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The CRTC's Phoney Logic

by Robert Embree

On May 12, Canada's ruling telecom oligarchs at the Canadian Radio-television and Telecommunications Commission (CRTC) handed down yet another edict based on faulty logic and bad economics. Canada's telecommunications regulator has decided that established telecom companies will not be able to sell internet-based phone services (otherwise known as VOIP, short for Voice Over Internet Protocol) "below cost," fearing that they will reduce competition (CBC News, 2005). The CRTC wants new companies to enter the VOIP market, and is allowing them to set their prices as low as they want. As well, the CRTC has decreed that the bigger phone companies will not be allowed to attempt to re-attract customers for a year after they have switched VOIP providers, a rule known as the "winback" provision.

The CRTC has made one of the classic errors of meddling corporate regulators everywhere—confusing what is bad for *competition* with what is bad for *competitors*. The presence of numerous competitors is not necessary for the presence of a vigorously competitive market. Indeed, competition can be precisely what reduces the number of competitors. There are numerous examples of industries



with two firms, or even one, that are still highly competitive. If an established firm no longer prices its products competitively, consumers purchase from other existing or newly established firms if there are no barriers to entry in the marketplace.

In this particular case, by narrowly defining the market to VOIP companies, the CRTC has obscured the fact that the market for communications as a whole is hugely competitive, containing not just VOIP but a whole galaxy of options offered by numerous firms, including wired and wireless phone and fax services, email and other internet communications, and the postal service. These services are offered by numerous phone, cable, satellite, and media companies. Even if there was only one VOIP provider in a given area with the ability to keep other firms out of the VOIP market, a price increase would drive consumers away to other methods of communication.

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The Fraser Institute is an independent Canadian economic and social research and educational organization. It has as its objective the redirection of public attention to the role of competitive markets in providing for the well-being of Canadians. Where markets work, the Institute's interest lies in trying to discover prospects for improvement. Where markets do not work, its interest lies in finding the reasons. Where competitive markets have been replaced by government control, the interest of the Institute lies in documenting objectively the nature of the improvement or deterioration resulting from government intervention. The Fraser Institute is a national, federally chartered non-profit organization financed by the sale of its publications and the contributions of its supporters.

The rationale for encouraging competition is that it benefits the consumer by lowering prices, or improving quality, or both. However, the new plan is designed specifically to prevent lower prices from being charged. The CRTC's rules would be a boon for the unregulated VOIP companies and other competitors with different communications services, but the effect would clearly be to raise the average price paid by the consumer.

As well, the CRTC's attack on selling "below cost" raises a host of interesting issues (Sowell, 1980, p. 169). For example, economic theory tells us that it is in a firm's best interest to sell a product if the marginal revenue is higher than the marginal cost of producing the next unit of good or service. However, if the CRTC takes "cost" to mean average cost, which would include a portion of the cost of the phone company's physical infrastructure, then many economically beneficial transactions could be blocked.


The CRTC's so-called "winback" rule is the cherry atop this sundae of tomfoolery. The act of directly attempting to win back customers should be promoted, not discouraged. Banning forms of direct competition (offering incentives and better prices to entice customers) in the name of promoting direct competition is illogical.

The essentially arbitrary nature of this decision is underscored by the presence of other large players who have nearly the same price-cutting ability, under the CRTC's obtuse standards at least. However, they are not subject to these rules because they are cable companies and are categorized differently, despite being able to offer many of the same services.

Canada's continued over regulation of telecommunications is resulting in higher prices and less access to phone services. Despite this, as of this writing, it appears unlikely that the federal cabinet will overrule the CRTC.

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Robert Embree is an Economics student at Queen's University in Kingston, Ontario. Originally from Antigonish, NS, Robert has strong interests in politics, law, and government fiscal policy.

