



Canadian Student Review

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Employment Inequity: Why Competition Negates the Need for Interventionist Policy

by Audra Mitchell

The last job application I filled out was very clear in its priorities: first it asked for my name and age, then for my racial origin and sex. Finally, it asked me to list my qualifications and experience.

One does not often consider race or sex employment qualifications, but the Canadian government does. Often, the selection of employees due to these characteristics is not a choice—it is the law. The federal Liberal government’s Employment Equity Act demands that firms hire

workers from a variety of racial backgrounds, insisting upon the representation of minorities, and encouraging “numerical goals” for the number of these people employed (Department of Justice Canada, 2001). The Employment Equity Act also requires that firms perform a sort of racial profiling, by collecting and submitting reports to prove their multicultural composition, and subjects those who do not comply to monetary punishment (Department of Justice Canada, 2001). While the

Act claims that it imposes no unnecessary harm upon business, it does not reconcile this promise with its demands.

This Act claims to advocate “equal opportunity” employment, yet it is equal opportunities that it obstructs. The Employment Equity Act actively

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Welcome!

We are pleased to bring you another issue of *CSR* that is full of thought-provoking articles on a range of topics. This issue, we look at measuring poverty in Canada, employment equity legislation, the Kyoto Protocol, and more.

We would like to acknowledge the Lotte & John Hecht Memorial Foundation, whose generous sponsorship allows us to distribute this newsletter, free of charge, on campuses across Canada.

—Vanessa Schneider, Editor

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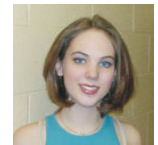


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discriminates against a large part of the workforce, offering preference to “visible minority groups,” aboriginal people, and females. This law was implemented to eradicate discrimination from the workforce; instead, it legislates racism. In developing the Employment Equity Act, the Canadian government made a fundamental error. In fact, the only way to eliminate racism is to allow for free hiring practices, and free competition of prospective employees. In this situation, employers simply could not afford discriminatory hiring.

The sale of every good and service is a campaign. In order to succeed, a firm must appeal to the widest possible constituency, and must endeavour to represent the public. Failure to do so would alienate a large part of the market, and undoubtedly harm a firm’s success.

White, middle-aged males, a group that is fast approaching minority status, no longer monopolize the Canadian consumer market. According to the 2001 Census, 18.4 percent of Canada’s population are immigrants, and 13.4 percent are members of a “visible minority group” (Government of Canada, 2003). The concentration of racial diversity is even more intense in individual cities. One-third of Vancouver’s population are immigrants, and 44 percent of Toronto’s population are either immigrants or members of a racial minority (Government of Can-

ada, 2003). Canada is home to over 200 ethnic groups, and it is projected that by 2016, visible minority groups will comprise one fifth of the Canadian population (Government of Canada, 2003). Needless to say, the importance of women (another group specified under the Act) as consumers has increased substantially over the last several decades. Money is no longer the sole dominion of men.

All of the above-mentioned groups must be considered consumers. As a result, the wealth of our nation is no longer exclusive to one race or sex. These figures do not even account for the multi-billion dollar industry backed by tourists, many of whom are members of “visible minority groups.” The only way that a company can effectively attract these customers, either directly or through reputation, is to represent them amongst their employees. Many consumers would be unlikely to purchase goods or services from a company that visibly discriminates, or one that is known to employ only members of a single race or sex. Employers are aware of this dynamic, and, in the absence of restrictions, would act accordingly. One may not always rely on the moral accountability of an employer. However, profit is the driving factor behind any business, and our multicultural market ensures that discrimination does not pay.

The removal of the Employment Equity Act would encourage the efficient allocation of jobs to minorities, appropriate to the local population. Instead of allowing companies to hire staff that represent their regional racial composition, the Act forces upon firms a government-manufactured cultural mosaic. Currently, many firms are forced to hire employees simply to satisfy a “numerical goal.” Yet if an applicant’s race is not substantial within the firm’s community, there is no benefit to hiring this person on a racial basis. In this case, as in any other, the employee should be selected based on merit alone. Yet the Employment Equity Act demands that a company prove its racial tolerance by hiring “token” members of races. In effect, this insults all employees, rendering them all “tokens.”

