

Canadian Student Review

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Free Trade: The Enemy of Democracy?

by Paul Beaudry

John Gray, a British professor and former conservative thinker, could not be further from the truth when he asserts that “Democracy and free markets are rivals, not allies” in his book *False Dawn*. Free markets have always been a strong ally of democracy. A government that respects people’s liberty should always treasure free markets as one of the most important assets in a free society. (In this essay, I consider democracy as the opposite of dictatorship. I will not try to differentiate a true democracy from a republic, for I do not think that Gray, in his book, meant “direct democracy.”)

Winston Churchill, one of the greatest defenders of democracy and liberty in the twentieth century, was also a staunch supporter of free trade. Shortly after his election as a Conservative member of parliament in 1900, he left the Conservative party because he disagreed with Joe Chamberlain, who wanted tariff reform. Churchill saw tariffs as unfair to the British people, who would have to purchase imported goods at higher prices.

As Melvyn Kraus of the Hoover Institution puts it in his book *How Nations Grow Rich*, “free trade does not create jobs, it creates income for

the community by reallocating jobs and capital from lower-productivity to

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Welcome!

We are pleased to present a special double issue of *CSR* for Spring 2002. It is jam-packed with articles on a variety of topics, including free trade, economic freedom, and health care.

As always, we would like to thank our sponsors, the Lotte & John Hecht Memorial Foundation, for enabling us to distribute this newsletter to students on campuses across Canada.

–Vanessa Schneider, Editor

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“Thanks so much for the most recent *Student Review*. When I first submitted for this publication, I had no idea what broad reach it had. I’ve had about five times more feedback on my articles from the *Review* from students across Canada of ALL political stripes whom I meet at debate tournaments, political gatherings, university press events, and random social occasions than from any of my publications in the national media... your publication has an enormous reach, even wider than you might be aware of. Congratulations.”

— *Canadian Student Review* author Aidan Johnson

higher-productivity sectors of the economy.” In brief, when another country or state can make a product more cheaply than you, it makes sense to buy it from them. Adam Smith said “It is the maxim of every prudent master of a family never to make at home what it will cost him more to make than to buy.” The government should therefore abolish tariffs, quotas, and all other forms of trade restrictions because they increase the cost of living. The Canadian government undermines individual liberty and free enterprise when it imposes tariffs and quotas on trade.

Some people will argue that free trade benefits the rich and penalizes the poor. This statement is erroneous. A study from the Federal Bank of New York showed that import re-

*Free trade is not only
an economic doctrine;
it is a human right.*

straints were equivalent to a 66 percent increase in income taxes for the poorest households, but equivalent to a 5 percent increase for upper income households. Import restraints, contrary to what protectionists say, can be harmful to domestic jobs. As an example, Michael Tanner of the Cato Institute says that denying American auto manufacturers access to low-cost imported steel drives up the cost of American-made cars and makes them less competitive on the world market.

Free trade also helps to promote democracy in authoritarian coun-

tries. While China is still a communist dictatorship, millions of Chinese people enjoy greater freedom of movement and access to Western ideas due to economic reforms and trade liberalization. China, over the years, has passed from a murderous authoritarian regime to a freer form of government. Compared to the Chinese people, Cubans are in a far worse situation. Because of the US-imposed trade embargo, Cubans are left alone with their persecutors. By maintaining it, Americans are harming those they are claiming to help. By lifting the embargo and allowing trade, travel, and investment in Cuba, Americans would raise Cubans' living standards and would increase their knowledge of capitalism. Therefore, we should not limit free trade because certain countries violate human rights, but try to promote it even more.

Third World countries should also adopt free trade in contrast with their failed protectionist policies that have kept them in misery for so many years. A paper written by Jeffrey Sachs and Andrew Warner of Harvard University found that developing countries grew by an average of 4.5 percent per year in the 1970s and 1980s while those with closed economies grew by only 0.7 percent. More and more of the countries that have been known for their severe protectionist economies are realizing their mistake and changing their outlook. Countries such as Brazil, India, and Venezuela have all lowered their tariff rates. While there is still much progress to be made, these countries are heading in the right direction. Many East Asian countries have im-

proved economically in the last 20 years by liberalizing their trade policies. By adopting export-friendly policies and opening their countries to foreign markets, governments have elevated the standards of living of their citizens. If we compare the East Asian experience with the experience of Sub-Saharan Africa, for example, which operates on policies based on protectionism and foreign aid, the contrast is huge. Most of Africa's newer industries have never developed, and the gross domestic product, per capita, shrank by 0.6 percent from 1991 to 1998. Samuel Huntington has called the growth of capitalism and of international trade “a third wave of democratization.” The number of authoritarian or non-democratic states has sharply decreased since the 1970s in an era of increased economic globalization.

Free trade is not only an economic doctrine; it is a human right. If I want to trade with a Japanese car dealer, an Indian shirt maker, or a Cuban cigar roller, I should be free to do so. When government intervenes between two people who wish to trade with each other, it clearly violates people's natural rights of liberty and property.

The twenty-first century will be the century of globalization. It is important for all countries to eliminate their protectionist policies, as those policies have failed for too long. It is time for people to acknowledge the huge advantages of free trade, as it is a really “progressive” solution that will encourage peace, democracy, and “individualist cooperation” among all countries. ☺

Just Who Are These Guys Anyway?

by Jason Hayes

They are loud, proud, and in your face.

They despise capitalism and Western culture.

They claim to speak for the public and fancy themselves to be the protectors of the poor.

They wear sea turtle costumes, preach non-violent confrontation, although some get nasty and break things when they think it might further their cause.

Recent media reports have shown them actively protesting in Seattle and Quebec City where they stormed the fences, caused millions of dollars in property damage, and held people hostage by blocking traffic and buildings.

Their exploits are familiar... but just who are these people anyway?

They are anti-globalist protestors, and Calgary is set to be the stage for their next big show.

In June 2002, Calgary will be a stopover for protestors on their way to the G-8 summit in Kananaskis. However, the protestors who cannot endure the Rocky Mountain elements, or who are forced out by the military, will likely stick around to pester the capitalists who populate the Stampede City.

Some people in the anti-globalist cause genuinely mean well. Not all of the protestors are intent on causing damage; most will protest peacefully and then quietly return home. Unfortunately, the noisy, destructive protestors give the quiet and sincere ones a bad name; the former are the

ones that Calgarians will be watching.