Student Editorial Writing Contest: Contest Winner

The Futile Crusade

by Jordan Voith

With prison systems overflowing, billions of dollars being squandered, and no significant decrease in drug use, America must question the efficiency of its War on Drugs. What was initially a valiant, yet unrealistic undertaking of the Nixon administration has become a disaster for contemporary American government. All evidence, including multiple federal reports, suggests that America's current anti-drug methods are simply ineffective. The result is a definitive need to rethink the efficacy of the War on Drugs.

The greatest mistake American has made in this war on drugs is its extensive misallocation of funds. Billions of dollars have been poured into border defenses to stop the flow of narcotics into America. However, the Drug Enforcement Agency (DEA) estimates that less than 1% of all imported narcotics are seized at the border. Considering the hefty investment, this success rate is unacceptable.

America's "getting tough" policy has fared no better. The irrational policy levies ever-stricter prison sentences on drug dealers and users. The Bureau of Justice Statistics has determined that 10,000 Americans will be incarcerated on drug charges this year. This number, which is growing annually,

has left prison systems overpopulated and understaffed. The Bureau also reports that approximately \$400,000 is necessary to incarcerate a drug dealer. The cost includes \$150,000 for trial and conviction, and \$50,000 to \$150,000 to make room for a new inmate. It also costs close to \$30,000 per year to house a prisoner and pay for their costs of living. With an average sentence of 5 years, that adds up to another \$150,000.

This cost, considered with the expense of 10,000 new inmates per

year, amounts to a total cost of \$4 billion annually.

All evidence, including multiple federal reports, suggests that America's current anti-drug methods are simply ineffective. The result is a definitive need to rethink the efficacy of the War on Drugs.

From the Editor

This winter issue of *CSR* is once again full of interesting articles, many written by students like you, on policy issues that affect Canadian students. You will find articles on VOIP regulation, health care policy, and air quality.

Do you have something to say? We are looking for authors for upcoming issues. For more information on submission guidelines, please contact me.

We thank the Lotte & John Hecht Memorial Foundation, whose generous sponsorship of *CSR* allows us to distribute over 14,000 electronic and print copies across Canada.

Best wishes,

Vanessa (student@fraserinstitute.ca)

America's War on Drugs has become international. Seizure of coca plants is commonplace in South America. Raids against marijuana growers in Mexico are no rarity either. Now, the war America undertook is infringing upon Canadian sovereignty. The US has recently deemed it reasonable to extradite our nation's most active marijuana activists. Marc Emery, Michelle Rainey-Fenkarek, and Gregory Keith Smith are all currently under arrest in the US for selling marijuana seeds online. Although this is illegal in America, there is no law preventing the commercial sale of seeds within Canada. America's decision to fight the War on Drugs is just that, *America's decision*. The conflict should not be international.

Regardless of other failures, America's most fundamental error in the War on Drugs has been its unrelenting support of punishing drug users. The solution to America's drug problem is proper treatment of drug users, as opposed to punishment. "Domestic enforcement costs 4 times as much as treatment for a given amount of user reduction, 7 times as much for consumption reduction, and 15 times as much for societal cost reduction," says Mr. Samuel Everingham in a report prepared for the Office of National Drug Control Policy (*Controlling Cocaine*, RAND, 1994. See http://www.drugpolicy.org/library/factsheets/economicconsfact_economic.cfm). He also details that \$155,000,000 invested into treatment will stop about the same amount of drug use as 20 times that amount invested into border control. Treatment for drug addicts now receives less than 20% of America's "drug budget," and that number is reducing yearly. This is the only way to stop the cyclical pattern of drug abuse.

Hopefully, America's consistent failure in its War on Drugs will become apparent to even its most steadfast and narrow-minded ambassadors. Their methods must be altered before drug use becomes a plague on American society. A revelation now within the Bush administration will save countless lives, and unthinkable sums of money down the road. As Albert Einstein so eloquently said, "nothing is more destructive of respect for the government and the law of the land than passing laws which cannot be enforced."

General sources

All sources quoted can be found in <http://www.drugsense.org/wodclock.htm> and <http://www.druglibrary.org/schaffer/library/basicfax.htm> ☞

Jordan Voith is a student at Collingwood School in West Vancouver, BC. "The Futile Crusade" was the winner in the CSR student writer op/ed contest. (See details of the current contest on page 6 of this issue).