Conversely, given the diversity of our cities, a competitive labour market would impel firms to hire members of minority groups. These decisions would be made not to fulfill an Orwellian quota system, but as a conscious business choice. In order to attract and maintain customers, a firm would have to hire staff that reflected the population. Current legislation creates an artificial sense of diversity, closing out potential jobs to every race by allotting numbers of positions to specific groups. Immigrants, minorities, women, and aboriginals may even be better off if hiring restrictions were removed. In this system of fair competition, success would be determined by skill, not superficiality.

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Qu'est-ce que la liberté?

par Paul Beaudry

Le mot « liberté » est très souvent utilisé dans des contextes divergents et contradictoires. Au niveau politique, quelques-uns identifient la liberté comme le droit de chacun de bénéficier d'un mode de vie décent, d'autres la qualifient comme étant une absence de contraintes. Peut-on dire qu'un être défavorisé est moins libre qu'un être nanti? Peut-on affirmer que l'homme atteint du cancer est moins libre que celui en parfaite santé? Pour analyser ces questions, il faut aborder les deux concepts de liberté : le concept libéral et le concept socialiste (Berlin, 1991).¹

Sous sa forme libérale, la liberté est un concept négatif défini par l'absence de coercition, c'est-à-dire qu'un individu a le droit de ne pas être attaqué, cambriolé, etc. Il peut acquérir et vendre des biens ou signer librement un contrat. Bref, la liberté négative peut être définie par une seule expression : les droits de propriété. Aucun homme n'a le droit de porter atteinte à la propriété d'un autre homme (y compris sa personne), sous peine de représailles. Sous sa forme collectiviste, la liberté est perçue comme « positive ». Selon la doctrine socialiste, quelqu'un peut avoir un droit à un salaire minimum, à une éducation ou à un petit déjeuner le matin. Or les adhérents à la doctrine des libertés positives confondent les principes de liberté et de pouvoir (Kizer, 1976). La liberté, originale- ment caractérisée par

l'absence de restrictions et de contraintes, devient une revendication de pouvoir.

La liberté ne se réfère qu'aux relations des hommes entre eux et elle ne peut être brimée que par la coercition humaine. Ainsi, disait Hayek, on ne peut affirmer qu'un expéditeur tombant dans une crevasse est privé de sa liberté, car il n'est pas victime de coercition humaine. S'il parvenait à sortir de la crevasse, on pourrait affirmer qu'il a regagné sa liberté, mais cette expression serait quelque peu erronée, car on pourrait dire la même chose au sujet d'un animal dans la même situation. Le concept hayékien de liberté – sur lequel je fonde une grande partie de mes arguments – se révèle propre aux relations humaines (Hayek, 1960, p. 13). De plus, les capacités physiques et matérielles des hommes n'ont aucun lien direct avec la liberté. Un homme désirant s'envoler ne peut pas se prétendre non-libre, car ses capacités l'en empêchent et par le fait même, un ignorant ne peut se proclamer non-libre à cause d'un manque de livres pour s'éduquer. Hayek se réfère aux déclarations d'émancipation d'esclaves de la Grèce Antique pour prouver que ce concept de liberté n'est pas nouveau (Hayek, 1960, p. 20). Dans les anciennes cités grecques, on libérait les esclaves en leur donnant un statut légal de membre de la communauté, l'immunité face

aux arrestations arbitraires, le droit de travailler où bon leur semblait et la liberté de mouvement. Aucune allusion à des libertés positives n'était formulée.

Si les élites politiques venaient à adopter une définition de la liberté semblable à celle d'Hayek, l'État providence tel qu'on le connaît, défini par un redistributionnisme excessif qui pénalise la classe productive au profit de la classe dépendante, serait voué à l'extinction. En attendant, on doit conclure que toutes les définitions du concept de liberté politique faisant allusion à des libertés positives ne sont que des outils utilisés par les égalitaristes pour corrompre la vraie nature de la liberté : elles doivent donc être rejetées et décriées.

Note

¹Isaiah Berlin, dans son article *Two Concepts of Liberty*, établit la différence entre les "volontaristes" (libéraux) et les "coercitionnistes" (socialistes).

