

# Canadian student review

Essay contest winners

*Sarah Morris and Teri Sproul*

In defense of greed

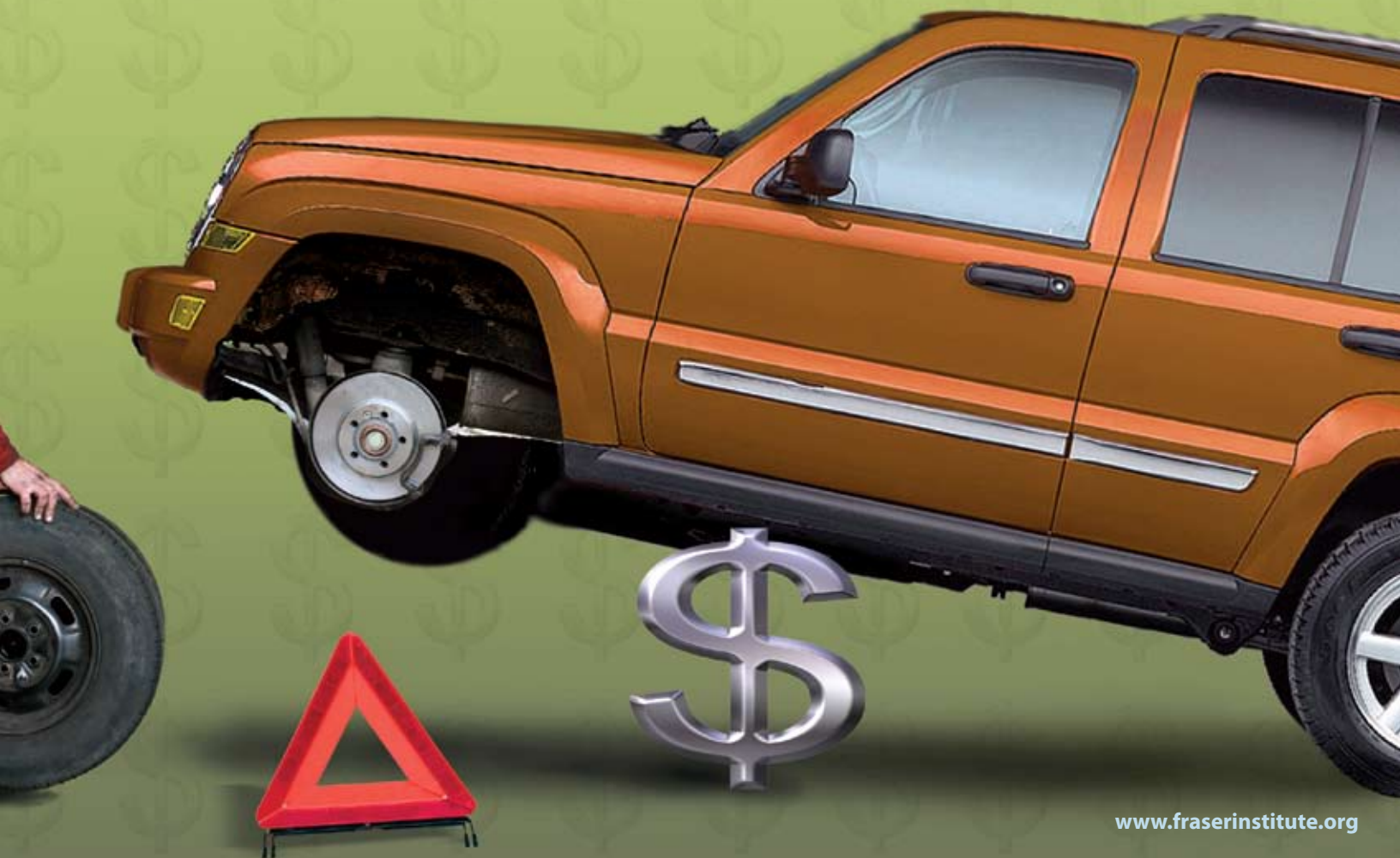
*Niels Veldhuis*

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...and much more

## *the Auto Industry* **BAILOUT** *... an economic flat tire*





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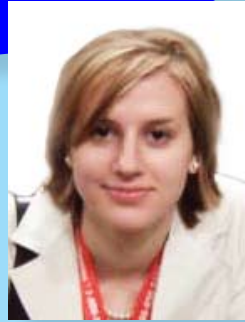


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# Canadian student review

## Canadian student review

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## Welcome!