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The Death of Health Care?

by Seyitbek Usmanov

The health care system, one of the proud symbols of Canadian “achievement,” is unsustainable and on a path to bankruptcy, if present trends persist. Statistics Canada reports that in 2005 provincial health care expenditures grew at a stunning 8.1%, while the economy grew by 4.6% and total provincial government revenues by 3.5%. “Over the course of the last several years, health care spending has been growing faster than our economy,” Glenda Yeates, Canadian Institute for Health Information president, confirmed. (CIHI, 2005).

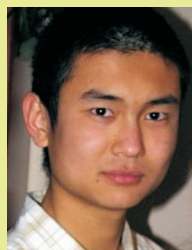
Growth in public health expenditures repeatedly outpaces that of provincial budgets, which causes it to occupy an ever greater share of the budget. The Fraser Institute’s projections, based on the last eight years, predict that provincial health care expenditures will constitute 50% of total provincial revenue in 23 and 24 years in Quebec and Alberta respectively, and 15 years in Ontario. By roughly 2027 every dollar of Ontario’s budget will be spent paying for provincial health expenditures, thus crowding out all other budget items (Skinner, 2005, pp. 11, 18). An important caveat is that the estimates do not take into account the aging population, which would certainly lead to a decrease in income tax revenue and higher health expenses, so an earlier meltdown of the health care system is likely (Skinner, 2005, p. 1).

If health care costs end up dominating provincial total revenues, other key government services, such as education, will have to be cut, or health care expenditures will have to be curtailed significantly, or provincial revenues will have to rise. What is the solution?

Some groups, like the Canadian Federation of Nurses Unions, recommend an increase in taxes. An increase in taxes could surely keep up with a rise in health care spending, but is a short term solution. The Ontario government has tried this approach by introducing the “health premium” in 2004, but provincial health costs are still growing faster than the provincial budget. And of course, taxes cannot perpetually be raised to keep up with rising health costs until they consume 100% of income.


A PriceWaterhouseCoopers report, *HealthCast 2020: Creating a Sustainable Future*, recommends a health system in which the patient and the state share the cost of treatment, in addition to giving citizens the option of private insurance (PriceWaterhouseCoopers, 2005). This would especially be effective in Canada since it is the only country in the Organisation for Economic Co-operation and Development (OECD) that has no parallel private health care marketplace. The private firms delivering health care would be driven to efficiency and excellence in their quest for profits, much like competitive companies in other markets.

Recently, Canada saw a move in the right direction with the Supreme Court’s ruling that people in Quebec can purchase private health care insurance for medically necessary services covered by the provincial health care system. The court ruled that the provincial health system failed to provide adequate service, because many patients were dying while waiting for care. Continued progress in this direction—towards cost-sharing and a parallel private system—will ensure that Canada’s health care system is truly something to be proud of.



Seyitbek Usmanov is a Commerce student at the University of Toronto, who is originally from Kyrgyzstan, a former Soviet Republic. He came to Canada last September to begin his studies at the University of Toronto’s Mississauga campus.

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Each contest submission must also include a paragraph describing which
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graph will serve to put the op/ed in context and will be
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For guidelines on how to write a good op/ed, check out the fall 2005 CSR
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OpEd%20contest%20and%20rules.pdf](http://www.fraserinstitute.ca/admin/books/chapterfiles/OpEd%20contest%20and%20rules.pdf) (go to page 2).