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Harmonization of Transportation and Border Regulations

by *Mathieu Leduc*

NAFTA is a highly comprehensive trade agreement covering not only tariff barriers, but also a number of controversial issues such as non-tariff barriers, services, foreign investment, and government procurement. Despite the breadth of this agreement, some more subtle and less subtle issues remain a hindrance to free trade, many of them being related to border and transportation regulations.

Cabotage is one of the best examples of how border regulations can hinder trade. Cabotage refers to the ability of foreign vehicles and labour to transport goods within a country. Cabotage barriers can considerably increase the cost of trans-border transport. Cabotage barriers are present in the form of safety and technical regulations in such areas as vehicle size and weight, driver certification, and hours of service. The regulations governing these matters differ significantly in the three NAFTA countries, due to past national or regional decisions on road infrastructures and political issues surrounding transportation. These regulations were created mainly because large vehicles cannot operate effectively in mixed traffic streams, resulting in accidents and congestion. Another reason is that oversized vehicles can significantly damage roads.

Inconsistencies in transportation regulations between members of a free trade area can generate eco-

nomic inefficiencies. Indeed, given these inconsistencies, each country must ensure that trucks entering its territory are not in violation of its rules; this results in many border inspections causing delays and therefore higher costs. If the cost of moving goods across the borders increases with respect to the cost of moving goods domestically, those inconsistencies constitute a form of non-tariff barrier. Aside from discouraging trade, the long-term effect can be seen as less competition and less efficiency and a consequent loss of productivity in the NAFTA region. To make matters worse, different rules apply in different regions, states, and Canadian provinces. Although there have been recent standardization efforts, variations remain and they generate inefficiencies. The continuing growth in trade will cause severe gridlock problems unless more concrete measures are taken.

To take into account the problems arising from discrepancies in transportation regulations, a provision of NAFTA established the Land Transportation Standard Subcommittee with the responsibility of harmonizing those rules. Although considerable progress has been made, complete harmonization is unrealistic under current conditions. This generates the political demand for a more comprehensive relaxation of those barriers. This can only be done with a greater trilateral involvement than

NAFTA can provide. As Member of Parliament Val Meredith puts it,

... if the 1990s were the decade of the free trade agreements, then the first decade of the 21st century should be the decade of the transportation agreements. To ensure our economic growth, there is a need to plan, implement and finance a safe, seamless, integrated continental transportation system. (Meredith, 2000)

We must realize that NAFTA is practically the sum of two bilateral trade agreements. Real North American harmonization of transportation regulations can only occur through an effort involving members of the three governments. Cabinet ministers from the three countries would have to devise a uniform transportation plan. Not only would this plan harmonize technical regulations for all three countries, it would also foster more cooperation between their different government agencies to speed up border movements. This implies more intelligence being shared, and investments in new technologies such as Intelligent Transportation Systems (ITS), which accelerate border crossings by decreasing paper handling. This trilateral plan would also include measures to improve communications and therefore facilitate the adoption of those standards by all three countries. A trilateral approach obviously means that each country

would have to sacrifice some of its authority to comply with those rules, but this is the only way to build a more efficient transportation system that can keep up with, and spur growth in, trade. Moreover, stronger cooperation between government agencies from all three countries and investments in new technologies would considerably decrease illegal border crossing.

Given Canada's close connections with the United States, it is time to break the remaining barriers to trade and thus increase the wealth of the North American market. This is a market that, according to the World Bank, exceeds all others in terms of GDP and could potentially become the most active trade region in the twenty-first century. However, only a

proper framework can facilitate the integration of Mexico and Canada and make this a reality. This framework would take the form of a customs union and eventually a common currency system in which the balance of power would remain roughly the same. Countries would necessarily have to cede some of their sovereignty to the North American Union, but only in exchange for more wealth, more cooperation, and thus more prosperity and security. It is now time to re-design NAFTA for the twenty-first century.

Reference

Val Meredith, *Trade Corridors: a Report to the Canada-US Inter-Parliamentary Group*, Ottawa, 2000. ☞

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The current employment equity laws are self-defeating. They not only fly in the face of their own aims by enforcing racist and discriminatory practices, but they violate the Canadian constitution. The Charter of Rights and Freedoms states that every citizen is "equal before and under the law" and must not be discriminated against due to race or sex (Department of Justice Canada, 2003). The Employment Equity Act flagrantly flouts this commandment, showing preference to certain groups and enforcing employment inequity.

