*Essay Winner: Aiding Poverty* .................. *p. 17*

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Climate Change Economics *p. 5*

BSE and the US Border *p. 15*

Things Folks Know… *p. 13*

# Business as a Solution to Poverty

*by Kathleen Guglielmi*

For-profit business is a solution to poverty in developing countries because it empowers the people, is more effective than aid money, and benefits all parties involved as the company turns a profit while the consumers improve their quality of life. This paper will prove this by dispelling the myths about poverty, exposing the weaknesses of foreign aid, and by citing examples of numerous successful businesses that currently operate based on these principles.

Myths about the poor, held by those in charge of aid and development, often poison public policy and prevent people from taking practicable action in reducing poverty. As Muhammad Yunus, the creator of Grameen Bank says, "The approach to poverty is thwarted by our fixed convictions. Poor people are helpless, unhealthy, illiterate and thus stupid, they have nothing, they know nothing, we must take care of them, we must give them food…" (Visscher, p. 26).

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In short, the poor are seen as a liability. However, this could not be further from the truth. In fact, there are millions upon millions of small-scale entrepreneurs who live in the developing world and could lead the charge in the fight against poverty (Kamp, p. 44), but they are simply not given the chance. This is in part due to the belief that the poor are victims who must be given charity.

As a result, the international community has focused its efforts on foreign aid as a solution to poverty. The problem with foreign aid as a solution to poverty reduction is that it is focuses on meeting the needs of the donor country rather than the needs of the recipient (Clark and Wallace, p. 213). First of all, foreign aid is rarely given purely for altruistic reasons. In fact, giving foreign aid is now seen as "politically correct" and governments in donor countries use foreign aid as a bargaining chip to help further their own agendas. As a result, foreign aid is often given with conditions imposed by the donor country requiring recipient countries to dismantle trade barriers, introduce a "free market" system, boost production of cash crops, allow foreign competitors into the country and cut government services (Clark and Wallace, p. 213). This leaves developing countries crippled and dependent on donor countries and often leaves recipient countries struggling with debt repayment; the developing world now spends $13 on debt repayment for every $1 it receives in grants (Shah).

Foreign aid is also detrimental to recipient countries because it maintains the status quo, preventing the radical changes necessary to reduce poverty in developing countries (Lodge and Wilson, p. 123). Foreign aid supports bureaucracy and corrupt governments, who use the money to support their own regimes, as is the case in North Korea and the UN Oil for Food scandal in Iraq. Aid to many such governments has actually worsened the plight of the poor by sustaining the political and social systems that caused their misery in the first place (Lodge and Wilson, p. 123). Much aid money is also wasted due to the bureaucratic nature of foreign aid and very little of it actually reaches the poorest of the poor (Clark and Wallace, p. 213). In short, foreign aid is ineffective.

For-profit businesses, on the other hand, cannot afford to waste money and must be both effective and efficient in order to survive. This forces businesses to arrive at creative solutions to problems and, as GrameenPhone architect Iqbal Quadir points out, "this drive to efficiency only exists in business… [and it] makes the economy efficient and saves resources for the country" (Visscher, p. 26). As a result, for-profit businesses succeed in reducing poverty where foreign aid fails, as they must meet the needs of their consumers in order to survive.

Some may wonder how for-profit businesses, often seen as the exploiters of the poor, can be part of the solution. In order for this to occur, poverty reduction must be "an integral part of [a business'] profit-making activities, not a *pro bono* sideline" (Lodge and Wilson, p. 125). Businesses must also stop regarding the world's 4 billion poor people as victims and start eyeing them as consumers (Prahalad and Hammond, p. 38). For decades, business has thought of poor people as "powerless and desperately in need of handouts" (Prahalad and Hammond, p. 38). But turning the poor into customers and consumers is a far more effective way of reducing poverty (Prahalad and Hammond, p. 38).

There are barriers that businesses will encounter in serving the world's poor. Infrastructure is often poor or non-ex-

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istent, creating the need for substantial upfront investment; illiteracy tends to be high, requiring non-traditional market approaches; tribal, racial, and religious tensions, as well as rampant crime, complicate business operations; governments—especially local and provincial authorities—often do not function effectively or transparently; and corruption is widespread (Prahalad and Hammond, p. 38). Yet all of these barriers have actually been overcome by businesses in serving the middle class. In fact, the real barriers have less to do with conditions in countries and more to do with misperceptions and attitudes about the poor.

The poor are viewed by business as having no money and being resistant to new products and services, and selling to the poor is seen as unprofitable or, even worse, exploitative. In reality, low-income households collectively possess most of the buying power in developing countries (Prahalad and Hammond, p. 39). For example, Brazil's poorest citizens alone consist of nearly 25 million households with a total annual income of US$73 billion, India has 171 million poor households with a combined US$378 billion income, and China's poor residents account for 286 million households with a combined annual income of US$691 billion (Prahalad and Hammond, p. 39). Being poor is not only about a lack of money, but also a lack of choice. By targeting the poor as consumers, businesses can access a vast market while also improving the lives of consumers.

One of the first and most successful examples of a for-profit company that caters exclusively to the poor is Grameen Bank, founded by Muhammad Yunus in Bangladesh, one of the poorest countries in the world. Grameen Bank lends small sums to poor people and is built on "Yunus' conviction that poor people can be both reliable borrowers and avid entrepreneurs" (Gangemi). It even includes a project called Struggling Members Program that serves 55,000 beggars (Gangemi). Since its inception, Grameen Bank has turned a profit almost every year and now serves 3.7 million families in 46,000 villages in Bangladesh, earning a profit of $4.4 million US in 2004 (Visscher, pp. 30-31). This bank has given poor entrepreneurs the ability to support themselves and contribute to the local economy. It has also spawned the growth of microcredit around the world. In fact, the United Nations designated 2005 the "Year of Microcredit" as even big banks join in the battle against poverty (Vesscher, p. 31). Grameen Bank is a perfect example of a company that is able to turn a profit and satisfy shareholders, while also improving the quality of life for the poor.

Another example of this is GrameenPhone, a for-profit telecom outfit launched in 1996 by Iqbal Quadir in Bangladesh (Gangemi). Supported by Grameen Bank and partially owned by Norway's Telenor, GrameenPhone provides cellular phones to rural villages. Funded by loans to individual women, these "village phone ladies" allow villagers to save time and increase productivity, thus benefiting the entire community. For example, instead of spending a day travelling to a market only to find out there was a better price for their produce elsewhere, farmers can now call ahead to several markets to find the best price for their products. By using women as their phone carriers, GrameenPhone has also improved the status of women in these Muslim communities. Even Muhammad Yunus admits that, "Grameen Bank has an impact on the poor, GrameenPhone on the entire economy" (Visscher, p. 32). GrameenPhone currently has over 2.5 million subscribers around the country and had a net profit of US$75 million in 2003 (Vesscher, p. 30).

## Welcome!

This double issue of *CSR* is again filled with interesting articles, many written by students from across Canada. First up, we have the three winning essays from the 2006 Student Essay Contest, *Trade or Aid? What is the Solution to Poverty in Africa?* Matthew Baker, Steven Loleski, and Kathleen Guglielmi shared $1,750 in cash prizes. The details of the 2007 Contest appear on page 14.