At a presentation last October in Montreal, Aaron Lukas, a Trade Policy Analyst at the Cato Institute, described what to expect when an anti-globalist contingent rolls into your town. From his research of anti-globalist antics in Seattle and Quebec City, Lukas noted the presence of three distinct groups in each protest march; organized labour, students and other young activists, and assorted radicals (colloquially known as the mixed nuts). Locals can expect to meet these same folks again this summer in Calgary.

The organized labour sector typically focuses on job security for their members, arguing that reducing trade barriers will cost local jobs. Theirs is a benign form of protest when compared to the other groups; they generally avoid calls for storming the fence, and are not vandals. Organized labour aids the other protestors by providing the respectabil-

ity that comes with money and political influence. However, apart from joining in the protest fray to voice concerns for their financial security, their ties to the student activists and mixed nuts are tenuous. One can expect to see this group carrying signs and bemoaning the "great sucking sound of jobs heading south."

The students and young activist group is a young, often poorly informed collection of people with a penchant for radically over-simplifying trade issues. Lukas divides this group of students and activists into three separate sections: the socialites, the compassionista, and the anarchists.

The socialites' dedication to the anti-globalist cause is largely nonexistent. They take part in anti-globalism protests mainly to have a good time. Their protest experience generally consists of locating and ingesting mind-altering substances, and then searching out companionship. The protest environment is, to the social-

Environmental Source Available On-Line

The Competitive Enterprise Institute, a public policy institute based in Washington, DC, has released *The Environmental Source*, an on-line document. Inside, you'll find everything you'll need to present a factual, reasoned, and science-based debunking of the pseudo-scientific scare mongering of green extremists and other advocates of regulate-first, figure-out-the-science-later government action. Check it out, and get ready to kick some butt at your next policy debate!

<https://secure.cei.org/gencon/026,01623.cfm>

ites, one big party. One can expect to see this bunch lurching through the streets or sleeping off their latest binge on a downtown bench.

Longing for a return to some vague concept of primitivism, the compassionista embrace anti-globalization as a means of promoting new age ethics. They glorify poverty as a morally superior state and rage against the prosperity of Western society. Comfortably and willfully ignorant of even the most basic economic concepts, they deny with great passion and conviction that free trade could ever improve living conditions for poor or Third World societies. One can expect to see the compassionista carrying signs, chanting, and hating you for having a job or driving an SUV.

The anarchists exist a step below the socialites and compassionista, reveling in violence and wanton destruction as a means of expressing their discontentment. Destruction, they contend, is a creative form of protest. Ironically, their so-called anarchist agenda does not support anarchy; it supports extensive

government intervention to correct perceived injustices of capitalism and the free market. Their anarchist rhetoric is typically restricted to encouraging violence and vandalism, and to claiming a moral right to avoid the consequences of their actions. Expect to see this bunch, hooded and masked, vandalizing, looting, and knocking over the few benches not occupied by drunken socialites. If you listen, you may also hear them complaining about the police and unjust restrictions on their rights to assault citizens and damage property.

The last group, the assorted radicals, is made up of dedicated communists and radical environmentalists. These are the people who dress up like sea turtles and idolize Lenin, Mao, Castro, and others. Chanting out their hatred for capitalism and the free market, these mixed nuts seek to dismantle private property rights and institute extensive regulations and restrictions on Western society. In their own minds, they link restrictions on individual liberty with protecting the poor. Expect to see the mixed nuts wearing

strange costumes or T-shirts emblazoned with Mao's smiling face, and speaking loudly of "direct action" and "campaigns" to stop the "offensive of global capitalism."

While most people find it difficult to take these protestors seriously, they do have a right to speak their minds. One can even grant them grudging respect for their vigorous defence of their beliefs. However, as the economic and ethical premises on which they base their world view have time and time again been proven failures, Canadians have little to fear from their rhetoric.

Calgarians, however, may have to fear broken windows and smashed cars. They can expect to see a large police contingent out on their streets trying to maintain order.

Fasten your seat belts folks; it's going to be a bumpy ride. 🚗



Megacities: Great Creations or Policy Bombs?

✎ by Charles Bergeron ✎

In December 2000, the Quebec legislative assembly passed Bill 170; its aim was to reorganize local urban institutions. Following the Canadian trend towards centralization, this bill merges all 29 municipalities on the island of Montreal to create the new megacity of Montreal with a population of 1.7 million people. Two levels of local government were created: the boroughs will exercise limited powers over areas such as recreation and will have no authority to raise revenue; and the cities will retain all other municipal powers, including the power to overrule borough decisions.

The passage of Bill 170 was met with a court challenge. In June 2001, the Quebec Superior Court ruled that the government of Quebec was free to proceed as it saw fit under article 92 of the British North America Act of 1867, which assigns exclusive jurisdiction over “municipal institutions” to the provinces. Still, opposition to the so-called “forced mergers” remains strong. This being the case, do the imminent mergers make good public policy, or do the government’s opponents have a good case? This article examines some theoretical principles, existing research, and practical considerations, to conclude in favour of the latter.

The Quebec government has three goals for municipal merger legislation:

1) to generate more efficient municipal administration, particularly with respect to the town that includes the downtown core;

2) to revitalize agglomerations by redistributing wealth towards the downtown core and thus reducing urban sprawl;

3) to encourage a spirit of cooperation within an agglomeration, leading to greater wealth.

The first goal implies that the key to greater efficiency is centralization. This is certainly not universally true. The principle of subsidiarity holds that “authority should reside at the lowest level commensurate with the necessary information and resources for making and implementing decisions.”¹ This means that powers should be assigned to the level of government most able to exercise them, preferring the order closer to the people in case where two levels of government are equally able. Thus, before a decision is made to shift powers from the former towns to the new megacity, one should be able to demonstrate the gains from such centralization.

Recent Canadian experiences with megacity creation in Toronto, Hamilton, Ottawa, and Halifax, certainly have not resulted in better local governance. This is not surprising, as study after study has demonstrated that the efficiency gains of bigger government do not materialize, be it London, Ontario² or Miami, Florida.³ Local communities can provide services such as police, recreation, public works, and waste

management at an equal or lower cost than in an amalgamated context.

Economies seem to exist in only two areas: libraries and fire protection. The division of powers between the city and borough authorities under Quebec’s new municipal order is not consistent with current research on efficient municipal administration. In fact, the status quo is more reminiscent of ideal local governance than the new megacities will be. So there is a choice to be made between cost-effective community

Recent Canadian experiences with megacity creation in Toronto, Hamilton, Ottawa, and Halifax, certainly have not resulted in better local governance.

policing, or less cost-effective centrally-based policing.

The current city of Montreal is poorly managed. Big unions control all facets of municipal administration and improvement. Politicians have given unnecessary large cost-overrun projects priority over necessary infrastructure repairs. And the list goes on...

