canada's foremost student magazine on public policy. Over the years we have expanded our distribution and increased the quality of our publications—and we owe these accomplishments to readers like you. For the first time, we would like to invite our loyal supporters to have their names appear in an issue of the Canadian Student Review under our "Friends" section. For a $25 dollar donation to the publication, your name and campus affiliation will appear in the next issue!

If you are interested in having your name appear under our "Friends" section in the upcoming issue of the *Canadian Student Review*, contact Kathryn Mitrow for more information:

kathryn.mitrow@fraserinstitute.org

THE FRASER INSTITUTE
4th Floor, 1770 Burrard Street
Vancouver, BC, Canada
V6J 3G7

Canadian Publication Mail Sales
Product Agreement Number 40069269

FRASER INSTITUTE