



Canadian Student Review

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Free Trade: Reducing Global Poverty

*by Kristine Squires, Steinbach Regional Secondary School
First Place Winner, High School Category (\$250),
Fraser Institute Student Essay Contest 2004*

The image is haunting: a child who is visibly starving to death and pleading for help. This is the face of poverty that many would like to eradicate. But how? Free trade reduces global poverty. Free trade works at reducing global poverty because it lowers the cost of basic ne-

cessities and increases government revenue and foreign investments. The trade capacity and human capacity must be enlarged in order to benefit most from free trade.

Empirical research clearly shows that free trade reduces global poverty. It is so clear that the govern-

ments of the developed world are paying attention. Alan Larson, the Under Secretary of Economic, Business and Agriculture for the United States of America, asserts that

developing countries that reduced barriers to trade during the

continued on page 3

Welcome!

Welcome to the winter edition of *CSR*! As promised, we are pleased to print the winning essay in the high school category of the 2004 Student Essay Contest. Congratulations again to Kristine Squires of Mitchell, Manitoba, winner of the \$250 cash prize.

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Best wishes,
Vanessa Schneider, Editor

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1980s and 1990s grew an average of 3.5 percent and 5 percent, respectively, on a per capita basis. Income inequality in those countries did not increase; rather, the incomes of the poor tended to correlate very highly with overall growth in gross domestic product. (Larson)

Due to this evidence, the United States is implementing strategies to help the developing world shift to free trade. Australia is also doing this. An Australian government website testifies that the number of people who were living in absolute poverty dropped by 14 percent between 1993 and 1998 in developing countries that opened themselves up to trade, while in those countries that did not open themselves up to trade, poverty actually rose by 4 percent in the same time period (Government of Australia). Based on this and other evidence, the Australian government has put a lot of time and energy into helping other countries develop free trade. Governments are not the only ones that have figured out the benefits of free trade with regards to poverty. A study done by David Dollar and Aart Kraay of 24 countries, including Mali, Haiti, Brazil, and Thailand, that have globalized since 1980 found that poverty had definitely been reduced in those countries (Dollar and Kraay). The per capita Gross Domestic Product (GDP) in these countries has had an acceleration of growth since globalization with 3.5 percent per year in the 1980s and 5.0 percent per year in the 1990s (Dollar and Kraay). This growth has helped the poor. An example is Malaysia, where the aver-

age income of the poorest fifth of the population grew at an amazing 5.4 percent annually. Also, the percentage of the population living in those countries that lived on less than a dollar a day dropped sharply during the 1980s and 1990s. In Bangladesh, it dropped from 46 percent to 36 percent (Dollar and Kraay). The empirical research is lucid—free trade causes growth, which reduces poverty (Dollar and Kraay; Government of Australia; Larson).

Free trade reduces global poverty by lowering tariffs, which lowers the cost of necessities, increases government revenue, and increases investment. The most obvious effect of free trade is lowered tariffs. Tariffs reduce the amount of the product sold and the amount of money producers receive. When the tariffs are removed, a poor farmer is able to get more for his product and is able to sell more, meaning that his profits increase dramatically, making him less poor. Another direct benefit of lowering tariffs is that the prices of imported goods fall. This means that the poor may be able to afford goods and services that they previously could not, raising their standard of living. Cheaper basic foods and pharmaceutical/medical goods would especially benefit the poor. Fewer tariffs also mean cheaper and more accessible technologies, such as fertilizer, that can help the poor and raise their standard of living. An example is the African Summit to Roll Back Malaria in 2000, where tariffs on goods and services needed to fight malaria were reduced or disposed off. Reduction of tariffs results in greater profits for producers and cheaper prices on imports for consumers, thereby reduc-

ing global poverty as the poor will have a higher income and fewer expenses (BBC; Bannister).

Free trade helps reduce global poverty by raising the income of governments, thereby increasing the amount of money governments can spend on programs to help the poor. Reducing tariffs generally means a greater flow of trade, which increases government revenue. This is because even though the tariffs are lower, there is a lot more trade, so the tariff is charged more often, increasing government revenues. Also, lower tariffs cause the price of imported goods to fall, allowing more individuals to buy such goods. When people buy more goods, the government receives more taxes, increasing their revenue. In addition, lower tariffs often mean less corruption and smuggling, resulting in more goods being declared at customs, thus increasing government revenue. Lower tariffs also simplify tax administration, reducing government spending. Due to the increase in revenue, the government can afford to implement programs to help the poor that they could not have beforehand (Bannister).