Also in this issue, provocative articles on BSE, climate change economics and health care in Canada.

Do you have something to write? We are now accepting submissions for consideration in the spring 2007 issue. More information on page 24.

We would like to thank the Lotte & John Hecht Memorial Foundation, whose generous support of this magazine enables us to distribute it free of charge across Canada.

Best wishes, Vanessa Schneider, Editor (vanessas@fraserinstitute.ca)

Both of these for-profit enterprises prove that business is a viable solution to reducing poverty. There are many other examples including Nirma, an Indian detergent company (Prahalad, p. 39); Honey Care Africa, a company that trains subsistence farmers in beekeeping; Ruf and Tuf jeans, a company in India that sells an "assembly package" for only US$6 that the buyers then stitch together (Prahalad, p. 39); and numerous cell phone companies operating with the poor around the world. As a result of these businesses, the poor benefit from access to new products and technology, expanded consumer choices and increased purchasing power that improves their quality of life. New services and information that improve efficiency also help increase productivity and raise incomes among poor citizens (Prahalad, p. 41). However, the most important benefit of all is not the higher standard of living, but rather the value found in dignity and choice.

Although foreign aid continues to be touted as the "solution to poverty," it is inefficient and achieves very little actual change in the lives of the poor. For-profit businesses, on the other hand, are capable of dramatically reducing poverty and increasing the global quality of life because they are effective and meet the needs of the consumers: the poor. Currently, many successful businesses, including Grameen Bank and GrameenPhone in Bangladesh, operate around the world and are achieving true social change while simultaneously making a decent profit. However, until business views the poor as profitable consumers rather than victims, this success will remain limited. It is only by dispelling these myths and by realizing the true potential of the poor that the global community will finally be able to break the cycle of dependency trapping developing nations. Poverty reduction can only be sustainable if it is profitable, and business makes this possible.

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*Kathleen Guglielmi graduated in 2006 from Loyola Catholic Secondary School in Mississauga, Ontario. Her essay was the first place winner in the high school category of the Fraser Institute 2006 Student Essay Contest.*

**In 2006, Muhammad Yunus and Grameen Bank were jointly awarded the Nobel Peace Prize "for their efforts to create economic and social development from below."**

# Critical Thinking about Climate Change Economics

*by Nicholas Schneider*

On October 30, 2006, the UK government released its long-awaited assessment of climate change economics titled the *Stern Review on the Economics of Climate Change*. This lengthy report by Sir Nicholas Stern, a former chief economist of the World Bank, covers a wide range of topics from impacts and adaptations to economics and policy. But it was the main conclusion of the review that received so much attention: "the benefits of strong, early action on climate change outweigh the costs."

Similar statements have been made for years by various interests, and therefore it wasn't the novelty of the statement but the authority of who said it that caught most people's attention. The statement traveled quickly, making the lead story in newspapers and nightly news shows around the world.

Stern's conclusion is partly supported by his economic analysis. The review estimates that damages due to climate change may be equivalent to losing between 5 and 20 percent of world output (GDP), whereas the costs of reducing emissions (called "mitigation") are around 1 percent of GDP. Stern's executive summary, which most news media paraphrased, states that the 5 to 20 percent damage costs occur "now and forever." This statement is odd since the full report actually states that damages won't reach 5 percent until at least 2075, and the "forever" part incorrectly assumes that humans will never develop ways of coping with future climate change. Regardless, the review lends much support to policy positions advocating severe reductions in greenhouse gas (GHG) emissions by mid-century.

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Not surprisingly, the report was cheer-leaded by several environmentalist organizations in Canada who within hours prepared press releases hyping Stern's conclusion along with a few sound-bites from their own staff. Not wanting to bite the hand that feeds, these press releases offered no criticisms of Stern's research. Thankfully, some experts in the academic community took an honest look at the Stern Review before drawing conclusions. Two prominent climate change economists, Dr. Richard Tol of the University of Hamburg and Dr. William Nordhaus of Yale University, have now publicly released their own assessments of the Stern Review.

Tol (2006a) determined that Stern is selective and biased in his analysis, resulting in over-estimates of climate change damages and under-estimates of emissions reduction costs. To estimate damage costs due to climate change, Stern includes impacts on agriculture, water, disease, weather-related natural disasters, and sea-level rise—all of which is standard practice. However, what isn't standard practice is to "consistently select the most pessimistic study in the literature," as Tol accuses Stern of doing. One example is that when Stern uses Tol's own research on the costs of sea level rise, Stern ignores Tol's estimates showing how actions such as building dams and dykes can be very effective in reducing flood damages. Essentially, Stern chose to over-estimate the costs of sea-level rise.

Furthermore, Tol emphasizes that the Stern Review does not conduct a formal cost-benefit analysis, despite Stern claiming to have done so. By estimating the costs of mitigation (1%) to be lower than the cost of climate related damages (5-20%) readers may have falsely been led to believe that by spending 1 percent on mitigation now, we can avoid risking 5 to 20 percent in climate related damages. This is incorrect, yet even well-known organizations such as Nature fell for it (Giles, 2006). Even extreme levels of mitigation could only slow future climate change, rather than stopping it altogether. Therefore, spending 1 percent on mitigation as Stern advocates could only reduce the estimated 5-20 percent damages by some undetermined amount, but not the whole amount. In contrast to Stern's estimates, Tol (2006b) states that climate change can cause annual damages of around 0.5 percent of GDP rising potentially to 3 to 4 percent next century if nothing is done in response.

In his conclusion, Tol states that the Stern Review can be "dismissed as alarmist and incompetent." Being slightly more diplomatic, Nordhaus (2006) encourages that the Stern Review is "worth a few days' study." Nordhaus then presents his criticisms, and shows that Stern's estimates depend critically on the choice of a very low "social discount rate."

Specifically, when costs and benefits occur over time we often discount the value of future costs and benefits. People do this discounting even if they don't recognize it. When given the choice, most people will choose to receive $1 today rather than $1 a year from now (even adjusting for inflation), thus discounting the value of a future benefit. The same holds for a cost incurring today versus the same cost occurring one year (or one hundred years) from now. This matters a lot in climate change economics. Do we agree that estimated costs and benefits occurring 100 years from now are less of a concern than if the same costs and benefits occur today, or is their value the same? By observing how people make choices in the marketplace between costs and benefits occurring over time, economists can estimate a social discount rate. Nordhaus uses 3 percent as the discount rate, whereas Stern uses the much smaller value of 0.1 percent, essentially near-zero.

Near-zero discounting means that costs occurring a hundred years from now are discounted much less, which has the effect of magnifying how much we would be willing to spend today in order to avoid loses in the future. Nordhaus illustrates the practical implication of near-zero discounting with a hypothetical example. Suppose some damage due to climate change will result in a loss of 0.01 percent of GDP starting in the year 2200 and continuing thereafter. How much of an investment today would be justified to remove this 0.01 percent damage occurring 200 years from now? The answer is 15 percent of world GDP today—or roughly $7 trillion, to which Nordhaus adds, "this seems completely absurd."