Our Winter 2009 issue of *Canadian Student Review* is packed with great articles discussing topics like the value of greed, and the arguments for and against an auto industry bailout. We also dispute the validity of cap-and-trade schemes in "Things Folks Know"; present a review of Czech Republic President Václav Klaus' new book, *Blue Planet in Green Shackles*; and debut two winning essays from our 2008 Essay Contest, which challenge the status quo of Canadian health care.

We would like to thank the Lotte and John Hecht Memorial Foundation for their generous support, which enables us to distribute *Canadian Student Review* at no cost to campuses across Canada

Best wishes,

**Vanessa Schneider,**  
Director of Student Programs



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# *the Auto Industry* **BAILOUT** *... an economic flat tire*

by David Karp

**I**t is hard to fault the Canadian government for wanting to bail out the auto sector. After all, the politicians are only acting in their own self-interest.

With plummeting sales, the three major North American automakers—General Motors, Chrysler, and Ford—have pleaded with the Canadian and American governments for funding. They seem to have found a sympathetic ear. In the United States, President Barack Obama has indicated his support for a bailout package. In Canada, Minister of Industry Jim Prentice has been corresponding with the automakers to discuss possible help, while Minister of Finance Jim Flaherty has increased Business Development Canada's credit capacity to \$1.5 billion to help those businesses that are most affected by the financial crisis, "most notably in auto-related and other manufacturing enterprises" (Canada, Department of Finance, 2008).

Public choice theory—the theory that politicians try to maximize their votes rather than the public good—explains why the government is eager to help car companies. Given that more than 30,000 Canadians are employed by the three automakers, letting the car manufacturers close up shop would be like losing 30,000 votes (Canadian Auto Workers, 2007). Most Canadian auto industry jobs are in Ontario's 905 belt, a region where the Conservatives made big strides in the 2004 election. The Conservatives would like to maintain

the support of this region so that they will eventually have a chance at getting a majority government. The Liberals would also like to have the support of this region as it would help them improve their seat count. But is bailing out the automakers the best move for the economy?

Gary Becker, a Nobel Prize-winning economist at the University of Chicago, doesn't think so. In his blog, he writes that the restructuring the three automakers would go through during bankruptcy could help them become more competitive. Becker argues that the three automakers have been unsuccessful because of a lack of sound business practices.

"It is not that cars cannot be produced profitably with American workers: the American plants of Toyota and other Japanese companies, and of German auto manufacturers, have been profitable for many years," Becker writes. "Their workers have been paid well but not excessively, and these companies have kept their pension and health obligations under control while still maintaining good morale among their employees" (Becker, 2008).

There are signs of hope in Canada's auto sector. Toronto manufacturer Zenn Motor Company, for instance, has an entirely electric car on the market for under \$18,000, but it is having trouble reaching the Canadian market. Many provincial governments prohibit its use—even on busy city streets—because it has a maximum speed of 40 kilometres per hour.

By bailing out GM, Ford, and Chrysler, the government would be rewarding outdated practices while punishing companies such as Zenn, which must innovate to stay competitive. A bailout would retard economic progress. Companies should be producing a product that people

demand. If people do not want a product, they will not buy it. This natural mechanism of supply and demand forces companies to adapt by selling products that consumers want. A company that does not adapt will fail, and workers will have to move on to more productive pursuits.

This line of thinking is not new. In the nineteenth century, French economist Frédéric Bastiat also looked at the consequences of government subsidies for unnecessary work.

“As a temporary measure in a time of crisis, during a severe winter, this intervention on the part of the taxpayer could have good effects. It acts in the way of insurance ... it takes labour and wages from ordinary times and doles them out, at a loss it is true, in difficult times,” he writes. “As a permanent, general, systematic measure, it is nothing but a ruinous hoax, an impossibility, a contradiction, which makes a great show of the little work that is stimulated, which is what is seen, and conceals the much larger amount of work that is precluded, which is what is not seen” (Bastiat, 1848/1995: 18–19).

Subsidizing the unprofitable auto sector will prevent an enormous amount of human, financial, and capital resources from being used in more economically productive ways; it will prevent the development of the enormous potential that exists in what is not seen. Employees of General Motors, Ford, and Chrysler have the unseen potential to engage in other types of work that consumers demand more highly, and the public funds that would pay for the auto sector bailout could be put to more productive uses than propping up inefficient companies.