The only vehicle of true "equal opportunity" is competition. Competition invites the application of all individuals, and allows talent, ability, innovation, or other forms of competence to determine rewards. In the case of equitable hiring, allowing freer hiring practices would allow for greater competition, and therefore greater equality of opportunities. The Employment Equity Act impedes competition, and renders discriminatory hiring an institution. The only way to reduce all forms of racism and sexism in hiring processes is to rescind this law. It is a simple fact: racism cannot compete in a freely competitive labour market.

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Students participate in a hands-on activity during the 11th Annual Student Leaders Colloquium in May 2002.



Students line up to ask questions following Preston Manning's luncheon presentation at the Toronto Student Seminar, November 2, 2002.

Lessons from the US Government's Opposition to the Kyoto Protocol: Are International Environmental Agreements Sustainable?

by *Kilolo Malambwe*

In recent years, transboundary pollution has become an important worldwide environmental problem. Indeed, issues such as global warming, climate change, marine pollution and ozone depletion, have been the subject of international negotiations at Montreal, Kyoto, and Rio de Janeiro.

The refusal of the United States to join the Kyoto Protocol, which requires the US to cut its projected emissions of carbon dioxide and other greenhouse gases by some 40 percent, provides evidence of the difficulties associated with the implementation of stable environmental agreements at the global level.

At least two factors explain why full cooperation is hard to attain—if not impossible—at the global level:

- Some countries might be better off outside the environmental agreements. For instance, the United States' compliance with the Kyoto protocol would reduce the forecasted augmentation in temperature by only 0.1 degree by 2050, and such a drop has no significant effect at all on global warming. The US government believes that the cure is more expensive than the disease. However, to make cooperation profitable for all countries, there should be a compensation mechanism (transfer payments) from

countries that are gaining from cooperation to those that are losing.

- There is a free rider problem, since each country, when gaining from environmental agreements, has an incentive to reduce its abatement efforts, in order to minimize its costs. At the same time, it benefits from lower emissions produced by the rest of the participants.

This attitude weakens the stability of the environmental agreements: to be stable, there should be a payment system that punishes exit from and rewards entry into the agreement. Recently, the US created a local market of pollution permits: as industrial polluters have not borne the costs that their pollution has inflicted on other industries, the government now issues permits—that is, “rights to pollute”—equal to a “socially acceptable” amount of pollutant emissions. Those pollution permits can be bought and sold on a permit market, so that an industry cannot legally pollute more than the amount of the permits it has traded on the market.

This is working at the local level, but becomes more difficult at the world level.

Indeed, from 1992 to 1998, US agencies such as the Overseas Private Investment Corporation and the Export-Import Bank of the United

States underwrote fossil fuel development around the world to the tune of more than \$15 billion.

The US local pollution market cannot regulate the gases generated by US companies abroad. However, the US experience of pollution permits suggests that there is a better way to solve environmental problems at the global level. An interesting research program would be to explore ways of implementing pollution permits at the world level.

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Things Folks Know that Just Ain't So....

by Niels Veldhuis

What they know ...

“There is too much child poverty in Canada.”

On November 25, 2002, Campaign 2000, a coalition of over 85 anti-poverty groups, released the *2002 Report Card on Child Poverty* claiming that more than 1.1 million children in Canada (16.5 percent of all children in this country) were living in poverty. The *Report Card* received considerable media attention with articles appearing in such dailies as the *Toronto Star* and the *Globe and Mail*.

Why it ain't so ...

Let's start with how one measures “poverty.” Most anti-poverty advocates, such as Campaign 2000, use Statistics Canada's low-income cut-off (LICO) data to measure poverty.

LICO is a level of income below which a family is more likely to devote a larger portion of their income to food, shelter, and clothing than does the average Canadian family.¹ First, the percentage of income an average Canadian family spends on food, shelter, and clothing is calculated from Statistic Canada's Family Expenditures Survey (44 percent of

after-tax income). Second, to get the low-income cut-off, or LICO, 20 percentage points are added so that a family that spends 64 percent of its after-tax income on food, shelter and clothing is considered to be “in strained circumstances.”

What is wrong with estimates of poverty produced by groups such as Campaign 2000?