This seems even more absurd considering that future generations are expected to be many times wealthier than we are today. Worldwide consumption per capita is currently $7,600 per person on average, and estimated to grow to $94,000 per person by the year 2200 (Nordhaus, 2006). Therefore, by using a near-zero discount rate, Stern has argued for reducing current consumption in order to prevent a decline in future consumption by people who will likely be more than ten times richer than we are today. Nordhaus therefore concludes that Stern's recommendations for sharp and immediate reductions in GHG emissions do not survive a discount rate that is more consistent with what is observable in the current market.

I should note that both Tol and Nordhaus recommend reductions in greenhouse gas emissions—just not nearly as much or as fast as Stern. Nordhaus states that climate policies should involve modest reductions in the near term, followed by sharper reductions in the future when we will be richer and more technologically able to reduce emissions. Many assumptions about climate science are needed for Nordhaus and Tol to reach their conclusions, but I'll leave that debate for another article.

In summary, despite much media fanfare, Stern's estimates will not likely survive critical thinking and academic review. More importantly, the academic debate that has followed the release of the Stern Review should remind everyone of the value of critically assessing research before accepting or endorsing it. In the end, the Stern Review may contain much information, but as Nordhaus cautions, Stern does not answer the fundamental questions of climate policy, which is "how much, how fast, and how costly." Those, and many other questions, are still open to debate.

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# History Suggests there is Little Hope for the Victims of Genocide in the Darfur

*by Brandon Hillis*

April 6, 1993 represents the beginning of one of the worst atrocities in recent history. Beginning with this fateful day and lasting for just 100 days, genocide ravaged Rwanda, a tiny landlocked state in the heart of Africa (Dallaire, 2003, p. 262). In February of 2003, another conflict began in Africa, in the north-eastern state of Darfur. These two humanitarian crises are disturbingly similar in numerous aspects; from the origins of the conflict, to the role of local governments, and to the response, or lack thereof, of the United Nations. The differences are even more alarming, as it appears that the world, and the United Nations, care less about Darfur than they did about Rwanda. That the crisis in Darfur has been allowed to go on suggests that nothing has been taken from the lessons learned from Rwanda.

The histories of Rwanda and Darfur are histories of violence and oppression that are nearly carbon copies. Rwanda had been governed under the administrative authority of the Belgians for decades (Salzman, 1997, p. 17). The Belgians imposed a strict rule over the Rwandans and created and perpetuated a racial divide between the Hutus and the Tutsis (Salzman, 1997, p. 17). Soon after the Belgians left in the early 1960s, Rwanda fell into racial conflict which led to the establishment of Hutu control over the state after decades of Belgian-sanctioned Tutsi superiority (Murray, 1994, p. 19). These deep racial conflicts would eventually lead to the genocide of the Tutsi people in the early 1990s, where over 800,000 Rwandans were slaughtered.

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Controlled by the British since World War I, Darfur became part of the Sudan in the mid-1950s. Following independence, Darfur became a centre for racially based conflict. In the 1950s, and again in the 1980s, Darfur was ravaged by civil wars fought between Muslim and non-Muslim factions (Ibrahim, 2004, p. 561). These tensions continued until the beginning of the twenty-first century when, in 2003, another civil war broke out between the government and non-Arabic rebel groups, leading to the increased level of conflict that exists today. It is estimated that in Darfur, well over 200,000 have died as a result of this conflict, and many warn that the real death count is much higher (Moszynski, 2005, p. 619).

The governments in both Darfur and Rwanda have taken similar roles in the genocides in their states. In Rwanda, the Hutu-dominated government led the genocide by establishing and arming militias such as the Interhamwe and the Interpughnizi (Dallaire, 2003, pp. 129, 211). Government controlled radio stations blasted anti-Tutsi propaganda over the airwaves (Simon, 2006, p. 9). In Darfur, the government has used armed militias like the Janjaweed to wreak havoc throughout the countryside (Rudin, 2006, p. 24).

The most disturbing similarity between Rwanda and Darfur is the lack of initiative taken by the UN, and specifically by the Security Council. The Security Council was given frequent updates on the situation in Rwanda (Wallace, 2000, p. 34). President Bill Clinton was given daily updates, but would not commit American troops to the mission "until their safety was 'absolutely' assured" (Dallaire, 2003, p. 489). Other members of the Security Council echoed American statements, believing that this was an internal conflict in which they should have no role

(Dallaire: 2003: 528). As a result of the lack of interest by the Security Council, coalition forces did not enter Rwanda to help the United Nations Assistance Mission for Rwanda (UNAMIR), the peace keeping force led by Canadian Major-General Romeo Dallaire, until the genocide had already run its course (Dallaire, 2003, pp. 331, 411-412).

In Darfur, we unfortunately see the same inaction. There has been no involvement by either the UN or by NATO. The UN has not even officially labelled the slaughters in Darfur as genocide (Chavez, 2005, p. 18). The Bush administration has labelled it as genocide; however, like the UN, the US has not contributed any forces (*Economist*, 2006, p. 45). China and Russia, due to economic interests in the area, have threatened to veto any Security Council Decision to enter into Darfur (Reeves, 2005, p. 7). All there is in Darfur is a force of observers from the African Union (Williams, 2006, p. 174).

These similarities between Rwanda and Darfur are indeed disturbing. They seem to suggest that we have not learned anything from the horrors of Rwanda. In fact, it appears that the UN is even less willing to become involved in the Darfur, as Rwanda was at least given token support. Nothing has been sent to Darfur. With the advancements in world communications since Rwanda, the situation in Darfur is one known to most people in the western world. News groups report on it frequently, governments are aware of what is happening, and the UN is constantly updated. However, nothing is being done (Chavez, 2005, p. 18). This difference adds considerable weight to the belief that nothing has been learned from the deaths in Rwanda; the world appears willing to sit idly by and watch horror run across a state and its people once again.

In just over a decade, two nations in Africa have become victims of genocide. State-sponsored death squads roam from village to village killing people based on their ethnicity, and rebel groups fight desperately against oppressive regimes. The world watches from far away, and chooses to do little else. To many people, the Rwandan genocide of over 800,000 people is a distant and unclear memory, and Darfur appears to be travelling down the same path. Unless the UN or others choose to intervene and defend human rights, Darfur will soon become like Rwanda, a dark chapter in the history books that few remember.

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## Congratulations to the 2006 Student Essay Contest Winners: Trade or Aid? What is the Solution to Poverty in Africa?

- *1st Place ($1,000)*
  "Aiding Poverty" by **Matthew Baker**, Greenville, SC, USA;
  Bob Jones University, Pre-law and Accounting, 2009
- *2nd Place ($500)*
  "Living in a Fool's Paradise: The Overly Optimistic Nature of Development Aid"
  by **Steven Loleski,** Whitby, ON
  Queen's University, BA, Political Studies, 2008
- *1st Place High School Category ($250)*
  Business as a Solution to Poverty
  by **Kathleen Guglielmi**, Mississauga, ON
  Loyola Catholic Secondary School, Grade 12

Honorable mentions in the post-secondary category were also awarded to: **Joshua C. Hall** of West Virginia University; **Maude Bureau** of Collège Lafleche; **Pablo Salinas** of the University of British Columbia.