Increased investment due to free trade helps reduce poverty. Due to reduced trade barriers, foreign companies are more likely to invest. The investment provides better technologies and new business practices. It also forces domestic firms to become competitive with the world market. This investment can be very beneficial to the poor. An example is the Nike factories in Vietnam. The workers, many who used to have to work on farms for 10 to 14 hours a day, are paid about three times the

minimum wage for a state-owned enterprise (Norberg, p. 44). This enables workers to slowly work themselves out of poverty and provide a better future for their children. Workers also receive free or subsidized meals, free medical clinic, and education. In addition, domestic firms are learning how to run successful businesses from watching how Nike treats its employees. Clearly, the investment that comes to a country due to free trade has many benefits for the poor, both in the short and long run (Bannister; Norberg, pp. 43-46).

In order to increase the benefits of free trade both the trade capacity and human capacity of a country must be increased. The trade capacity of countries can be increased in a number of ways. First, countries have to be willing to open their markets and allow free trade to happen. The United States, the European Union, Japan, Canada, and Australia, to name a few, have done this to some extent by reducing trade barriers for countries that are classified as LDCs, or Least Developed Countries. However, about 80 percent of the world's poor do not live in LDCs, but rather in large developing countries such as China (Larson). In order for free trade to truly help the poor, developed countries have to extend free trade to those countries as well. In the process of establishing free trade, those within the country have to be taught how to trade. That is why developed nations have set up programs to train trade negotiators so that as countries develop free trade they will be able to represent themselves well in World Trade Organization negotiations. Developed countries also help countries devel-

oping free trade to promote experts, small and medium businesses, and protect intellectual property rights. All these things help increase a country's ability to trade so they may benefit from free trade. Also, a country's human capacity must be increased. This is primarily done through education, which "boosts individuals'

Empirical research shows that free trade reduces global poverty. It does this by lowering the cost of basic necessities and increasing government revenue, allowing governments to help their poor, as well as increasing investments.

abilities to make informed choices, giving them more tools to combat poverty and the flexibility to adapt when change is warranted" (Larson). Those with a higher education can get better jobs and make more money, therefore alleviating poverty. That is why it is very important to invest in the education of those in developing countries that are working towards free trade. By increasing trade capacity in a number of ways and increasing human capacity through education, the benefits to the poor of free trade can be maximized,

but the developed countries of the world need to be willing to help (Larson; Government of Australia).

Empirical research shows very unmistakably that free trade reduces global poverty. It does this by lowering the cost of basic necessities and increasing government revenue, allowing governments to help their poor, as well as increasing investments. Benefits are seen best when trade and human capacities are also increased. Free trade reduces global poverty. Perhaps one day, global poverty truly will be eradicated and the image of a starving child will be a far off memory rather than today's reality. That is why free trade is so crucial to the world's future.

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The Cost of Canada's Public Debt

by Christopher Twardawa

Public debt figures

As of March 31, 2003, the net federal debt of the government of Canada was \$511 billion (PWGSC, 3.2). By April 1, 2003, Statistics Canada estimated Canada's population at 31.5 million people. In other terms, that means that in 2003 the public debt represented \$16,186.48 per individual.

Servicing the debt

The revenues of the 2003-2004 government of Canada budget exceeded spending by \$6.78 billion. Spending accounted for \$197 billion (Statistics Canada, 2004a), which is roughly \$6,255 per individual. During that financial year, the cost of supporting the debt, that is, the service of the debt, amounted to \$23.78 billion, or 12 percent of the total budget. It also represents \$750 per individual. That means that if the debt were to be eliminated, there would be an extra \$750 per individual in the federal government's annual budget.

The \$23.78 billion that make up the annual debt burden is one billion dollars more than all of the federal government spending in 2003-2004 on health, education, transportation and communication, the environment, research establishments, housing, labour, employment and immigration, and regional planning and development combined.

Without the public debt, the government could make one of the following investments while delivering even more surplus:

- ⇒ double its spending in the eight areas mentioned above, while delivering an extra billion dollars towards the surplus; or
- ⇒ double its spending in the protection of persons and property, which includes national defence, while delivering an extra \$3 billion towards the surplus; or
- ⇒ increase its general purpose transfers by two-thirds while delivering an extra \$2.5 billion towards the surplus.