What is the government of Quebec’s solution? Punish the residents of the suburbs who have provided good local government for them-

selves! Create even bigger unions! Create more powerful politicians! Wanting to revitalize a downtown core is a noble cause. Doing so by redistributing wealth within the agglomeration in the hope that residents will follow the flow of money and counter urban sprawl is fallacious. The resulting exodus of citizens fleeing the city of Montreal and setting up a new crown of suburbs around megacity lines will create the very sprawl that was meant to be stopped in the first place.

Creating a spirit of cooperation with your fellow megacity residents certainly sounds positive, but one should remember that cooperation only works in situations where such cooperation is mutually beneficial. Municipalities will cooperate if there exists an economic gain to the collaboration. Most municipalities in Quebec have mutual fire protection arrangements. Under these agreements, towns agree to pool resources when the occasional large fire occurs. Thus, towns can maintain reasonably sized fire departments that are able to handle most needs, without having to worry about being short-handed in exceptional circumstances. This kind of cooperation occurs with no need for municipal mergers or a central authority.

Competition ensures that our towns are well administered. Resi-

dents not satisfied with their municipal governance can move to a neighbouring town. This reality forms the basis of the Tiebout Hypothesis—that of voting with one's feet as a substitute for market forces to attain efficient quantities of public goods.⁴

Assume that in a given area, the expectations of residents towards their municipal government are the same. Several competing towns must exist in such area to ensure that such services are provided at a reasonable cost, with no need for a large, multi-layered bureaucracy. The reality, however, is that different residents hope for different services and different levels of service from their municipality. Young couples might seek the lowest possible tax rate, while young families might prefer multiple parks, pools, and other recreation infrastructure. Adolescents might want to read books on their favourite pop star and magazines on skateboarding, whereas senior citizens would prefer their library to be stocked with books on bridge and magazines on knitting.

The optimal size and number of communities must balance the efficiency gains from satisfying diverse tastes with the cost of serving smaller populations. These differences allow for towns to specialize in the services they offer; if the quality of these services begins to deteriorate, or the

cost associated with them rises, residents will begin to move out, reducing that municipality's property values, and thus the town's tax base—providing a powerful economic incentive for the town to adapt. Under a merged municipal authority, such differentiation is not possible. The residents of former town A demand that they have as many tennis courts as in former town B, and the residents of B insist for as many basketball courts as there are in A. Eventually, a uniform matrix of services is applied to the entire megacity. And these services are provided at greater cost, because the salaries of public servants have been made uniform across the megacity, usually at the highest rate amongst the former towns.⁵

The creation of megacities, and in particular the megacity of Montreal, does not constitute good public policy. On the contrary, dividing the current City of Montreal, itself already non-contiguous, into five or six towns, might prove a sound strategy for revitalizing that city.


Notes

¹Gordon Gibson, "The Role of Subsidiarity in a Democracy," *Fraser Forum*, May 2000.

²As part of a study conducted by Andrew Sancton of the University of Western Ontario. See Andrew Sancton, *Governing Canada's City-Regions: Adapting Form to Function*, 1994.

³As part of a study conducted by Milan Dluhy and other faculty at Florida International University.

⁴Howard Husock, "Let's Break Up the Big Cities," *City Journal*, Winter 1998.

⁵Howard Husock, remarks to the Montreal Economic Institute, May 18, 2000. Available at www.iedm.org. 

Letters to the Editor

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We will print the best letters in future editions of *CSR*.

Pharmaceutical Patents Benefit Developing Countries

by *Jasmine Pui*

The myth that pharmaceutical companies devote financial resources only to those drug developments which will look good on their balance sheet, as opposed to those that will cure and relieve the suffering of the ill, is the foundation of many misguided protests. This myth claims that pharmaceutical companies are charging third world countries too much for access to drugs used to treat infectious diseases such as malaria, tuberculosis (TB), trachoma, river blindness, filariasis, Hepatitis B and, most recently in the news, AIDS,¹ through global patent laws which raise the cost of medicine. What evidence do we have to support this faith in the patent effects of global pharmaceuticals such as Pfizer and Bayer?

The foes of pharmaceutical patent rights garner much attention from media,² so let's see what their claims are. According to a well-known anti-globalization organization, Oxfam: "Every day, infectious diseases kill 30,000 in the developing world. The global pharmaceutical industry places life-saving medicines beyond the reach of the poor. The 39 drug companies that took the South African government to court for trying to secure affordable medicines for poor people in the country have now dropped their case [for their patented AIDS combative drugs]. This is a victory for common sense, but the fight to change the WTO patent rules which give drug companies global control of new medicines is far from over."³

Infectious diseases are serious indeed, but the global reach of pharmaceuticals has done more to place life-saving medicines within the reach of the poor than any government or non-government aid program. In developing countries, access to medical care is poor to begin with, for even the most basic, non-patented essential medicines. Less than 5 percent of the essential medicines as defined by the World Health Organization's essential drugs list (EDL) are covered by patent protection anywhere in the world, let alone in developing countries.⁴ Patents also do not apply retroactively to products pre-existing in the marketplace, including disinfectants, bandages, and sterilization equipment. Developing countries have ongoing civil war, extensive infrastructure inadequacy, and lack of education. What they do not have, in large part, are intellectual property laws, which organizations such as Oxfam claim pharmaceuticals are using to raise the price of life-saving medicines.

Even at the lowest prices, most of the world's poorest cannot get access to generic medications such as chloroquine and pyrimethamine.⁵ Access to health care in developing countries is also determined by the political priorities given to various aspects of citizens' health, including how much of the country's resources are devoted to medical infrastructure

such as rural clinics, travelling doctors, and diagnostic facilities, and the presence of responsible non-governmental organizations in the organization and delivery of primary care.

The legal end of the anti-patent argument is also faulty. It's a common claim that patents give drug companies monopoly power over prices throughout the 20-year life of a patent. Here's a look at how patents are actually put into practice.

First, patents give marketing exclusivity rights to a single drug or vaccine, not a monopoly, since there are usually alternative treatments for all the infectious diseases mentioned

... the global reach of pharmaceuticals has done more to place life-saving medicines within the reach of the poor than any government or non-government aid program.

in the introductory paragraph. For example, there are at least six patented protease inhibitors for the treatment of AIDS, which is corroborated by Oxfam when they state that there were "39 drug companies" involved in the South Africa AIDS deliberations. Part of any drug company's marketing exclusivity is the responsibility to ensure potential pa-

tients understand when and how the drug must be taken for maximum effectiveness and minimum side effects; surely nobody can argue this is not beneficial.