# Living in a Fool's Paradise: The Overly Optimistic Nature of Development Aid

*by Steven Loleski*

Over the past several years, the United Nations commitment to the Millennium Development Goals (MDGs) has roused critical debate over approaches to combat the dire situation in Africa. A variety of groups and organizations have encouraged a movement to promote increased financial aid and debt cancellation to the developing world. While the movement has gained awareness about the situation in Africa, it has also generated debate on how best to achieve a solution to the persistent problem of poverty. Critics have argued that the effectiveness of debt relief and foreign aid in the past have been ambiguous. This paper will argue that development aid is overreaching and is not a viable solution to combating the dire conditions faced in the developing world. The paper will illustrate the sources of poverty, the ineffectiveness of foreign aid, and will offer some alternatives to aid for achieving long-term, sustainable economic growth.

## Sources of poverty: natural impediments versus institutional fallacies

In order to begin examining solutions to overcoming the "poverty trap" in Africa, it is essential to first consider the sources and persistent reasons for poverty. There are myriad explanations for why some countries experience depreciating economic growth and thus find themselves in a situation of extreme poverty. Jeffery Sachs, an eminent economist, would concede that institutions are significant but one cannot discount the impact of resource endowments, unfavorable physical geography, overpopulation strains, lack of innovation, endemic disease and the lingering effects of colonialism on economic growth (Sachs, 2003, p. 38). Certainly, these reasons all have an effect on economic growth to varying degrees. For instance, physical geography has bestowed some states with greater natural resources, optimal transport conditions for trade (land and sea-based), and ecological stability to ward off infectious disease (Sachs, 2005, pp. 57-58). However, one might retort that natural impediments such as physical geography have lost much of their impact on the chronic problem of extreme poverty. First, technology and transportation have been shown to overcome many physical barriers to trade and growth. Second, anti-poverty advocates appear to overemphasize the problems of the developing world. For example, states like Ghana and Nigeria have often been referred to as "paradoxes of the plenty" because nature has endowed them with considerable natural resources and yet both of these states are in despair and remain heavily dependent on foreign assistance (Haus, 2006, p. 434).

It seems that the chief, although not exclusive, reason for poverty in the developing world is the institutional shortcomings that prevent states from becoming efficient, spurring economic growth, and attracting foreign investment (Erixon, 2005, p. 22). Well established institutions ensure "the structure of property rights, the extent to which the courts of law apply and enforce abstract, clear rules inexpensively and quickly, the size of government and its effectiveness in delivering public goods, and the openness of the economy to trade and investment with the outside world" (Erixon, 2005, p. 23). These conditions

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would provide a suitable atmosphere for economic and social development. Poor institutions and governance, and rabid corruption in the developing world create an inefficient state by reducing the incentives to engage in economic activity and competition and further exacerbate the natural problems facing these states. It is apparent that unsound economic policies and feeble institutions contribute to the problems of development to a greater extent than natural or physical roadblocks (Samida, 1999, p. 8). A stalwart proponent of this premise, William Easterly states that "the problems of the poor nations have deep institutional roots at home, where markets don't work well and politicians are not accountable to their citizens" (Easterly, 2005, p. 63). Despite how noble the cause may be, attempts by developed states to financially aid countries that have weak institutional capacities, that disregard the rule of law and economic rights, and that have unfavorable economic policies lead to squandering of resources and amount to little, if anything (Samida, 1999, p. 8). Inefficient economic policies characterized Latin American states and African countries after the post-colonialism of the 1950s and 1960s. Dependency theory gave rise to Import-Substitution Industrialization (ISI), which is a state-centric model that discourages export industries and erects high tariff barriers (Gwynne and Kay, 2000, p. 143). The inward nature of ISI cut off these Latin America states and Africa countries from the benefits of global integration and thus they suffered economic hardships. On the contrary, many states in East Asia (Japan, Korea, and Vietnam, for example) have adopted export-orientated industrialization and have been able to sustain long-term economic growth.

In order to underscore this point more visibly, consider two relatively equal states. Nigeria and Botswana have shared some commonalities including relatively similar geographic circumstances and both have been well endowed with natural resources. How can two relatively equal states, that more or less experience similar natural impediments to growth have such distinct economic development trajectories? After achieving independence, Botswana pursued a market-friendly economic policy, enjoyed moderately good governance, and established strong economic institutions and rights (Erixon, 2005, p. 23). The result of these polices and institutional sanctity was that Botswana's GDP per capita rose from approximately $1,600 in 1975 to $8,000 in 2004—a substantial increase (Erixon, 2005, p. 22). Contrarily, Nigeria has been plagued by weak institutions that have permitted political instability, uncommitted attempts at neoliberal reform, and extreme corruption (Haus, 2006, pp. 438-451). The magnitude of the corruption was so great that military strongman Sani Abacha managed to extort over $5 billion out of the country (Haus, 2006, p. 451). Due to weak institutions, political instability, and irrational economic policies, Nigeria has not been able to take advantage of its natural resources or attract foreign investment like Botswana has done; hence, Nigeria has been in a state of economic ruin.

## Development aid: going about poverty in the wrong way

Assessing the effectiveness of foreign aid in combating poverty is especially imperative since in 2001 the United Nations reaffirmed support for the Millennium Development Goals. The MDGs call for cutting the number of people living in extreme poverty (less than $1 a day) by 50 percent, reducing child mortality by two-thirds, achieving universal primary education, actively promoting gender equality in primary and secondary schooling, combating HIV/AIDS, malaria, and other endemic diseases, establishing environmental protection and access to safe drinking water, and lastly, to develop a global partnership for development (Sachs, 2005, pp. 211-212). The World Bank offers a strategy to help achieve these ambitious goals by first, doubling the current aid flow to 0.7 percent of GNP to the developing world, and second, by ensuring the recipient countries make a new commitment to good governance (Ovaska, 2003, p. 176). However, comprehensive studies suggest that aid is not necessarily the best approach to spur economic growth and development. In 1996, Peter Boone undertook a study using a sample of 96 foreign aid beneficiaries and concluded that the aid did not contribute to economic growth or investment and there was no visible sign to improvement in human development indicators (i.e., infant mortality rates, life expectancy, education) (Ovaska, 2003, p. 176). Also, another study by economists Burnside and Dollar in 2000 analyzed the effectiveness of aid in a sample of 56 developing states. The study confirmed that foreign aid pledged to countries with economically sound policies and well-established institutions was far more likely to contribute to positive growth than was aid that went to countries with shoddy policies and institutional frameworks (Ovaska, 2003, p. 177). The study affirms the previously-mentioned premise that suggests institutions and policies have a significant impact on prospects for development. The purpose of aid is to create economic growth and self-reliance, but studies illustrate that aid is having contradictory effects by not contributing positively to economic growth and establishing a relationship of dependency between donor and recipient (Samida, 1999, p. 3).

Moreover, aid is even seen to have adverse effects on recipient countries. There are many reasons why aid has not been successful and has even hurt prospective development, but some central arguments raised are: most aid goes into the hands of government, not the private sector; aid increases consumption by the government but does not increase investment; aid is distributed unevenly, tending to favor the political elite and in some cases aid is responsible for sustaining questionable governments; and finally, that aid is assured to states with unfavorable policy environments (Vasquez, 1998, p. 278). There have, of course, been attempts to attach conditions to aid in an attempt to buy reforms, and also there was the World Bank's structural adjustment loans (SALs), which were akin to International Monetary Fund's (IMF) "conditionality" loans. Although attaching conditions seems like a plausible solution, it is idealistic to suggest that foreign aid can buy meaningful reforms (Erixon, 2005, p. 18). In retrospect, imposing conditions did not really accomplish much because aid would only be withheld from a recipient country temporarily, then that country would appease the institution to secure the aid, and eventually scale back the façade of reforms and begin a "ritual dance."