From a different standpoint, without a debt, the government would have the option of carrying out one of the three following reductions while delivering additional surpluses:

- ⇒ reducing personal income tax by 25 percent; or
- ⇒ reducing the Goods and Services Tax (GST) from 7 percent to 1.1 percent; or
- ⇒ eliminating the 10-cent-per-litre tax on gas, cut corporate income tax in half, and eliminate all customs import duties, excise duties, air travellers' security charges, and miscellaneous excise taxes and duties.

The interest rate

The current average interest rate of the debt is 4.66 percent. Considering that interest rates rise and fall over time, and considering that interest rates are at very low levels, it is reasonable to believe that the debt's average interest rate will increase sometime soon. Although small, a two per cent hike in the debt's aver-

age interest rate implies an increase of \$10 billion per year in debt servicing costs, which amounts to five percent of the annual federal budget (the total service of the debt would then represent 17 percent of the federal budget.) If Canada does not wish to fall back into deficits, such an increase would have to be dealt with. Although Canada currently is deliv-

During the 2003-2004 year, the cost of servicing the debt amounted to \$23.78 billion, or 12 percent of the total budget (representing \$750 per individual).

ering surpluses, \$10 billion is equivalent to all of the spending done by the government in environment, health, and transportation and communication combined.

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Le danger des fausses informations

par Marc-André Brisson

L'information est une notion essentielle en économie. D'ailleurs, l'alter mondialiste et lauréat du prix Nobel d'économie Joseph Stiglitz a démontré qu'en cas d'asymétrie, les différents acteurs ne peuvent pas bénéficier d'un résultat optimal des bénéfices de l'échange. Or, lorsque le gouvernement décide de légiférer ou d'intervenir dans l'économie, il donne des fausses informations au marché, ce qui pousse certains acteurs à modifier leur comportement et cela empêche certaines personnes de maximiser leur bien-être.

Il faut dire que les décisions d'un gouvernement démocratiquement élu reflètent, la plupart du temps, l'intérêt de la majorité. Mais les intérêts de la minorité sont parfois bafoués par certaines interventions, car seul le marché peut contenir toute l'information de la somme des préférences individuelles. D'ailleurs, le secrétaire du Parti communiste de l'Union soviétique Nikita Khrouchtchev avait même dit : « lorsque tout le monde sera

socialiste, la Suisse devra demeurer capitaliste afin que l'on puisse connaître la valeur de chaque chose ». Mais pour la plupart des partisans d'un gouvernement interventionniste, un déraillement de l'information du marché n'est pas en soi quelque chose de négatif, du moins si ce déraillement poursuit une logique formaliste kantienne.

Il faut toutefois savoir que les perceptions de chacun sont différentes et sont influencées par nos attentes, nos besoins, nos croyances et nos émotions. Ainsi, pour un opposant au tabac, il sera approprié qu'un gouvernement dépense des sommes considérables pour convaincre les gens d'arrêter de fumer. Alors que pour d'autres qui choisissent de fumer en toute connaissance des dangers, ces dépenses seront totalement inutiles et réduiront considérablement leur bien-être, puisqu'ils auraient pu faire un bien meilleur usage avec l'argent économisé. Ainsi, comme l'a si bien démontré Ludwig Von Mises dans son combat acharné contre le

socialisme, seule une économie de marché prend en compte les préférences individuelles de chacun et est capable d'incorporer les dimensions rationnelles et irrationnelles de chaque homme. Et, contrairement à un plan d'intervention gouvernemental basé sur le désir de la majorité tel que traduit dans le résultat des dernières élections, tous les intervenants sont sondés à chaque jour par le marché dans la décision de chacun de s'abstenir ou d'acheter un produit ou un service.

Mais, un des plus grands dangers des fausses informations introduites par une intervention gouvernementale est que cela peut conduire à un gaspillage des ressources. Par exemple, dans l'Ouest Américain, le problème du manque d'eau fut accentué par les politiques du gouvernement central. Pourquoi? Parce que la politique d'offrir aux fermiers de l'eau à un prix nettement inférieur au coût de production pour peupler l'Ouest a encouragé une expansion des cul-

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tures nécessitant beaucoup d'eau et cela a contribué directement à la diminution des réserves d'eau potable tout en contribuant à en faire augmenter la demande future. Or, aucun entrepreneur n'aurait pu approvisionner à bas coût et pendant aussi longtemps une région aride sans augmenter ses prix, mais seul un monopole gouvernemental a pu le faire et ainsi accentuer les problèmes que l'on connaît aujourd'hui. Mais malheureusement, les intervenants gouvernementaux tentent trop souvent d'améliorer la situation à

court terme en oubliant de penser aux conséquences à long terme et privilégient trop souvent ce que l'on voit à ce que l'on ne voit pas.