Right now, it is doubtful that the “Big Three” automakers are productive enough to compete in their industry. Otherwise, why would they be begging for public money in order to stay profitable? Clearly, a bailout for these companies would be a waste of immense human and capital resources, and it would only rob the automakers of the incentive to innovate. Is this really the most economically sound solution?

If the automakers close up shop, the short-term costs will be high. However, it is critical to separate what is best for the economy in the long term from the challenges that workers will face in the short term. Many jobs will be lost during the transition, but workers will eventually gravitate toward more useful sources of employment. In the meantime, Employment Insurance can provide a source of income while they look for new work or train for new careers.

If the government is worried about its short-term electoral prospects, a juicy bailout package for the automakers is

the way to go. But if it wants to do what is in the long-term interests of the country, it will encourage economic progress by leaving the automakers to their own devices. ■

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# How Government Can Help the Economy



## Difficult times require difficult choices

**T**he most effective way for the federal government to help the Canadian economy is to reduce government spending and permanently decrease personal income and business taxes, says Niels Veldhuis, Fraser Institute senior economist.

“Incentive-based tax relief would improve Canada’s competitiveness and provide a solid foundation for a vibrant economy unburdened by increased government debt in years to come,” Veldhuis says.

He highlights reductions in government spending and permanent tax reductions as key to economic recovery.

“Increasing government spending—whether it’s on bailouts for inefficient industries or increased unemployment benefits—will lead to a deficit that will saddle Canadians with higher taxes in the future,” Veldhuis says. “Our government needs to follow the lead of many Canadian households and begin by trimming the fat, not taking on more debt.”

Veldhuis recommends that the federal government reduce middle and upper personal income tax rates; eliminate the Capital Gains Tax; accelerate and build on the reduction in the corporate income tax; and facilitate the harmonization of provincial sales taxes with the GST.

The government could partially offset the revenue losses from reducing tax rates through the elimination of direct corporate welfare (bailouts, subsidies, loans) and tax rebates, reductions, exemptions, and credits that favour

certain types of business investments over others.

“Various levels of government have spent more than \$182 billion on corporate welfare over the past 12 years. Throwing more money at troubled industrial sectors merely transfers tax dollars from healthy businesses to unhealthy businesses and delays the day of reckoning,” Veldhuis says.

### *Tax relief would improve Canada’s competitiveness*

Veldhuis is critical of other popular suggestions for spending taxpayer’s dollars in the name of stimulating the economy, such as increasing infrastructure spending. This idea ignores the fact that there are very few projects that are actually ready to begin construction, he noted.

“It takes time to draw up project plans, get approvals, and coordinate among stakeholders. By the time the actual spending takes place, the economy may already be rebounding.”

Veldhuis also suggests the government avoid increasing employment insurance benefits as past evidence finds that higher benefits reduce the urgency and incentive for workers to look for employment in other industries and regions.

“Difficult times require difficult choices. Rather than relying on politically motivated attempts to stimulate the economy, the federal government should remain committed to balanced budgets and focus on improving the incentives for individuals and businesses to engage in productive economic activity.” ■

# Time to Care

By Sarah Morris  
*York House School, Vancouver, BC*

Canadians are suffering under the current health care system, which is failing to supply the quality and quantity of health care required to keep up with public demand (Esmail and Walker, 2007). Residents and citizens are faced with numerous deficiencies and obstacles when they seek medical attention, including long wait lists and extremely outdated technology. At the same time, government spending on health care is spiralling out of control at an unsustainable rate (Skinner and Rovere, 2007).

The centrally planned allocation of funding in each province means that the money does not necessarily go towards top priorities. Under the current structure of our system, these issues cannot be resolved; change to the system is essential. Having a private parallel system in addition to

Residents and citizens are faced with numerous deficiencies and obstacles when seeking medical attention

the public health insurance program would enable a broader range of Canadians to gain reasonable access to basic care. It would also reduce government spending on health and prevent simmering troubles—including unacceptably long wait times, outdated medical technology, and shortages of medical staff—from boiling over. In order to improve the Canadian health care system and resolve the health care crisis, a system comprised of a mix of public and private health care must be introduced.

At present, public health care legislation severely limits the role of the private sector through legal restrictions on privatization put in place by previous Canadian governments in the

Canada Health Act. The Act is a federal policy that “establishes criteria and conditions related to insured health services and extended health care services that the provinces and territories must fulfill to receive the full federal cash contribution under the Canada Health Transfer” (Health Canada, 2008a). Like a manual, the Act tells provincial governments how health care should be delivered to all Canadians if they wish to ensure cash transfers for health and social services from Ottawa.