## The easy way out

Development aid is overly optimistic and ambitious in nature because it attempts to do everything, hence William Easterly's characterization "do-all development," and it aspires to do so in a short period of time. Samuel Huntington's modernization thesis, which charts the development of Western liberal democracies, suggests that there was a policy of gradual institutional building and as institutions became well-established, political, social, and economic rights followed. The problem with solutions like development aid is that there is no policy of gradualism, and aid is short-term in nature. Jeffery Sachs acknowledges that securing regional integration in Africa by breaking down barriers to expand markets would be "too slow" a process (Sachs, 2003, p. 40). Proponents of the MDGs advise that Africa needs a "big push" to get out of the so-called "poverty-trap" to actually begin its ascent up the ladder of development (Sachs, 2005, p. 56). From 1970 to 2003, Africa has received about $568 billion (adjusted in 2003 terms) from the developed world (Easterly, 2005, p. 61). It is truly remarkable how Africa has not been able to climb out of the poverty trap with $568 billion dollars over a matter of three decades. The MDGs are ambitious in nature because they have a plethora of complicated objectives to be completed in a short period of time. But development should not be thought of as achieving a number of goals in X amount of time with a "big push" from the outside. Developing states need to be in it for the long haul. That is, only long-term sustainable growth will be able to successfully and markedly alleviate the dire conditions the poor face.

## The pragmatic way out: thinking about the long-term

A number of things can be done to foster long-term economic development and in turn help the developing world help themselves, as opposed to imposing solutions from the outside. First, the developed world can reduce the tariffs on imports from the developing world, allow easier penetration into their markets, and include more developing states in multilateral trade negotiations (Birdsall, Rodrik, and Subramanian, p. 3). Second, the developed world must ease burdensome trade agreements on poor countries, such as the World Trade Organization's (WTO) intellectual property agreement or the Trade-Related Aspects of Intellectual Property Rights (TRIPS) (Birdsall, Rodrik, and Subramanian, p. 5). Also, the developing world must want to adopt a long-term strategy for economic growth and adhere to it; the developed world must allow these states to pursue their own economic policies through probing and experimentation to find out what works for them (Birdsall, Rodrik, and Subramanian, p. 6). Trade reforms would raise the incomes of poor states considerably and kick-start long-term economic growth that would permeate all levels of society. Last, as stressed throughout this paper, institutional building needs to take place over a long period of time and gradually so the developing world can exploit the extensive potential of sustained growth.

## Conclusions

The debate over how to best help the developing world is gaining momentum on both sides as idealists and pragmatists clash. However, both sides have the same goal and the best interest of the developing world in mind. It is evident that there is a serious problem in Africa that is reaching catastrophic proportions. Despite the urgency of this problem, the world cannot buy into short-run utopian visions of eradicating poverty in ten to twenty years. As has happened before, short-run schemes that involve throwing money at the problem have not been effective in generating economic growth. Long-term institutional building needs to take place in order for these less fortunate states to accommodate and exploit the advantages of economic growth. It is time to rethink the Millennium Development Goals and strive for a working, practical solution. The end of poverty might not happen in our lifetime, but it will happen eventually if the developing world is put on the right path.

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# Things Folks Know

Canada's health care program is the envy of the world.

## Why it ain't so…

Canadians should not be misled by claims that Canada's health care program is among the very best in the world or that it is an example of excellence. The facts clearly show that Canada's health care system is not a top performer, but rather a poor performer with a large price tag.

How large is that price tag? After accounting for our relatively young population, Canada's health care expenditures ranked third in 2002 when compared with spending in other developed nations that also guarantee access to health insurance regardless of ability to pay—only Iceland and Switzerland spent more in the most recent year for which comparable data are available.[1] Notably, Canada's age-adjusted health care expenditure as a percent of GDP (10.7%) was 26 percent higher than the *average* of the industrialized countries with universal-access health care (8.5%) (Esmail and Walker, 2005b).

At the same time, the evidence shows that Canadians are not receiving the level of service they are paying for.

Consider that in 2005, Canadians could expect to wait 17.7 weeks from the time their general practitioner determined they needed specialized care to the time that a specialist delivered the treatment—8.3 weeks to get an appointment with that specialist and another 9.4 weeks to receive treatment (Esmail and Walker, 2005a). These waiting times are only slightly shorter than the longest that Canadians have ever experienced (the longest total wait ever was recorded in 2004—17.9 weeks (Esmail and Walker, 2004)), and are an incredible 90 percent longer than in 1993 when the total wait was 9.3 weeks (Esmail and Walker, 2005a). These wait times are also longer than what patients experience in many other nations (see, for example, Schoen *et al.*, 2005; or Esmail and Walker, 2005a).

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With regards to access to physicians and technology, Canada's performance is equally poor. In comparisons of age-adjusted populations (again, older populations require more care), Canada ranked 24th of 27 nations in the availability of physicians, 13th of 22 nations in the availability of MRI machines, 17th of 21 in the availability of CT scanners, 7th of 12 in the availability of mammographs, and last of 16 nations for which data are available in the availability of lithotriptors (which use sound waves to break up stones in the body, thus saving the patient from surgery) (Esmail and Walker, 2005b). In addition, numerous studies and comparisons show that Canada lags other developed nations in the introduction and use of new medical technologies.

On the health outcomes side, looking at indicators that measure the health system's performance, Canada's comparative performance improves but is still not exemplary. Canada ranked 8th of 27 nations in the number of potential years of life lost to disease, a measure of a health system's ability to prevent death from disease at younger ages. For mortality that could (according to the medical literature) have been avoided through appropriate medical intervention, Canada ranks 4th of 18 nations for which data are available. In the incidence of mortality from breast cancer and colorectal cancer, Canada ranks 10th and 2nd of 28 developed nations with universal health programs respectively (Esmail and Walker, 2005b).

The evidence on the Canadian health care model shows a clear disconnect between spending and the quality and accessibility of health care. While Canadians are paying for a world-class, universal access health care program, they are receiving access to and quality of care that ranges from satisfactory to terrible. Simply put, Canada's Medicare program does not deliver value for money to Canadians.

However, a solution to Canada's Medicare woes can be found abroad where universal access health care systems are providing better access to services and better outcomes for the population for similar or less money. The programs in Sweden, Japan, and Australia provide better health outcomes for their citizens (Esmail and Walker, 2005b). The programs in Austria, Belgium, France, Germany, Japan, Luxembourg, and Switzerland deliver health care without any significant wait times (Siciliani and Hurst, 2003). Japan actually manages to achieve both. Each of these countries embraces the concept of guaranteeing all citizens access to comprehensive care regardless of ability to pay. Each of these programs is also built on a policy backbone of competition and appropriate financial incentives; a structure almost entirely at odds with Canada's model.