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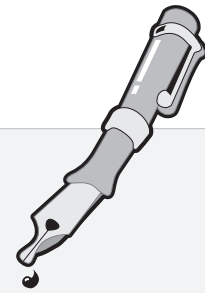
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In Response



Reply to: "Letter: On Fair Trade Coffee" by Joshua Prowse

Dear Editor:

In his reply to my article entitled, "Cup o' Injustice: Fair Trade Coffee Not as Fair as You Think," Joshua Prowse wrote that I falsely presented "free trade and fair trade as opposites" and that what I failed to grasp was that "fair trade coffee is an excellent example of the free market at work..."

On the contrary, nowhere in my article do I attack fair trade coffee as a product being made available for consumption. Personally, I cheer the availability of fair trade coffee as another choice in the free market. After all, more choice is better. I only encouraged the boycott of purchases of fair trade coffee at Osgoode so as to send a political statement in support of free trade.

The purpose of my article was to shed light on the underlying thinking and implications behind the fair trade movement itself, which seeks to thwart the gains made from free trade. The fair trade concept is nothing more than a veneer that attempts to cover up the underlying anti-liberal and protectionist tendencies of its adherents. The fair trade movement has much larger goals than simply selling coffee. Globally, fair trade adherents aspire to replace free trade with fair trade. Nothing could be worse for the economic freedom of the world and the wealth it creates.

Chris Schafer
Osgoode Hall Law Student

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

by Jeremy Brown

What they know...

Cancer rates among Canadians are soaring due to increased exposure to synthetic chemicals in our environment and in our food.

Why it ain't so...

In their book *Misconceptions about the Causes of Cancer*, noted toxicologists Lois Swirsky Gold, Thomas Slone, Neela Manley, and Bruce N. Ames explore common misconceptions about cancer. Among their findings are three points against this widely cited myth. First, they point out that the cancer incidence is declining for most cancers or, in the case of lung cancer, is the same as it was in the 1970s. Second, they note that synthetic chemicals are not a significant cause of human cancer. Finally, they conclude that reducing pesticide residues is not an effective way to prevent diet-related cancer.

Overall cancer death rates in Canada (excluding lung cancer due to smoking) have declined 17 percent in women and 5 percent in men since 1971. If lung cancer is included, current cancer mortality rates are similar to those in 1972. For some cancers, mortality rates have begun to decline due in part to early detection, treatment, and improved survival. This is clearly the case with breast cancer in women. The types of cancer where death rates have increased are often linked to specific lifestyle choices: 80 to 90 percent of lung cancer in Canada is due to smoking, for example, and mela-

noma is most likely due to excessive exposure to sunlight.

Gold *et al.* point out that it is important to focus on *death rates* of cancer as opposed to the *incidence* of cancer because “the scope and precision of diagnostic information, practices in screening and early detection, and criteria for reporting cancer have changed so much over time that trends in incidence are not reliable” (Bailar and Gornik, 1997, pp. 1569-70).

Gold *et al.* explain that neither epidemiology nor toxicology supports the idea that exposures to synthetic industrial chemicals at the levels at which they are generally found in the environment are important as a cause of human cancer. Instead, other environmental factors have been identified in epidemiological studies that are likely to have a major effect on lowering cancer rates: reduction of smoking, improving diet (e.g. increasing consumption of fruits and vegetables), hormonal factors, and control of infections. Because cancer is due, in part, to normal aging and increases exponentially with age, the proportion of cancer caused by normal metabolic processes will increase with an aging population regardless of exposures to normal levels of synthetic industrial chemicals in the environment.