Second, the very global nature of the pharmaceutical companies, which Oxfam uses to condemn them, is what enables them to develop life-saving medicines in the first place. It takes around \$300 million US over 10 to 12 years to develop any drug before it is available to consumers in any country, whether G8 or developing.⁶ Therefore, the holder of a “20 year” patent right actually has only 8 to 10 years to recover investment costs (in a competitive market with several other medicines from other companies available to treat the same disease) in a new medicine. This ends up being less time than was required to develop the drug in the first place. The profits fund new research to develop better medicines, a cyclical process that causes the price of older drugs to drop.

The globalization of pharmaceutical companies helps developing countries in other ways, too. In 2000, the World Trade Organization (WTO) established the Trade-Related Intellectual Property Rights agreement (TRIPS).⁷ Under this agreement, anti-counterfeiting efforts are supposed to be strengthened, patents will come into force gradually,

and companies should be able to protect proprietary data and information. However, the anti-patent, anti-globalization crowd has successfully pushed for compulsory licensing—under which governments force companies to license their patented medicines to generic manufacturers—which has been touted as a solution to the issue of universal access to pharmaceuticals.⁸ Compulsory licensing would effectively end the flow of profits that allow pharmaceutical companies to develop innovative and better medicines for the sick and suffering everywhere, not just in developing countries.⁹

In the absence of TRIPS, there is also no chance of poorer nations, such as India and Korea, shifting from manufacturing generics towards pursuing their own innovative research.

The fact is, without full respect for TRIPS, patented medicines, and the benefits of globalization, many countries’ industries and patients risk losing out on the benefits of the new research, and thus, new medicines. The real global social threat is that without strong and effective global pharmaceutical intellectual property laws that avoid compulsory licensing, the gap between health care provision in the developed and developing countries will only grow in the future.

Notes

¹Lippert, Owen (2001). “Co-operation, not coercion, to improve drug access.” *National Post* (July 9). Also see UN AIDS at www.unaids.org/about/what.asp.

²Jiménez M. (2001). “Protesters get Martyr at Genoa.” *National Post*. Southam News. (July 21).

³Oxfam advocacy brochure, 2001.

⁴The WHO model list of Essential Drugs, 11th Edition, 1999.

⁵*Management of Severe and Complicated Malaria: A Practical Handbook*. WHO, Geneva, 1991.

⁶Food and Drug Administration (2001). *Center for Drug Evaluation and Research Handbook, 2001*.

⁷WTO TRIPS Accord (2001). *Compulsory Licensing: Models for State Practice in Developing Countries*. United Nations Development Program, version 1.0.

⁸Gusmão, J.R. (1990). *Trademark Law in Brazil*. Technical Libraries Press.

⁹Halfon J-M., I. McBeath, D.S. Hill (2001). “How can Canadians pay for prescription drugs?” *Fraser Forum* (April). ☞

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Marijuana Legislation a Bust

by Michael Cust

On April 12th, a final vote will occur in the House of Commons on Alliance MP Keith Martin's Bill C-344, a private member's bill for the decriminalization of marijuana. The certain failure of this bill could be seen as a tragic loss to the marijuana legalization movement. In fact, it is not.

The failure of Bill C-344 is due in large part to a motion put forward by Ontario Liberal backbencher John Maloney on January 18th. The motion calls for Bill C-344 to be withdrawn and the matter of decriminalization of small amounts of marijuana to be referred to the House's Special Committee on the Non-Medical Use of Drugs. The motion will inevitably pass, as it has been proposed by a government member. It is also in keeping with Justice Minister Martin Cauchon's February 14th comments that Canadians are not yet ready for the legalization of marijuana, "even possession of small amounts."

Marijuana decriminalization, as defined in Martin's bill, conflicts with the principles behind the marijuana legalization movement. This bill would enable criminal sanctions for the possession of small amounts of marijuana to be removed and replaced with small fines—somewhat akin to a speeding ticket. To understand the conflict, we must outline some of the arguments that drive marijuana legalization advocates; that is, those people who think marijuana should no longer be illicit and

should be treated in law similarly to other mild drugs like caffeine.

Most legalization advocates view marijuana consumption in terms of private property. First, we own our bodies, which means that we have the right to care for and control our bodies as we see fit.

Second, we also have a right to physical property, or those physical goods to which we can apply value. If I can own a car, a diamond, or a tulip, then why not a marijuana plant? Taking this ownership idea to its logical extent, marijuana decriminalization would allow for the production, sale, and consumption of marijuana.

While Martin's bill allows for the consumption of marijuana in small amounts, it does not allow for the production and sale of marijuana. In fact, it calls for increased punishments for the producers and traffickers of marijuana. This leads to some interesting practical implications. If people can legally ingest marijuana in small amounts, but production and distribution are criminalized, where will they buy it? Who will supply it? One would assume that those no longer in conflict with the law would be allowed to purchase small

amounts of marijuana from an open and legitimate source. And if people are allowed to purchase marijuana, someone would be allowed to grow it.

Another major concern surrounds Martin's bill. Now, when most Canadians are caught with small amounts of marijuana, especially in pot-tolerant areas like Vancouver and Edmonton, they are given a warning, their pot is confiscated, and they are free to go. Under the scenario created by Martin's bill, police would issue tickets to smokers, instead of just letting them go with a warning. This would effectively penalize those who currently walk with quasi-freedom. Smokers could expect tickets of \$200 the first time they are caught consuming, \$500 the second, and \$1,000 for each and every subsequent time.

In fact, were the bill to pass, it would harm the pot liberation cause. The general public and politicians would feel satisfied that pot reform had occurred, when it had not. This satisfaction would halt further debate on the issue. Worst of all, marijuana legalization advocates—those most passionate about the issue—would be further than ever from achieving their dream of a re-established personal liberty. ☹

Call for Submissions

We are looking for well-written, interesting articles on Canadian public policy, written by students like you! Send your 500-1000 word article to the editor at the address on page 2.

Government Funding: The Best Solution or Endless Distortion?

by Nadeem Esmail

The idea that the government can look after the health of Canadians better than Canadians themselves seems to have become a fundamental characteristic of our national identity. This belief, however, relies on the basic assumption that the Canadian health care system performs at a very high level. It is easy to show, with three examples, that this assumption is wrong.

Before demonstrating that Canadian health care operates at a low level of quality under government control, it is useful to note how much money is spent on health care in Canada. Contrary to popular understanding, the Canadian system is *not* cash strapped and in desperate need of funds. In fact, Canada is the fourth highest spender in the OECD when comparing the percentage of GDP (output) each country spends on health care. The only countries that spend more are the United States, Germany, and Switzerland, while France spends an equivalent amount. Every other OECD country devotes a smaller share of their country's total resources to health care than does Canada.