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Attacking Capitalism and the Middle Class

by Moin A. Yahya

Numerous critics have heaped their scorn on corporations since their inception. Joel Bakan's 2004 book (and movie), *The Corporation*, is no different. What sets it apart from prior works is the way he weaves scholarly analysis with populist rhetoric to achieve a seductively enchanting message. The message is, of course, that corporations have caused enormous social harm and have done so with impunity, because the law protects them. Worse, critics contend that corporations offend continuously by either ignoring regulatory laws or by influencing politicians to change the laws. Environmental damage, oppression of the masses, insidious marketing, and subversion of democracy are all used as examples of the harms corporations cause. For this, Bakan calls for a re-examination of the concept of limited liability (to which he attributes the rise of the modern corporation), a legal mechanism that allows the owners of corporations to escape full liability for the harms they cause.¹

The problem with this analysis is that it suggests that if only limited liability were abolished, all the ills he complains of would disappear. Limited liability as a legal doctrine may have only existed since the mid-nineteenth century, but limited liability has practically existed throughout history. Since the ancient days of Roman law, various legal systems have facilitated the creation of limited liability vehicles to conduct business. Even if shareholders

were fully liable for their corporations' debts, the amount that the creditors (both voluntary creditors such as banks and also involuntary creditors such as those having environmental claims against the corporation) could collect would be limited by the shareholder's personal wealth. While the incentives would certainly be different, it is not clear how abolishing limited liability would solve the problems Bakan complains of.

Interestingly, when limited liability was created, it was the social reformers who were its biggest supporters, since it meant that the common man could then have a chance at owning a share of the wealth generated by the industrial revolution. Abolishing limited liability would mean a return to the days when wealth was concentrated in the hands of the few. Those few and concentrated wealthy were far more successful at influencing the government agenda's than today's many and diffused CEOs. Abolishing limited liability would not make wealth-amassing individuals disappear. Hence, *The Corporation* is really an attack on capitalism and not the corporation *per se*. Capitalism has been targeted by many over the ages and defended by many; none better in this country than The Fraser Institute.

The Fraser Institute's contribution has been to show how the market is the solution to the problems attributed to corporations. The Fraser Institute's many studies have shown that the absence of well-defined property rights is the root of many of the social ills that plague us today (see e.g., Block, 1989). In the area of the environment, for example, the fact that no one owns the oceans, the rivers, the forests, or the air we breathe means that no one has an incentive to protect it in the same way we now have an incentive to maintain our houses, lawns, farms, etc. The state,



Dr. Moin Yahya is an Assistant Professor of Law at the University of Alberta. He participated in The Fraser Institute's student programs when he was a student at the University of Alberta and the University of Toronto in the 1990s.


which is charged with the care of the environment, has failed miserably (just look at our forests and fisheries). Where it has been effective, it has done so by using market mechanisms such as emissions trading (in the United States) (Hsu, 2004, p. 303).

Read the book, watch the movie, and discuss it with your friends. Then read one of the Institute's many publications or attend one of their seminars before deciding which side to take in this ongoing and contentious debate.

Notes

¹Bakan makes several well-argued points about the nature of the corporation, and the reader should read the book to get the full flavor of his critique. I deal with two of his points in my book review of the book forthcoming in the *Alberta Law Review*.

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*I work for nothing but my own profit
—which I make by selling a product
they need to men who are willing and
able to buy it. I do not produce it for
their benefit at the expense of mine,
and they do not buy it for my benefit
at the expense of theirs;
I do not sacrifice my interests to
them nor do they sacrifice theirs to
me; we deal as equals by mutual
consent to mutual advantage—and
I am proud of every penny I have
earned in this manner.
— from Atlas Shrugged by
Ayn Rand (1905-1982)*

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More than Scotch Came from Scotland...

by Cristina Tanase

How the Scots Invented the Modern World is historian Arthur Herman's testimony in support of the Scottish spirit, which led to some of the most amazing discoveries of the "modern world." "Discoveries" is not limited to only to material or scientific ones, but also to sets of ideas on economics, political philosophy, education, literature, architecture. In each of these categories, Herman says, we can nominate at least one Scottish leader.

The book is divided into two parts, the first handling the Scottish development from the 16th to the late 18th century, the second completing the portrait of the Scottish diaspora and its underlying contribution to the development of the British colonies of the United States, Canada, Australia, New Zealand, and Africa.