All of these countries require patients to share some of the costs of their health care. According to research and international evidence, when patients are responsible for some of the cost of their care, they use fewer resources (making more available for other patients and saving money overall) and end up no worse off in terms of health outcomes, as long as people with low incomes are exempted. Put simply, individuals make more informed decisions about when and where it is best to use the health system when they are responsible for sharing in the cost of services that they consume (Esmail and Walker, 2005b).

All of these countries also allow private health care providers to deliver at least some publicly funded health care. As a result, they enjoy the cost savings and improvements in quality of care and efficiency that innovative and competitive private health providers create (Esmail and Walker, 2005b).

Finally, each of these countries offers choice in the delivery of health care services by allowing, and in some cases encouraging, the purchase and provision of competitive private health insurance and services for times when the public program is either unwilling or unable to meet an individual's demands (Esmail and Walker, 2005b).

Clearly there are better ways to deliver universal access to health care than that being pursued in Canada today. What Canadians need to understand most about these various options is that they do not lead to a choice between universal access to care and abandoning that concept entirely (as many health care pundits suggest). Rather, the choice Canadians are facing is between what we have now and a better way to deliver access to care regardless of ability to pay.

What Canadians are not facing is one of the world's finest health care programs.

## Note

[1] 2002 is the most recent year for which international data on health care expenditures are available.

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# Unfinished Business: BSE and the US Border

*by Sean McCarthy*

*The author would like to thank Dr. Alexander Moens (Senior Fellow in the Centre for Canadian-American Relations at The Fraser Institute) and Brian McCarthy (the author's father and former President of the Canadian Simmental Association and owner of Spring Creek Simmentals) for their valuable contributions.*

Since the first indigenous case of bovine spongiform encephalopathy (BSE) in May of 2003, the Canadian beef industry has taken several steps to ensure that Canadian beef is not only safe to eat, but safe to export. Based on World Organisation for Animal Health (OIE) scientific principles, the United States Department of Agriculture (USDA) has conducted a risk analysis and determined Canada to be a minimal risk region (OIE, 2006; and Animal and Plant Health Inspection Service, 2005a). However, after three years, the American border is still closed to slaughter cattle and beef products over 30 months of age, and breeding cattle of any age.

The fact is that Canada and the US have together experienced eleven indigenous cases of the infection—eight in Canada and three in the US—and we may experience a few more in the coming years. But BSE prevention and surveillance measures in both countries are well in excess of agreed-upon international guidelines, especially in Canada. The Canadian Food Inspection Agency (CFIA) enforces a feed ban on all protein-based materials (meat and bone meal) and specified risk materials (nervous system materials such as the brain and spine), so that these materials are not fed to cattle (2006a). This ensures that the disease will not spread. The Canadian Cattle Identification Agency (CCIA) also maintains a *mandatory* national radio frequency identification and tracing program, which boasts greater than 97 percent compliance rates (2006). This ensures that if a case of BSE is discovered, the animal's history and family tree are known. With these measures in place, we will all but eliminate BSE in the not-very-distant future.

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While the Americans have a similar feed ban on animal proteins and specified risk materials to prevent the spread of the disease, and a *voluntary* national identification system (Animal and Plant Health Inspection Service, 2006), they currently lack a *mandatory* national program for determining the age and origin of their cattle, and state programs vary in their effectiveness. Even so, in a recent move that demonstrates their confidence in the safety of North American cattle, the USDA announced that it would significantly scale back BSE testing. The USDA's new "ongoing surveillance program" will test roughly 40,000 head per year, which is only ten percent of their previous efforts (2006a). By comparison, the Canadian herd is almost six times smaller than the American herd, and Canada tested 57,768 animals in 2005 and 45,680 thus far in 2006 (CFIA, 2006b).

Science notwithstanding, there are some elements in the US—most notably the Ranchers-Cattlemen Action Legal Fund (R-CALF)—that are still fighting to close the border to all Canadian cattle and beef. And R-CALF will continue fighting, simply because American cattle prices rise when the Canadian supply is severed.

Some producers think that Canada should also reduce its BSE surveillance as the Americans have done. While this approach might seem sensible in the short-term, it is not the solution for the Canadian cattle industry in the long-term, because in the long-term, the only way to secure our export markets is to completely eradicate BSE from our herd, and leave no skepticism regarding our level of testing. Instead, the Canadian Food Inspection Agency should maintain its current levels of BSE surveillance, while focusing its efforts on achieving the highest possible feed ban compliance. Even though the US Animal and Plant Health Inspection Service (APHIS) conducted a study of Canadian feed ban compliance and determined Canadian practices to be acceptable (2005b), Canada must continue to enforce higher standards than those of the US as a confidence-building measure.

The Canadian government needs to make it a priority to eliminate the final trade barriers on breeding cattle, slaughter cattle, and beef products over 30 months of age. It is time for the Canada-US border to re-open. The United States consumes 90 percent of Canada's beef exports in dollar figures, yet Canada is only selling 70 percent of the 2002 sales, prior to the BSE scare (Industry Canada, 2006). There is no reason to keep the border shut any longer. US Secretary of Agriculture Mike Johanns remains committed to normalizing trade in older cattle and breeding cattle, and hopes to finish a "rule" for trade in these cattle as soon as possible (USDA, 2006b). However, he has been saying this for over a year, and still no rule.

Over the long-term, Canada needs to eradicate BSE by maintaining the highest standards for disease testing and feed ban compliance, so that Canada can maintain this industry's international reputation. If Canadians act with integrity and discipline, science will win over politics and this country will continue to benefit from a thriving export market to the United States and abroad.



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*Essay contest winner*

# Aiding Poverty

*Matthew Baker*

Over the last several years, the global community's interest in the plight of Africa has expanded exponentially. Tony Blair has called for a "big push" to increase African aid to $75 billion by 2015 while rock celebrity Bob Geldof has organized "Live 8" concerts to pressure the Group of Eight countries to increase aid levels to Africa (Rice, 2005). Despite the surge of concern over the *effects* of African poverty, the *effectiveness* of development assistance in fighting that poverty has gone largely unquestioned. Warnings such as those from economist Dr. Marian L. Tupy that "foreign aid is unlikely to succeed" have largely fallen on deaf ears (Tupy, June 2005). By failing to evaluate status quo development policies, humanitarians may inadvertently doom Africa to a future of failure and misery.

## The root of poverty

Despite rich natural resources, Africa truly is beset by enormous poverty. Half of the continent's 700 million people live on less than a dollar a day (Reid, 2005, pp. 1-2). Over 200 million people are malnourished (Magnusson, 2005). Nearly 4 million children die every year from preventable causes and 40 million have never attended school (Reid, 2005, pp. 1-2). Multiple factors lie at the root of this dismal situation. A dangerous cocktail of war, corruption, and lack of property rights is definitely responsible for a significant amount of Africa's economic woes. In sub-Saharan Africa alone, there have been 100 armed conflicts since 1989 (United Nations Department of Economic and Social Affairs, 2005). War decreases economic development by decreasing private investment, diverting resources, and creating population displacement. Corruption is extremely prevalent in Africa. Two highly respected corruption indices, the International Crime Victim Survey (ICVS) and the Human Rights Trust of South Africa survey (SAHRIT) rank Africa near the bottom of the global community. In fact, SAHRIT found that 86 percent of Africans "believed corruption to be a serious problem throughout the African continent" while the ICVS found up to 28 percent of North Africans had been requested to pay a bribe (Zvekic, 2002, pp. 13-15). Dr. Adam Lerrick even believes that "Corruption is not just one of the causes of intractable poverty in Africa. It is the root cause (Lerrick, 2001)." In addition, lack of property rights plays a significant role in restraining development. Human Rights Watch holds that "property rights abuses in sub-Saharan Africa… doom development efforts (Human Rights Watch, 2003)." According to Peruvian Economist Hernando De Soto, holdings which are not documented "cannot readily be turned into capital, cannot be traded outside of narrow local circles…, cannot be used as collateral for a loan, and cannot be used as a share against an investment (De Soto, 2001, p. 1)." As a result, much of the African economy is forced underground.