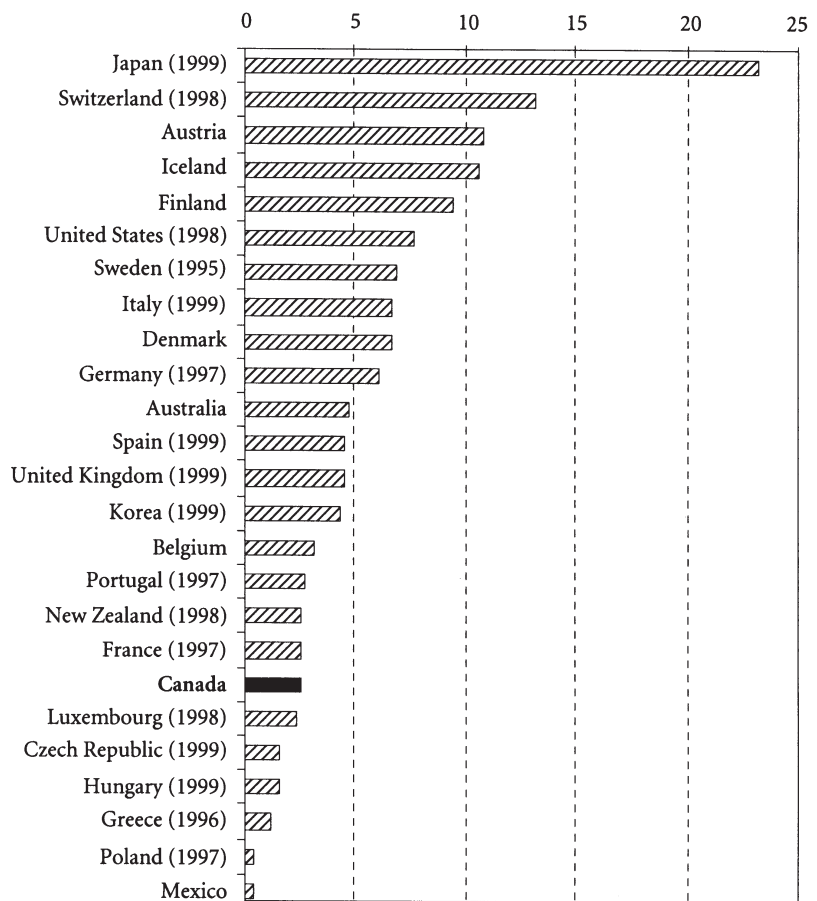
Given that there is no comparative shortage of money available to the Canadian health care system, what quality of care do Canadians experience? The first example of the lack of quality in Canadian health care can be found in a comparison of medical technology in OECD countries. Canada ranks nineteenth out of

25 countries for MRI¹ availability (figure 1) and eighteenth out of 23 for CT Scanner² availability (figure 2). Both machines are relatively new, high tech, costly, and invaluable to physicians who can use them to better diagnose what may be troubling patients. The result of having too few machines is long waiting

times for diagnostic procedures in Canada: ranging from 2 months to almost 6 months for an MRI scan and from just less than 1 month to almost 2.5 months for a CT Scan (Walker, 2001).

A second comparison of OECD countries demonstrates that in addition to the shortage of medical tech-

Figure 1: OECD Countries
MRIs Per Million Population



**Figure 2: OECD Countries (less Japan)
CT Scanners Per Million Population**



to speak out against any meaningful reform to the health care system. One example of just such a group is the unions representing health care support workers who provide meals, tidy rooms, and do laundry in Canada's hospitals.

A simple comparison of the wages paid to these individuals in BC

**Table 1: Comparison of
Doctors per 1,000
Population for Select
OECD Countries (1998)**

Rank	Country	1998
1	Germany (1997)	3.3
2	Belgium	3.1
2	Hungary	3.1
4	Austria	3.0
4	Finland	3.0
4	France	3.0
7	Czech Republic	2.9
8	Portugal	2.8
8	Sweden	2.8
8	Norway	2.8
11	Luxembourg	2.4
12	Switzerland	2.3
13	United States	2.2
14	United Kingdom	2.1
15	Australia	2.0
16	Canada	1.8
17	New Zealand	1.5
18	Netherlands	1.4
19	Mexico	1.3
20	Turkey	1.2
21	Denmark	0.7
21	Ireland	0.7

Source: OECD Health Data 2001.

nology in Canada, there is a comparative shortage of practicing surgeons as well. Canada ranks sixteenth out of 21 countries in a comparison of the ratio of general practitioners and specialists to the general population (table 1) and had the second lowest growth rate in the doctor-to-population ratio from 1970 to 1998. The result of too few doctors in Canada is long waiting times for specialist appointments and surgical procedures. In 2000-01, Canadians faced a median wait of almost two months from a referral by their GP to an appointment with a specialist, and a further wait of two months be-

fore receiving treatment (Walker, 2001).

It has been demonstrated that Canada is one of the highest spenders in the OECD, yet ranks near the bottom in terms of access to both physicians and medical technologies. The obvious question must then be: where does the money go? One of the many places money is spent in Canada is on special interest groups. Groups that can garner a large amount of funds from governments either through monopoly power or political pressure have done very well under the current regime. These groups are also the first and loudest

shows an average hourly wage differential of \$2.68 per hour (table 2) as well as a possible savings in BC of roughly \$150 million per year if these workers were to be paid on par with their private sector counterparts. These workers are neither medically trained nor specialized; they are cooks, bakers, payroll clerks, and cleaners, all workers that have jobs directly comparable to

their counterparts in a hotel. Neither are these premiums a new occurrence. In a similar study completed by Cynthia Ramsay in 1995, the findings of health care support worker premiums were much the same.