Religion, education, economics, and law played important roles in the Scottish people's progress. Scotland was, the author says, Europe's first modern literate society. By 1696, every parish was supposed to have a school and a teacher, according to the provisions of Parliament's Act for Setting Schools. The act had important effects on commerce: it contributed to the flourishing book trade, paper making, bookselling, and printing.

The Act of Union (1707) united England and Scotland into Great Britain, governed by a single monarch and a single British Parliament. This union, the author says, actually spurred Scotland's economic growth, moving its economy away from a "Third World country" stage to that of a "modern society." The Scots innovated and used the advantages of the laissez-faire private sector in the union, which provided English-style public order, enforced law, and maintained a standing army and navy. The price of this economic boom was the loss of political autonomy, the author explains.

This was the perfect moment for the Scottish Enlightenment to make itself conspicuous, showing its scientific side and concern for mathematics, medicine, law, and natural philosophy. The concepts of liberty, free society, and rights and obligations became popular within the theories of Pufendorf, Hutcheson, and Shaftsbury. The term "liberty" was especially associated with refined tastes, sophistication, and even politeness.

During the 18th century, an innovative, industrial, and mercantile Glasgow and an artistic and literary Edinburgh led the intellectual direction of Scottish society. At the same time, Edinburgh was jammed, blackened, and totally lacking in sanitation.

Arthur Herman also tackles the problem of the Scottish cultural identity, bound up as it is with England. He says the two nations are distinct in political as well as cultural terms. Yet, as Herman explains, although Scots became English speakers and culture bearers, they stuck to their Scottish roots.



Cristina Tanase is a journalist in Romania and attended the 2005 Institute for Economic Studies—Europe seminar in Varna. Her book review of How the Scots Invented the Modern World originally appeared at <http://www.economicthinkingbooks.blogspot.com/>

This book gives readers an understanding of the true Scots spirit; concepts like commercial society, monopoly, and means of production, no longer seem created solely as flamboyant explanations by self-interested entrepreneurs. Instead, they become alive and more humane with the author's excellent effort to bind them to those things that created them: liberty, refinement, progress of the human spirit, and commerce.

Personalities like Adam Smith and David Hume receive a whole sub-chapter in Arthur Herman's book. The historian thoroughly examines their theories and, adopting a fairly balanced tone, emphasizes the innovations in their theories. The author's balance is evident when, after having extolled concepts like Smith's division of labour, he also points out the Scottish thinker's worries about other effects of capitalism: corruption and cultural costs.

In the second part of his book, Herman shows how Scottish personalities like James Watt, Charles Darwin, David Livingstone, Samuel Finley Breese Morse, Alexander Graham Bell, and Thomas Watson influenced the rest of the world. This influence came from a blend of values, judgments, and the education they received, a blend that Herman says refers to what we are tempted to call the "American cultural type," but which in fact is of Scottish origin. This part also contains a short history of the Scottish colonization of North America, Australia (a former British penal colony), and New Zealand.


Following the Scottish example of education, colonists in North America—many of whom were, in fact, Scottish-born—developed a humanistic curriculum comprising the study of ancient as well as modern political thinkers. No

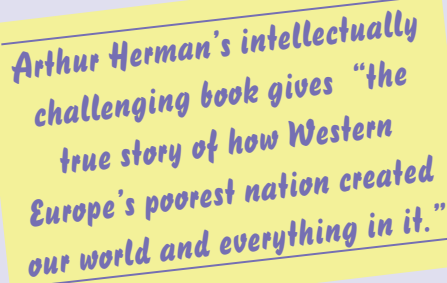
wonder that this system, based on the principles of free society, stood firmly against Parliament's efforts to tax and regulate internal affairs, the author says. No wonder that the feelings that animated the spirit of the American Revolution first originated in this Scottish-like prototype, characterized by "an independent intellect combined with an assertive self-respect, and grounded by a strong sense of moral purpose" and vigorously promoting the free exchange of ideas.