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## Aid doesn't work

Over the last half century, Africa has received over $326 billion in official development assistance representing 10 percent of recipient country GDP (Reid, 2005, pp. 1-2). In inflation adjusted dollars, this is the equivalent of over five Marshall Plans[1] (Vásquez, 2005). Yet this unprecedented infusion of aid has not improved the greater African economy. In fact, analysis by Hoover Institution researchers Dr. Stephen Haber, Dr. Douglass C. North, and Dr. Barry R. Weingast found that "Most African nations today are poorer than they were in 1980… two-thirds of African countries have either stagnated or shrunk in real per capita terms since the onset of independence in the early 1960s (Haber, North, and Weingast, 2003)." On average, GDP per capita has declined 0.59 percent annually (Tupy, June 2005).

Rather than alleviate the suffering of the African continent, development assistance has, in many cases, fueled war, corruption, and abuse of private property rights. For years one of the largest recipients of foreign aid in Africa was the Marxist regime of warlord Siad Barre in Somalia. Yet "most of Somalia's 6 million people never saw a penny (Ayotte, 2002)." Instead, Barre used the funds to solidify his power base and obtain arms and military advisers (Peron, 2001). Ethiopia was another major aid recipient. Its dictator, Mengistu Haile Mariam, either diverted food aid to the army to support his campaign of genocide or traded on the international market for arms (Peron, 2001). At least the Congo only sold donated food supplies to purchase an arms factory from Italy (Agency for International Development, 1984). As Matthew LeRiche points out in the *Army War College Quarterly*, "the utilization of the humanitarian aid system as a logistical support system for war is one of the most overlooked constituent tactics of modern warfare" (LeRiche, 2004). Development assistance also breeds corruption. Often, foreign aid is used simply to strengthen a regime's power base. In Uganda, foreign aid accounts for 58 percent of the total budget (Ayodele, 2005). Such infusions of outside capital reduce a government's vulnerability to internal reform movements and increase the size of the public sector. Such an atmosphere breeds corruption. Indeed, according to the National Bureau of Economic Research, "countries that receive more aid tend to have higher corruption" (Alesina and Weder, 2006). Economist Danielle Goldfarb even finds that "aid spending is positively correlated with corruption levels in recipient countries" (Goldfarb, 2001). Indeed, billions of foreign aid dollars have been spent on yachts, luxury cars, and offshore resort homes. Nigeria's Sani Abacha stole over $6 billion during his five year rule. Swaziland's King Mswati III takes it a little easier, having spent only $1 million on his thirty-seventh birthday party and $14.6 million on mansions for his eleven wives. Kenya's Daniel Moi embezzled nearly $4 billion (Goodspeed, 2005). Corruption also contributes to reducing the transparency of property rights systems. In many countries, numerous bribes are required to nudge bureaucrats to process deeds. However, foreign aid is often diverted to land reallocation and reform plans. Zimbabwe's current communal agriculture program has in part been funded by foreign aid (Peron, 2001).

Inefficient centralized foreign aid programs are doomed to failure. As bureaucrats learned after construction of a fish-packing plant in Kenya that required more electricity than was available in the entire region, if markets don't offer a service, there is probably a reason (National Center for Policy Analysis, 2006). When markets are circumvented, unforeseen consequences often result. Food aid to Tanzania compounded the impact of famine when the availability of food caused workers to abandon their fields. In Somalia, pharmacies went out of business because of "free" donated drugs (National Center for Policy Analysis, 2006). As a result of aid's dubious impact, many are calling for alternative, market-oriented development strategies. For example, Uganda's President Yoweri Museveni firmly states, "I don't want aid; I want trade. Aid cannot transform society" (Tupy, 2004). Without a doubt, aid has failed and a new alternative is required.

## Trade works

The World Bank estimates that rich countries' export subsidies and import tariffs cost the developing world over $100 billion per year, twice the amount they receive in aid (World Bank as quoted by Du Pont, 2002). Such trade barriers suppress world agriculture prices and eliminate markets for the goods produced by African farmers. As opposed to foreign aid, trade directly benefits the people, not just the ruling elites. A local textile factory creates jobs that allow workers to earn money instead of hoping for a handout. Such measures breed responsibility, independence, and initiative. Trade also fosters the rule of law. By bringing powerful multinational companies and international investment into the equation, trade strengthens the private sector and can motivate government reforms to retain business.

The vast majority of the development success stories in the last century are closely related to trade. Countries such as India, China, Hong Kong, Singapore, and South Korea have developed due to trade interaction. Columbia University economist Arvind Panagariya concludes: "Few countries have grown rapidly without a simultaneous rapid expansion of trade (Panagariya, 2004, p. 2)."

Trade liberalization has created stunning results in Africa. The US African Growth and Opportunity Act (AGOA), passed in 2000, provides 37 sub-Saharan countries who meet certain criteria with duty-free access to US markets for certain products. The act increased African exports of apparel, transport equipment, and agricultural goods to the United States by 250 percent since 2001 while imports of US exports to Africa increased 75 percent (Portman, 2006). One year after passage, AGOA was estimated to have created 62,000 jobs in South Africa (*Business Day*, 2002). In Lesotho, eleven new factories representing hundreds of millions in investments have opened (Itano, 2003). Deputy Chief of the US Embassy in Leosotho, Daniel Bellegarde, remarks, "We've spent a lot of foreign aid in Africa, but it doesn't begin to do what AGOA is doing in Lesotho" (Itano, 2003). South African President Thabo Mebki adds "AGOA has had a very big impact in terms of the development of our economy" (White House, 2003). However, University of Maryland Researchers estimate that AGOA restrictions keep economic benefits at 19 to 26 percent of what could be achieved through a comprehensive and unconditional agreement (Tupy, December 2005). Despite these shortcomings, AGOA has benefited Africa in a way that foreign aid can only dream of.

Massive infusions of development assistance to the African continent categorically fail to abate poverty and may perhaps aid in its formation. After a comprehensive analysis of wealth formation in developing economies, Dr. Peter Bauer concluded that "Development aid is... not necessary to rescue poor societies from a vicious circle of poverty. Indeed, it is far more likely to keep them in that state" (Dorn, 2004). In stark contrast to the dismal performance of development assistance, trade liberalization shines as a bright hope for a dark continent. In the last three decades, trade liberalization has sparked a development miracle in eastern Asia while AGOA has significantly benefited some of Africa's most depressed regions. If the developed world is truly committed to poverty alleviation, it must forsake aid and adopt trade.