It is clear, given the evidence shown above, that the Canadian health care system does not provide high-quality care. The present gov-

ernment-controlled system spends enough to rank us fourth in the OECD, and yet the country still falls near the bottom in comparisons of medical technologies and the availability of physicians. As a result, Canadians face long waiting times for appointments with specialists, for medical or surgical procedures, and

continued on page 17

Table 2: Hospital Employees Union (HEU) and Local 40 (Greater Vancouver Hotel Union) Wage Comparisons

Worker Type	Hospital Hourly Wages	Average Hotel Hourly Wages	Premium (%)	Number of Employees at Vancouver General Hospital/University of British Columbia (FTEs*)	Potential Hourly Savings (\$)
Housekeeping Aide	\$17.58	\$14.97	17%	11.13	\$29.05
Cleaner	\$17.58	\$15.09	17%	258.15	\$642.79
Payroll Clerk	\$21.53	\$15.52	39%	7.03	\$42.25
Storekeeper	\$18.04	\$15.77	14%	70.17	\$159.29
Food Service Worker	\$17.16	\$15.07	14%	109.09	\$228.00
Dishwasher	\$17.46	\$15.01	16%	12.76	\$31.26
Cashier	\$17.46	\$15.20	15%	12.27	\$27.73
Cook I	\$19.92	\$15.07	32%	21.64	\$104.95
Cook (Baker)	\$21.56	\$16.45	31%	2.20	\$11.24
Maintenance Worker	\$19.00	\$17.39	9%	11.84	\$19.06
Painter	\$22.83	\$17.39	31%	6.48	\$35.25
Switchboard Operator	\$18.44	\$14.98	23%	36.34	\$125.74
Booking Clerk	\$19.77	\$15.01	32%	19.19	\$91.34
Estimated Hourly Savings (For Comparable Job Titles at VGH/UBC)					\$1,547.96
Estimated Monthly Savings (For Comparable Job Titles at VGH/UBC)					\$241,481.71
Estimated Annual Savings (For Comparable Job Titles at VGH/UBC)					\$2,897,780.56
Estimated Annual Savings (All Other Non-Technical HEU Employees at VGH/UBC)					\$5,523,091.29
Estimated Annual Savings for Vancouver General Hospital and UBC Hospital					\$8,420,871.85

Sources: HEABC/HEU final wage rates, effective for the year beginning April 1, 2001. Collective Agreement between the Greater Vancouver Hotel Employers' Association and Local 40, wages effective for the year beginning May 1, 2001. Wages given are for employees who have worked in the hospital/hotel for at least 12 months.

*FTEs = full-time equivalents

Oh Canada, Where Art Thou?

by Samir Kaushik

In 1957, Lester B. Pearson received the Nobel Peace Prize for his proposal to send UN peacekeepers to the Suez Canal. Canada was not a major military power at the time, but, as indicated by this award, its role as an international peacekeeper was well regarded in the world. Fast-forward 40 years, and Canadians are struggling to gain legitimacy in an international war against terror. What happened? How did Canada go from an important diplomatic power to a second-rate ally of the United States? And what can Canada do to once again enter the inner circle?

Prior to 1989, Canada was the poster child of the benefits of democracy and capitalism; its role in supranational organizations such as NATO and the United Nations was of strategic importance. However, after the Cold War, Canada failed to properly redefine its role and has subsequently lost considerable clout. Add this to the Chretien government's military budget cuts and we find the blueprint for Canada's demise on the international scene.

While Canada continues to play a role in international peacekeeping missions, its title as "the World's Peacemaker" is in jeopardy. Canada has been criticized for not spending

enough on defense. Compared with other NATO members, the last figures for Canada showed that we spent 1.1 percent of our Gross Domestic Product (GDP) on defense, while the average expenditure of NATO's 19 members is 2.1 percent of GDP. Also, the number of Canadian peacekeepers around the world has dwindled considerably.

Evidence of this downfall is apparent today. It wasn't until late January that Canada was able to put its forces on the ground in Afghanistan. These forces are providing only a supportive role to already established coalition forces, which have been fighting this war since late September. The fact that it took over three months to establish Canada's presence in Afghanistan not only questions the rapid response capabilities of our military, it questions our commitment to the United States' coalition against terror.

In the aftermath of this campaign, how will Canada be viewed when the US realigns its foreign policy? Unfortunately, the outlook is not great. We need only to look at President Bush's September 2001 State of the Union speech where he forgot to thank Canada for its contributions. The memories of the "porous" Canadian border, which served as a conduit for some of the September 11th terrorists to enter the US, are all too fresh. More importantly, Americans will recall the lack of assistance offered by the Canadian military. It is true that Prime Minister Chretien was quick to condemn the attacks as evil

acts of terror. But isn't this a response expected of a second-rate US ally?

What should Canada have done? The Canadian government should have offered a response similar to that of Tony Blair and the UK government. Prime Minister Blair offered his nation's unconditional support to the United States and was united with President Bush in organizing the international coalition against terror. Mr. Blair also played an important role in determining the future of the new Afghan government and for quelling tensions between India and Pakistan.

Canada is in danger of losing more legitimacy. Luckily, the stage has been set for increased cooperation between the US and Canada. Factors such as the European Union's impending political and military union, and the lessening importance of NATO and the UN, can lead the way for increased US-Canada political cooperation. However, if Canada continues on its current path, it will continue to watch from the sidelines.

The G-8 summit this summer in Alberta is an opportunity for Canada to show America and the world where it stands. Canada should use this summit as an opportunity to take the lead in increasing border security and laying out the framework for further military cooperation with the United States. It is time for Canada to join the world's fight against terror. ☞

New Web Site

The Fraser Institute website has a new look! Check it out at www.fraserinstitute.ca.

2001/2002 New Publications

- *Tax Facts 12* by Joel Emes. Book: \$32.05
- *Can the Market Save Our Schools?* edited by Claudia R. Hepburn. Book: \$32.05
- *Global Warming: A Guide to the Science* by Willie Soon, Sallie L. Baliunas, Arthur B. Robinson & Zachary W. Robinson, edited by Laura Jones. Book: \$32.05
- *International Evidence on the Effects of Having No Capital Gains Taxes* edited by Herbert G. Grubel. Book: \$32.05
- *Biotechnology & Food for Canadians* by Alan McHughen. Edited by Laura Jones. Book: \$32.05
- *Surveying U.S. and Canadian Welfare Reform* by Chris Schafer, Joel Emes and Jason Clemens. Critical Issues Bulletin: \$16.00
- *Flat Tax: Principles and Issues* by Joel Emes & Jason Clemens, with Patrick Basham and Dexter Samida. Critical Issues Bulletin: \$16.00
- *Measuring Poverty in Canada* by Christopher A. Sarlo. Critical Issues Bulletin: \$16.00
- *Waiting Your Turn: 11th Annual Hospital Waiting Lists in Canada* by Michael Walker with Greg Wilson. Critical Issues Bulletin: \$16.00
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- *Moving Beyond the Status Quo: Alberta's "Working" Prescription for Health Care Reform*, by Shainoor Virani, Mebs Kanji, and Barry Cooper. Public Policy Sources #49: \$7.49
- *Prescription Drug Prices in Canada and the United States—Part 3: Retail Price Distribution* by John R. Graham, with Tanya Tabler. Public Policy Sources #50: \$7.49
- *Home Schooling: From the Extreme to the Mainstream* by Patrick Basham, Cato Institute. Public Policy Sources #51: \$7.49
- *The Perfect Food in a Perfect Mess: The Cost of Milk in Canada* by Owen Lippert Public Policy Sources #52: \$7.49.
- *Making Health Spending Work* by Fred McMahon & Martin Zelder. Public Policy Sources #54: \$7.49
- *A Cure Worse than the Illness: Canada's Proposed Regulatory Framework for Natural Health Products in Light of International Evidence* by Cynthia Ramsay. Public Policy Sources #55: \$7.49
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- *A Report Card on Alberta's High Schools: 2001 Edition* by Peter Cowley, with Shahrokh Shahabi-Azad. School Report Card: \$23.54
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Medical Savings Accounts Bring Consumer Choice to Health Care