In fact, contrary to common perception, Gold *et al.* explain that 99.9 percent of the chemicals humans ingest are natural. The amounts of synthetic pesticide residues in plant

foods, for example, are extremely low compared to the amounts of natural “pesticides” produced by plants themselves. These natural pesticides are chemicals produced by plants to defend themselves against fungi, insects, and other animal predators. Americans eat about 1,500 mg of natural pesticides per person per day, which is about 10,000 times more than they consume of synthetic pesticide residues. Even though only a small proportion of natural pesticides have been tested for carcinogenicity, half of those tested (38 out of 72) have been found to be carcinogenic in rodents; naturally occurring pesticides that are rodent carcinogens are ubiquitous in fruits, vegetables, herbs, and spices. No diet can be free of naturally-occurring chemicals that cause cancer in rodents.

Contradicting the claims of anti-pesticide advocates, Gold *et al.* explain that reducing the use of pesticides will not effectively prevent diet-related cancer. Indeed, the authors explain that less use of synthetic pesticides would increase the cost of fruits and vegetables and, thus, likely reduce consumption, especially among people with low incomes who spend a higher percentage of their incomes on food. Diets high in fruits and vegetables, which are the source of most human exposures to pesticide residues, are associated with reduced risk for many types of cancer.

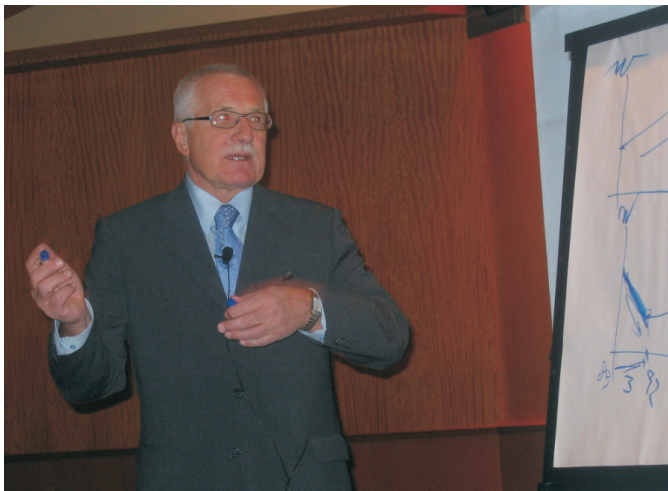
Since there is no risk-free world and resources are limited, society must set priorities in order to save the greatest number of lives. Gold *et al.* point out that regulatory efforts to reduce low-level human exposure to synthetic chemicals distract from efforts to improve public health through increasing scientific under-

standing about how to prevent cancer (e.g., the role of diet), and increasing public understanding of how lifestyle influences health.

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For more information about the misconceptions addressed above, see **Misconceptions about the Causes of Cancer** by Lois Swirsky Gold, Thomas H. Slone, Neela B. Manley, and Bruce N. Ames, third in the *Risk Controversy Series* published by and available through The Fraser Institute. ☞



His Excellency Václav Klaus, President of the Czech Republic, gives a presentation to students at the Toronto student seminar, November 13, 2004.



Former Ontario Minister of Health, Tony Clement, visits with students following his luncheon presentation at the Toronto student seminar, November 13, 2004.

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Our Health Care System Is Nothing to be Proud Of: Others Do it Better

by Nadeem Esmail

On November 29, 2004, Tommy Douglas was selected as CBC's "Greatest Canadian" over such luminaries as Sir John A. Macdonald, Frederick Banting, and Terry Fox. This result suggests that CBC viewers are particularly proud of Douglas's legacy: the founding of Canada's universal access health care system. However, this result also suggests that Canadians may be misinformed about the realities of our health care program.

First, it is important to note that Canada is not the only country in the developed world that guarantees access to care regardless of ability to pay. Though it is true that we have the only such program in North America, fully 28 of the 30 most developed nations on this planet have programs that ensure access to health services regardless of ability to pay. In many cases, these programs outperform Canada's in terms of access to health services and quality of services delivered, while none (on an age-adjusted basis) costs more than our own.

Contrary to belief, Canada's health care system is not the envy of the world, either. In fact, most other nations have realized that the Canadian health care model, which was originally based on the now failing British National Health Service, is not one to be emulated. A number of European countries are moving further and further away from Canadian-style health policies.

Why are these nations rejecting the Canadian model? To put it simply, the monopolization of comprehensive health insurance and the monopolistic provision of hospital services have meant a more expensive and lower standard of health care in Canada than would otherwise be possible. As a result, Canadians pay for the most expensive universal access health care system in the world (we're tied with Iceland on an age-adjusted basis), and in return receive some of the worst access to physicians and technology, some of the longest waiting times in the developed world, and only mediocre health outcomes.