- They measure poverty using Statistics Canada's low-income cut-offs (LICOs). If the percentage of income that an average family spends on food, shelter, and clothing fell from the current level of 44 percent to say 30 percent, Campaign 2000 would consider a family that spends 50 percent of its income food, shelter, and clothing to be in “poverty.” Clearly, a family that has 50 percent of its income left after buying basic necessities is not in poverty. According to Bernard Paquet of Statistics Canada, “Neither low-income cutoffs nor low-income measures were designed to measure poverty; at most, they were meant to show to what extent some Canadians are less well-off than others.” (Paquet 2002)

- They use before-tax income LICOs to bolster estimates of the number of people they consider to be in poverty. Again, Bernard Paquet of Statistics Canada states, “The number of people falling below the cutoffs has been consistently lower on an after-tax basis than on a before-tax basis.” Statistics Canada itself considers after-tax LICOs to be preferable since they reflect the redistributive impact of Canada's tax and transfer system.
- The last and most serious problem with poverty estimates is that they take a snapshot of poverty. Low income is generally not a permanent condition. Many people, including students and young families, go through periods in which they are considered to be “in strained circumstances.” Most of these people move to higher incomes after completing their education and/or after accumulating work experience. According to Statistics Canada's report, *Income in Canada 2000*, 10.9 percent of all Canadians and 12.5 percent of children were living on low incomes. However, over a six-year period, from 1983 to 1998, only 3.2 percent of Canadians and 3.6 percent of children remained on low incomes for all 6 years. Clearly, people's lives and incomes change over the years, so taking a simplistic snapshot of low income is inaccurate.

Letters to the Editor

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4th Floor, 1770 Burrard Street, Vancouver, BC, CANADA V6J 3G7
We will print the best letters in future editions of *CSR*.

Is there a better way to estimate the number of people in poverty?

Chris Sarlo, a Professor of Economics at Nipissing University, has developed a “basic needs” approach to measuring poverty. A “basic needs” standard of living includes all the basic necessities to provide a standard of life that is minimally decent in contemporary society. The Basic Needs Line is the level of income needed to meet such basic needs as a nutritious diet, satisfactory housing, clothing, health care, public transportation, household insurance, household supplies, and telephone service.

Using the Basic Needs Line, approximately 8 percent of Canadians, and just over 10 percent of children were in poverty in 1996, the most recent year for which data is available. These estimates of poverty reduce

the bolstered figures presented by Campaign 2000 by over 40 percent. Of course, poverty estimates obtained using the Basic Needs Line are a snapshot of 1996. Applying the 40 percent reduction to the 3.6 percent of all children that fell below LICO for all six years (1993-1998) would put child poverty at 2 percent—a striking difference from the 16.5 percent estimated by Campaign 2000.

Why is it important?

Effective public policy must rely on accurate depictions of reality. Overstating poverty estimates by using flawed measures and ignoring income mobility, as is too often done by those in the poverty industry, does not help, and in fact hinders us from determining those who are most in need and how best to help them.

Notes

¹Statistics Canada calculates low-income cut-offs for both before and after tax income.

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Letter

Re: Towards a Customs Union (December 2002, p. 5), and Towards a Monetary Union, (September/October 2002, p. 8) by Mathieu Leduc

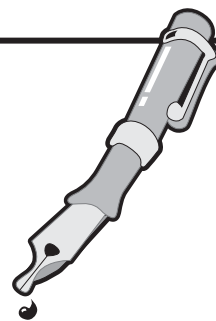
Dear Editor:

Leduc makes a persuasive case for a North American customs union; the gains from the elimination of the paperwork associated with maintaining different external tariffs are potentially huge. He errs, however, when he advocates a common currency or a North American union. Few economists would argue that the gains to having a common currency over those of a customs union are large. The last four years of EMU [European Monetary Union] data show little or no change in trade patterns beyond those achieved by the Single European Act of 1986. To argue that a common currency among the NAFTA member states would form part of a system where each country would have a voice ignores political realities in the United States almost to the point of disingenuity. If Leduc wants to advocate Canada’s dollarization, he should do so openly. The economic evidence suggests, however, that such a move would provide small benefits with potentially large costs.

Leduc also advocates a North American union. Jean Monnet would be proud of this stance. I feel, on the other hand, that Canada, the United States, and Mexico have distinct characteristics which make it worthwhile to maintain three separate countries. Each of these three countries is a federation, consisting of 10 or more subnational units distinct in their own right. The impracticality of uniting these three countries under one flag should hopefully put these supranationalistic designs to rest.