## Note

[1]The Marshall Plan, named after United States Secretary of State George Marshall, was an economic aid package from the United States that was used to rebuild Europe after World War II.

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# Pressures on BC's Forest Industry

*by Csaba Hajdu*

In a release on November 21, Russia's news service, Itar-Tass quoted the rector of the St. Petersburg Forest Technical Academy, Andrei Selikhovkin, as saying that Russia's loggers cut over 100 million cubic meters of timber a year.

Russia's forest industry has been on the rise of late, but the two key problems—extremely low commercial use of timber as well as illegal logging and smuggling—remain unsettled. The scale of illegal logging, mainly in Karelia and Russia's far east, is extremely high, according to Selikhovkin.

This means that a large portion of the timber is burned as firewood and another large portion is stolen. Both these activities are a matter of survival for the people engaged in them and the authorities have acceded to them in the past. Nevertheless, as living standards rise people gradually tend to switch to heating with oil, gas, or coal; and as the rule of law gradually settles in, log stealing is expected to decline. Russia thus becomes a growing source of commercial wood fiber in world markets and a competitive threat to British Columbia's largest export industry.

Consider: BC produces almost 90 million cubic meters of timber, almost as much as all of Russia. Under normal conditions this is about what is called the "annual allowable cut," or AAC, the long term stable volume that BC can produce in perpetuity without the threat of diminishing the resource. The bulk of BC's timber ends up in sawmills and pulp mills. Until now, fuelwood usage has been essentially nil—what people take for their fireplaces is insignificant in volume and does not affect commercial fibre availability at all. This is about to change. BC will need to cut more than the AAC at the expense of stable or growing future supplies. It will likely involve producing fuelwood, or bio-energy, to salvage value from the vast devastation caused by the mountain pine beetle. This insidious bug is killing off the most prominent species in the BC interior, the lodgepole pine. There are more beetle-killed trees than mills are able to process. For the next decade, or so, BC's interior forests will be rapidly removed: logged to be processed into wood products or pulp and paper products, into briquettes for fuel or, regrettably, burned on site as rubbish to get rid of the beetles. Scientists and businessmen are actively searching for ways of using up the wood fibre before it becomes waste, to replace the forest as soon as possible, and find some follow up to the region's economy once salvage logging diminishes. This is truly an ecological and economic tragedy.

Meanwhile, Russia is expected to gradually settle its internal political and economic development problems, become competitive with improving quality wood and paper products in the markets where Canadians have traditionally thrived (Japan, Europe, and the US) as well as in emerging new markets (China and Korea).

This outlook represents a daunting task for the Canadian industry. It is all the more serious if one considers all the other pressures facing the industry. One of these is the growing forest resource self-sufficiency of traditionally wood-deficient countries. For example, very large post-war plantations in Europe and Japan are now maturing and becoming domestic forest resources. The wood from these forests will replace some imported wood products and turn the countries that own the forests into Canada's export competitors.

While Russia is a potential competitor to Canada in the Japanese market in the future, Europe is an even more important current major competitor to Canada there. Europeans have so penetrated the Japanese market in the past decade that they now they have one-third of the lumber import market. In 1992 they had none of it.

The aggressive marketing strategy by the Europeans is global in scope: Canada is now out of the turf in Europe, and Europeans are becoming quite a competitive force in the US where they have not been subjected to the protectionist tariff measures that Canada has faced.

The Canadian industry must find solutions to remain competitive. Productivity improvement is the best weapon against hostile competition along with a constant campaign to secure free trade, a predictable legislative environment, and an internationally fair legal structure.

*Csaba Hajdu is a Senior Fellow at The Fraser Institute. He has spent most of his working life analyzing the economics of the BC forest industry.*

# Our Friend, Milton Friedman

*by David Gratzer*

In early November 2006, President and CEO of the Pacific Research Institute Sally Pipes invited me to a dinner with a Nobel laureate, a bestselling author, a popular columnist, a school reformer, a historian, an influential government advisor to three US presidents, a philanthropist, an accomplished academic, and a Presidential Medal of Freedom winner. All these men were named Milton Friedman. Not feeling quite right, he cancelled, promising us another evening when he felt better.

Prof. Friedman was born into Brooklyn poverty the year Theodore Roosevelt attempted his political comeback. He died on November 16, more than nine decades later, acknowledged to be one of the most influential economists in history. He remained active to the end: *The Wall Street Journal* published his last essay on the week of his death.

That Milton Friedman was a towering intellect is beyond dispute. Shortly before his death, former Chairman of the Federal Reserve Alan Greenspan commented to the *New York Times*: "From a longer-term point of view, it's his academic achievements which will have lasting import." Prof. Friedman published widely and was cited widely, his greatest contribution being on monetary theory, helping to rethink the cause and prolongation of the Great Depression.

Unlike most towering intellects, however, Milton Friedman helped change the world he lived in. In the 1970s, he persuaded the US government to abolish the draft. He also laid the intellectual groundwork for the taming of inflation. Both achievements had a wide impact.

Perhaps most importantly, he worked tirelessly to promote economic freedom. To that end, he wrote a *Newsweek* column for 18 years. In 1980, he and his wife scripted and narrated a documentary on economics; the accompanying book landed itself on the *New York Times* bestsellers' list for 5 weeks. It sold more than a million copies and was smuggled across the Iron Curtain. "I started out being a very small minority," Prof. Friedman once said. "I now have a lot of company. People learn from history, from experience." The last chapter of *Free to Choose* had predicted a future where the Berlin Wall had fallen. It did. Today, his ideas about free trade, low taxes, and a tight money supply percolate in the streets of America and across the world.

*Dr. David Gratzer, a physician and author, participated in the Student Seminar program while at the University of Manitoba and the University of Toronto.*

That success is in no small measure a reflection of his skill as a persuader and his decency as a person.

He advised US presidents and a host of foreign leaders from Chile to China; he traveled in political circles, but was never seduced by them. In 1994, the victorious House Republicans invited him to speak. He spent half his speech praising their goals of welfare reform and tax cuts, then turned around and criticized their support for drug prohibition.

His optimism was contagious. No matter the problem, he marveled that history was on his side. It was. He was quick with his wit. Asked why, as a libertarian, he lived in one of the most liberal cities in America, he replied: "I enjoy the lack of competition." When asked to sign *Free to Choose*, he would reply: "I'm always happy to do this because it takes these books off the re-sale market."

Perhaps some of his joyfulness came from the strength of his marriage. He was married to Rose for almost 70 years, yet they often acted like teenagers in love. They held hands. Giggled at each other's jokes. Once, I saw them share a banana split.

Everyone, it seems, has a Friedman story. I have my own. Some years ago, as part of my work on health policy, I asked for an interview. He agreed. We sat in the office of his San Francisco apartment and talked for an hour and a half. Over the years, we corresponded, spoke occasionally, enjoyed a dinner or two. His insights helped me immeasurably. When I finished the manuscript for a book on American health care, I asked if he would consider writing the Foreword. He graciously agreed. It is one of his last essays. The only problem with having Prof. Friedman open my book is that the next 200 pages seem anticlimactic.

In the 1990s, Milton and Rose Friedman penned an autobiography, *Two Lucky People*. It should have been titled *Two Remarkable People*. We were the lucky ones.

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