Countries with more competition in health services have done a far better job of delivering universal access to health services. Australia, Austria, Belgium, France, Germany, Japan, Luxembourg, Sweden, and Switzerland all have private hospitals delivering publicly funded care, all have cost sharing arrangements for publicly funded care, and all allow individuals to seek care privately. As a result, all of these nations manage to have either better health outcomes from care, or access to care without waiting lists, or, in the cases of France and Japan, both. In addition, not one of these nations spends more on an age-adjusted basis to deliver that level of care to all its citizens.

It is also important to note also that the Canadian health care system was not one of the first universal

health care systems in the world. Compulsory health insurance was first introduced in Germany as early as 1883, while the British National Health Service was introduced in 1948 (just 4 years after Tommy Douglas became premier of Saskatchewan and 20 years before Canada's Medical Care Act). The Canadian health care program was being developed around the same time that the Swedes and the Belgians were introducing universal access programs, though their programs had much earlier origins than our own.

The one truly unique feature of the Canadian health care system is not the direct result of Tommy Douglas's actions. Canada is the only developed nation that denies individuals the right to seek health care on their own terms when the government program is unwilling, or unable, to deliver services in a time frame that provides comfort and peace of mind. That unique feature is more the legacy of the 1984 update of the original Act, which was passed 40 years after Tommy Douglas first took power in Saskatchewan.

Though the CBC contest clearly implies that many Canadians are proud of Canada's health care scheme, which guarantees all citizens access to medically necessary services regardless of ability to pay, the evidence tells us that the system itself is failing. Canadian taxpayers foot

the bill for the most expensive universal access health care system in the developed world, yet manage to buy access to physicians and technology that ranks among the worst in the developed world for those who fall ill.

If the health care system is such a great source of pride to the contest participants, then improving that

health care system should be job number one for them. If naming Tommy Douglas “the Greatest Canadian” helps these individuals and others realize the need for improvement, and leads to an honest and informed discussion about what other more successful nations have been doing, then it is a genuinely good thing. If, however, it leads to further

uninformed assertions claiming that Canadians are uniquely defined by their universal health care program, and how the status quo must be maintained at all cost, then nothing positive will come from this recognition of the importance of Medicare to those who voted for Tommy Douglas through the CBC. ☞

Is There a Future for Health Care Reform?

Below is an excerpt from a speech by **Tony Clement**, the former Health Minister of Ontario, to a Fraser Institute Student Seminar on Public Policy Issues held in Toronto in November 2004.

... A more fundamental question gets asked with greater frequency: is the Canadian Health Care system so broke that no amount of tinkering will fix it? This question goes to the very core of the status quo, and leads to much heat but not much light when it is even hinted at in political circles.

Indeed, it is not merely an academic question, as the Supreme Court of Canada (SCC) is considering a challenge to the closed-end monopoly that is the current health system in Canada. If the court rules that there is an inherent Charter right to consume health care outside the public system, if the wait times are too long, this overturns the health care system in an instant. Even without a ruling by the SCC, Canadians are voting with their feet—and their dollars.

They continue to seek a way around lines by going to the US, and even India for treatment. (I’ve toured the private hospitals of New Delhi and Bangalore, and they are impressive.) They continue to seek alternative remedies not covered by the health system. Ontario, Quebec, and other provinces continue to either de-list services previously considered medically necessary, or simply deem diagnostic and other services as payable at source of service.

But the whole two-tier debate continues to be the political third rail of Canadian politics, and Canadians get scared whenever politicians muse about for-pay, or even for-profit solutions to wait times, to imagine that the thin edge of the wedge will bring in unaffordable health care when they need it.

So what is the solution?

First, the debate must be broadened beyond the single-tier versus two-tier debate. That is why Medical Savings Accounts and other ways to promote patient choice, with their tax dollars that go to health care, are so important. Anything that forces providers to take the patient seriously, and to make the provider more accountable directly to the patient (not just to the bureaucracy of the government) is a positive step.

The prospects of reform really come down to this question: are you an optimist or a pessimist? A pessimist will assume that things can only get worse; therefore, the risks associated with Big Change outweigh the possibilities of success. It would be better to put a whole lot of money into health care, and make minor changes around the status quo, and hope for the best.

Optimists see that change, even Big Change, is inevitable and desirable. They see that the very best of human ingenuity is unleashed when the need for change is the strongest... ☞

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