—Raphael Solomon, Doctoral Student, The Ohio State University, Columbus, Ohio

[Editor’s Note: Mathieu Leduc’s third article, “Harmonization of Transportation and Border Regulations,” appears on page 5 of this issue.]



Constitutions and Taxes

by Wayne Kelly

We all hear plenty about taxes. But only rarely do constitutions make headlines. The impeachment proceeding against President Clinton is probably the only recent big-news story in which a constitution has figured prominently. This low-news profile has meant that Canadians are generally not very knowledgeable about constitutions. Nor are Americans, even though their fundamental nation-forming ethic was a strenuous constitutional affirmation of individual autonomy in the face of government power. What constitutions may lack in style, however, they more than make up for in substance.

Put simply, a constitution is the LAW that the law must respect. A constitution serves as a check on the potential tyranny of democratic majority rule. Constitutions prevent the will of the majority from infringing on the rights of the minority. In a group of three people, for example, simple majority rule could lead to the capricious killing of one person as the result of a democratic majority vote which splits two to one against the unfortunate victim. Clearly, individuals must be protected from such tyranny. That is just what constitutions do by limiting or over-riding democratic majority rule. A constitution is a civilization's response to the folksy wisdom embodied in the saying: "What

is right is not always popular, and what is popular is not always right."

In considering now the case of the progressive income tax, it is important to clear up any misconceptions that may arise from use of the term "progressive." Progressive in this context has nothing to do with high-minded philanthropy and everything to do with mathematics. Indeed, a strong case can be made that progressive taxation does more to

with twice the income of another would pay twice the income tax. Such would seem to be a fair arrangement. However, the progressive income tax taxes the higher income at a higher rate, so that considerably more than twice the tax is extracted from the higher income. Such would seem to be an unfair arrangement. How has it come about?

The progressive income tax has come about because there are always more poor people than rich people, or at least more people who fancy themselves as poorer in relation to those somewhat richer than themselves. Since those regarded as richer always find themselves outnumbered, tax fairness for the "richer" minority has been sacrificed to the will of the "poorer" majority. We have, therefore, the situation in which modern democratic government necessarily cuts to the left.

Socialists, liberals, and all manner of statists are quick to abandon the constitutional rights of individuals in the case of the progressive income tax. They put one in mind of the shirkers in the story of the little red hen—too busy or too lazy or too important to help bake bread, but right there with big appetites when the industrious, productive hen pulls an

A constitution serves as a check on the potential tyranny of democratic majority rule. Constitutions prevent the will of the majority from infringing on the rights of the minority.

hinder an economy than to help it make progress, hence, the "flat tax" idea championed by some candidates in recent election campaigns. The progressive income tax simply takes a higher and higher percentage of incomes as incomes rise. If all taxpayers were taxed at the same percentage rate, then obviously a person

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appetizing loaf out of the oven. Our society's fundamental concern with equality before the law would seem to be fundamentally at odds with its tax structure. The potential tyranny of democratic majority rule is fully realized in the progressive income tax! Constitutional redress would seem appropriate.

In addition to this serious constitutional difficulty, the progressiveness of the income tax is a serious disincentive to productivity. At higher rates of taxation, individuals are discouraged from becoming more productive because there is a serious diminishment of after-tax returns on their investments of capital, talent, and labour. The little red hen becomes less and less inclined to bake bread when less and less of her product can be enjoyed by herself, her family, friends, and neighbours, and more and more of it is redistributed to strangers—strangers who grow ever less thankful and ever more demanding and dependent. This perverse outcome arises from the simple truth that, ultimately, we get less of what we tax and more of what we subsidize. Altruism, the well-spring of the progressive income tax, may very well be a part of human nature, but it seems to be a stubbornly limited part. The Marxist credo: "From each according to his ability; to each according to his need," is simply not the way free human beings operate in the real world beyond a relatively small circle of family, friends, neighbours, and acquaintances. The collapse of Communism in the Soviet Union and Eastern Europe is ample proof that such a credo ensures not freedom and equality of wealth, but ensures instead resentment, dependency, and equality of poverty. ☹

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