With momentum building for the inclusion of medical savings accounts in health care reform in Canada, a new Fraser Institute study shows how Medical Savings Accounts (MSAs) can help transform the Medicare system top-to-bottom.

Although MSAs are usually thought of as a demand management tool—that is, they create incentives for people to economize on medical services—“Making Health Spending Work” shows how MSAs can bring market dynamics and efficiencies to a *publicly-funded* health care system. The paper forms a chapter from *Better Medicine: Reforming Canadian Health Care*, edited by noted health policy analyst Dr. David Gratzer, to be published by ECW Press in Spring 2002.

“Competitive markets—companies and individuals striving to create superior, less expensive products—have brought choice and huge improvements to the lives of Canadians, whether in their safer, more fuel efficient cars, crystal clear televisions, or a choice of electronics that didn’t exist a few years ago,” says senior economist Fred McMahon, co-author of the study.

“Yet, Medicare continues to falter. Canadians wait in health-threatening queues. Canada suffers no shortage of dentists or veterinarians, but shortages of doctors and nurses plague the nation coast to coast in the publicly-managed health care system,” McMahon said. “For their medical care, Canadians deserve the choices, efficiency, and innovation that com-

petition has brought to other aspects of our lives. We show how these dynamics can be created in a publicly-funded system.”

Under an MSA system ... the government would fund an MSA for each Canadian based on health factors... Canadians could use their MSAs to purchase medical service from public or private ... providers.

In recent months, Alberta’s Mazankowski report and Michael Kirby’s Senate report have highlighted MSAs. Roy Romanow, head of the federal Royal Commission on Medicare, says he, too, is examining the concept. This builds on the groundbreaking work of Cynthia Ramsay, author of The Fraser Institute’s *Medical Savings Accounts: Universal, Accessible, Portable, Comprehensive Health Care for Canadians*, which introduced Canadians to MSAs in 1996.

How MSAs work

Under the MSA system outlined in “Making Health Spending Work,”

the government would fund an MSA for each Canadian based on health factors such as age, sex, and medical condition. Canadians could use their MSAs to purchase medical service from public or private sector providers.

Providers who best meet consumer demands would prosper and grow, forcing other providers to improve their services, thus creating incentives for increased efficiency and quality throughout the system. Canadians who outspend their MSAs would be covered by government-funded catastrophic insurance. Poor Canadians would have immediate access to this fund; wealthy Canadians could be required to pay some of their expenses before they could have access to the fund.

Using standard economic tools, “Making Health Spending Work” contrasts incentives in today’s Medicare system with those in an MSA system. Today, neither consumers nor providers have strong incentives to promote efficiency. Both can often gain from waste. Only the distant bill-paying bureaucracy has incentives to make the system more efficient, but it lacks on-the-spot information and is easily outmaneuvered in any attempt to do so. So, unable to impose efficiency or innovation, the bureaucracy all too often depends on health-threatening queues to limit demand, or simply refuses to offer up-to-date treatment.

An MSA system realigns incentives. Consumers, instead of being indifferent to cost, seek the most effi-

cient and effective treatment. Providers can no longer benefit from waste and ignore customer service. Their incentives become aligned with consumers' needs to provide the best, most cost-effective service.

The power of special interests

No monopolist, whether in the public or private sector, enjoys giving up a monopoly. Health care bureaucracies have proved resistant to change while public sector unions have led and funded the fight against Medicare reform. From a purely human point of view, it's easy to understand why public sector unions in particular have fought so bitterly against reform.

Yet, the need for reform is clear. Canada ranks fourth among OECD members in the amount it spends on medical services yet ranks well down the list in OECD quality categories. Similarly, the World Health Organization ranks Canada thirtieth in quality of medical care, at the bottom of the list of affluent nations. Medicare's supporters claim the system is fine as it is, or just needs a little bit more money, despite the huge gap between spending and quality that international studies have found.

"The answer is not more bureaucratic control. The answer is grafting the efficiency and dynamism of market economies onto our publicly-funded system," says McMahon. "An MSA system creates dynamics for gains in productivity, improved resource allocation, and sensible demand patterns. Even more importantly, it allows individuals to regain control of their own medical decisions and provides the choices needed for such control to become a reality." ☞

Vanessa Schneider



Jane Shaw, Senior Associate of the Political Economy Research Centre in Bozeman, Montana, gives students a few environmental facts at the Student Seminar on Public Policy issues in Vancouver on October 20, 2001.

Government Funding: The Best Solution or Endless Distortion? *continued from page 13*

for diagnostic tests. Canada should have one of the best health care systems in the world, given the amount of money we spend on the health care system, and yet it fails miserably in most international comparisons. The biggest problem for Canadian health care today is the government monopoly in health care, where there are few incentives to provide more than a very basic level of care for patients. Canadians need to begin to consider how to create appropriate incentives in the system, and how to allow private participation in order to begin providing care at a level more commensurate with the level of spending on health care in Canada. What the system needs is change.

Notes

¹Magnetic Resonance Imaging. This machine is used to diagnose muscle injuries and blood flow through the body, effectively providing an x-ray of the muscle.

²Computerized Axial Tomography scanner. This machine creates cross-sectional views of internal body structures, allowing doctors to analyze cross sectional slices of the human body for anomalies.

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2001-2002 Student Seminars

✧ by Vanessa Schneider, Student Programs Co-ordinator ✧

What a year! The Fraser Institute hosted 11 one-day student seminars in 9 cities this past school year, attracting over 1,600 students.