Literature stands as another example of Scottish cultural representation. What Walter Scott created with his *Rob Roy* and *Guy Mannering* was, according to Herman, an identity highly perceived as "national" and "characteristic" for the Scots: the myth of the noble Highlander attired in kilts, bonnets, tartans, and bagpipes, and singing Gaelic battle songs.

The author uses two interesting terms in this section. The first, "brain-drain," has exactly the same meaning as it does today, but importantly its advantages were already self-evident in the 19th century. The second, "liberal imperialism," points to the spread of liberal philosophy across the world. In the author's view, this kind of imperialism has good connota-

tions, because it imposes "better schools, more just laws, more prosperous towns and cities, more money in ordinary people's pockets, and more food on their tables."

Arthur Herman's book is intellectually challenging. The reader will learn how great Scottish intellects intertwined to give birth to, in the author's words, "the true story of how Western Europe's poorest nation created our world and everything in it." 



Arthur Herman's intellectually challenging book gives "the true story of how Western Europe's poorest nation created our world and everything in it."

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Things Folks Know...

What folks know...

Air quality in Canada is deteriorating.

Why it ain't so...

Newspapers in Canada, like those in much of the developed world, give extensive coverage to alarming claims about poor air quality and its impact upon health. Claims linking increasing rates of asthma and death due to air pollution are carried uncritically. Through surveys of students, The Fraser Institute has found a strong disconnect between the perceptions of environmental trends (mostly negative) among Canadian students and the reality of environmental trends (mostly positive): 74% of the students attending Fraser Institute seminars believe that air quality has failed to improve over the past ten years.

But the reality of the state of our air is quite different from the portrayals of alarmists or the understanding of the public. Things are, in fact, improving dramatically in the developed world as improvements in technology, higher incomes, and democratic systems have created an ever-increasing ability to protect the environment. There is every reason to believe that similar improvements will be seen globally as developing countries open to international trade and have access to advanced technologies. And, while many Canadians are unaware of it, the majority of environmental trends in Canada have been positive for decades.

The Fraser Institute's recent report, *The State of Urban Air in Canada*, uses Environment Canada data to examine the real state of environmental progress. The paper studies the underlying pollutants that degrade air quality and provides an analysis of these pollutants to illustrate trends in air quality across Canada and North America. Some examples:

- In Toronto, the concentration of nitrogen dioxide has decreased 52 percent and sulfur dioxide by 86 percent since 1974.
- In Montreal, the concentration of total particulate matter has decreased 72 percent and sulfur dioxide by 90 percent since 1974.

- In Vancouver, the concentration of carbon monoxide has decreased 76 percent and total particulate matter by 84 percent since 1974.

Among the study's key findings nationwide:

- Ambient levels of sulphur dioxide, a pollutant produced by burning coal and oil, which can cause breathing problems and aggravation of respiratory disease, decreased 72.2 percent from 1974 and 2001.
- Ambient levels of particulate matter, which can irritate lung tissue and reduce visibility in the air, decreased 50.7 percent from 1974 to 1999.
- Improvements in technology have resulted in an 82.6 percent decrease in ambient levels of carbon monoxide from 1974 to 2001 despite the fact that there has been a 30 percent increase in total vehicle registrations over the same period.
- Ambient lead levels fell 94 percent in Canada from 1974 to 1998, a concentration so low that it no longer needed measuring, and resources were diverted from lead measurement to other activities.
- Nitrogen dioxide, a highly reactive gas emitted by both natural and industrial activities, combines with volatile organic compounds to produce ozone, considered a precursor to smog. Canadian ambient levels of nitrogen dioxide decreased 34.4 percent from 1974 to 2001.

Clearly, claims of deteriorating air quality and claims that air quality is harming Canadians are misleading at best. Environment Canada's own data show that air quality has been improving in Canada over time, and that these improvements have not been small. The air we breathe is far cleaner now than it was just two decades ago.

Source

Brown, Jeremy and Milagros Palacios (2005). *The State of the Urban Air in Canada*. Digital publication. Available at <http://www.fraserinstitute.ca/admin/books/chapterfiles/UrbanAirComplete.pdf#>.

Call for Submissions

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