It is so exciting for the staff of The Fraser Institute, our sponsors, and the program speakers to see enthusiastic, open-minded students at these seminars. Those of you who have attended know that you can be guaranteed to find two things: stimulating presentations and a wide variety of opinions in the audience! The lively discussion that follows each presentation is an ideal opportunity for students to discuss their ideas, challenge their own beliefs, and learn from others.

Some highlights

Since 1999, we have hosted a seminar for high school students in Vancouver, and it is always well attended and a lot of fun for the Grade 10-12 students who attend. This year we were pleased to bring the program to Calgary on March 1st, thanks to the generous sponsorship of Alberta Energy Company Ltd. Three hundred students from 50 schools attended the one-day program, which covered topics such as trade, the media, and economic tools for critical thinking.

Thanks to the sponsorship of the Lotte & John Hecht Memorial Foundation, the student seminar program has been hosted in smaller BC com-

munities for a number of years. This year, we hosted a new program in BC's northern city of Quesnel, and were pleased to welcome over 40 students for a day of policy discussion and debate.

We had many interesting and lively speakers at the seminars this year. In addition to Fraser Institute policy analysts and senior fellows, the program had a wide variety of policy experts, media personalities, politicians, academics, and economists.

Canada has a number of regional think tanks that do immensely valuable work on public policy issues in their area. This year, we were pleased to welcome to the program: Dr. Roslyn Kunin of the Laurier Institution, based in Vancouver; Pierre Desrochers of the Montreal Economic Institute; Roger Gibbins of the Canada West Foundation, based in Calgary; and Peter Holle of the Frontier Centre for Public Policy, based in Winnipeg.

We were also delighted to have on the program Jane Shaw from the Political Economy Research Center, a free market environmentalism research institute in Montana, and Greg Rehmke of the Foundation for Economic Education in New York.

After 13 years of student programs, we have many alumni who are now pursuing successful careers

in many fields. What a thrill for us when they are able to speak in our programs! This year we heard from former interns Craig Yirush, who is currently completing his PhD at Johns Hopkins University, and Danielle Smith, Editorial Writer at the *Calgary Herald*. Past seminar participant Ken Boessenkool spoke in Calgary, where he works as an economic consultant.

Of course, this is only a sample of the many speakers who participated in the program this year. Topics covered included economic myths, globalization, environmentalism, innovation, health care, deregulation, income mobility, terrorism, education, and many more.

Mark your calendar!

As this seminar year draws to a close, we begin working on next year's programs. Plan now to attend the student seminar next year in Vancouver, Victoria, Kelowna, Quesnel, Edmonton, Saskatoon, Winnipeg, Toronto, or Montreal. Gear up for more exciting debate on policy issues that matter to you! These seminars provide an opportunity that you may not always find in your classes, to discuss interesting topics with others who are as passionate about the future of Canada as you are!

See you next year! ☺

The Benefits of Economic Freedom

by Fred McMahon

The anti-globalization protesters in Seattle, Quebec City, and elsewhere have benefited from decades of relative economic freedom and increasing free trade opportunities. These two important factors have been the motor behind the wealth those demonstrators and the rest of us in economically free nations enjoy.

All economically free nations have produced wealth and, ultimately, broader freedoms for their citizens. Now, anti-globalization activists want to deny citizens of the developing world the very sort of economic freedom that has provided those of us in the developed world with so many benefits.

The activists must be ecstatic about Canada's mediocre marks in economic freedom. A coalition of over 50 independent research institutes from around the globe, coordinated by The Fraser Institute, every year release the Economic Freedom of the World Report. For a developed nation, Canada's marks have been, at best, mediocre. The index measures a range of variables to determine how free people are to exchange among themselves, how much of their money they are able to keep, and the security of property rights.

Just as Canada's level of economic freedom has been mediocre, so too has our relative economic growth. Other nations have gained considerable economic freedom, and that's been reflected in their economic growth and improved living standards.

For example, Ireland used to be near the bottom of the list of devel-

oped nations in economic freedom, prior to a series of radical reforms that dramatically freed its economy. Just 15 years ago, Canada was well ahead of Ireland in economic freedom and our per capita GDP was two-and-a-half times that of Ireland. Now, the Irish enjoy more economic freedom than Canadians. Not surprisingly, Ireland has moved past Canada in the wealth produced by its people, and it boasts a much lower unemployment rate than Canada. All that in just 15 years.

Economic freedom is clearly important for wealth creation. Nations whose economic freedom is in the top quintile (or 20 percent group), have an average gross domestic product (GDP) of \$20,000 per person—more than twice as much as nations in the next quintile. Nations in the bottom 20 percent have an average GDP of only \$2,200 per person.

Economic freedom also generates growth. Nations whose economic freedom is in the top quintile have an annual growth rate of 2.3 percent, compared to a rate of 1.5 percent in the next quintile. The growth rate for nations in the bottom 20 percent is actually *declining* by 1.5 percent!

Economic freedom is also related to any number of measures of personal well being. The top 20 percent of economically free nations on average score 88 out of 100 in the United Nations Human Development Index, compared to 76 for the next quintile and 52 for nations in the bottom 20 percent.

Economic freedom is good for your health. The average life span in the freest nations is 76 years. That falls to 69 years in the next quintile and just 52 years in the lowest quintile.

Economic freedom reduces corruption. It does this in a number of ways. Economically free nations protect property rights. When secure property rights are in place, government and corrupt officials have less room to interfere with your enjoyment of your property, and therefore they have less ability to demand bribes. As well, a less powerful government has fewer favours to hand out, and thus fewer opportunities for personal and political corruption. The top 20 percent of economically free nations score an average of 7.41 out of 10 in Transparency International's corruption index (see www.transparency.org). The next quintile falls to 4.96 and the lowest 20 percent is at 2.55.

Those who are against free trade and who demand ever more powerful governments should take a moment to look at what's going on in the world. It would be an economic and human crime for advanced nations to cut the rest of the world off from opportunities we have enjoyed. Yet that's what the demonstrators want to do.

We should also be concerned about Canada's relatively mediocre economic freedom. It has been accompanied by a relative mediocrity in our standard of living and raises concerns about political corruption in the affairs of the nation. ☞

STUDENT ESSAY CONTEST

- ☰ 1st Prize: \$1,000
- ☰ 2nd Prize: \$500
- ☰ High School Category: \$250

Topic: Market-Based Solutions to Environmental Problems

Students may analyze a specific environmental problem and suggest ways that private property and market principles could be employed in providing a solution; or compare the effectiveness of market-based environmental policies with policies that rely more heavily on government regulation.

To get full contest details and for submission or other information, call: 1-800-665-3558, ext. 571 or e-mail: student@fraserinstitute.ca or visit www.fraserinstitute.ca

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