Under the Act, a resident of Canada is entitled to public health care insurance, or Medicare, which pays for medically necessary hospital or physician services. A form of private insurance, which insures treatment beyond the core services offered by public insurance, is available as an add-on to existing health coverage. But private insurance cannot legally cover services outlined under Medicare in any of Canada’s provinces except, more recently, Quebec. Even though the principle of the system is to give all eligible people “universal coverage for medically necessary health care services provided on the basis of need, rather than the ability to pay,” (Health Canada, 2008b), the system is failing to supply reasonable access to all basic health care needs (Esmail, 2007).

The primary focus of Canada’s health care system should be the well-being of patients. Unfortunately, care is lacking and patients’ needs are being neglected. One of the major problems associated with patient care is the exceedingly long wait lists for medical services. In fact, by having lengthy waiting times for treatment, patients’ health problems often worsen (Davies, 1999). The result is physical, emotional, and financial distress to the patient and added pressure on the system, as the government must pay for the extra medical care needed because of the long delays (Esmail, 2008).

A Supreme Court case in 2004 was pivotal in bringing to light how wait lists infringe on the basic rights of Canadians. That year, Quebec’s policy of prohibiting private health insurance for services covered by public insurance was tested in court by Dr. Jacques Chaoulli. It was argued that the unreasonably long wait periods caused by Quebec’s



# High School Category



health care policies violated the Canadian Charter of Rights and Freedoms, which guarantees everyone the “right to life, liberty, and security.” The Supreme Court of Canada ruled that “the provincial policy violates the Quebec charter” (*Chaoulli v. Quebec*), and that the policy puts patients at risk of physical and emotional suffering, chronic disabilities, and even death (Day, 2008). This landmark case signified an era of change, and it became possible for Quebec to legalize private health care insurance for all services. The *Chaoulli* case also made evident the need for an updated health care system that permits private health care insurance in order to reduce wait times for medical treatment.

Canada’s central planning approach to health care funding also causes problems for Canadian patients. Provincial

health care budgets are allocated in such a way that patients do not have access to the latest health care technologies. In order for patients to receive the finest medical treatment, the most current technology and equipment is fundamental. However, financial resources for new technology and equipment are scarce due to the misallocation of funding, which prevents doctors from staying up to date with the newest techniques and developments in their field (Van Kampen, 2002). For example, Dr. Brian Day, former president of the Canadian Medical Association and owner of a private clinic in British Columbia, cannot perform an improved version of a hip arthroscopy at a public hospital because the hospital lacks the required equipment due to insufficient funds. Instead, he can only perform the procedure at his private medical clinic (Van Kampen, 2002). Unfortunately, residents of British Columbia cannot use private facilities for most elective procedures covered under public insurance, and because it is illegal for patients to purchase private insurance to cover procedures, they must pay cash for private services.

The current approach to funding is also discouraging health care professionals from working in Canada’s health sector. Many are frustrated with the inadequate technology, equipment, and services. Some of the best workers leave Canada for better compensation and/or better medical supplies and equipment in other countries (Day, 2008). In Canada, health care workers receive no financial incentives to work hard and compete amongst each other as they would in a fee-for-service scenario. Competition is a vital component of economic expansion as market prices lead to new technological innovations and increased efficiency, which boost economic growth and would ultimately result in better care for patients.

Funding problems and substandard patient care leave many Canadians wondering how the health care budget is spent. After accounting for the age profile of the population, Canada has the developed world’s third most expensive universal access health care program (Esmail and Walker, 2007). Because our system does not allow Canadians to seek numerous treatments from private, for-profit clinics, provincial health officials often send a number of patients to the United States to receive care (Priest, 2008, May 5). A popular media source recently reported that a large number of women are being sent to the United States for neonatal care. Families that are already faced with the emotional

The result is physical, emotional, and financial distress

difficulty of having a premature child are further discom-  
forted by having to travel long distances and be away from  
family in times of need in order for their baby to receive the  
required neonatal care (Priest, 2008, May 5). Because Canada  
can no longer provide enough treatment for premature  
babies, the government is paying high costs in the United  
States to ensure these infants survive. In these situations,  
procedures can be more than triple the cost, which is paid  
for entirely by the public health care system (Van Kampen,  
2002).

Allowing private clinics to perform procedures and services  
that are normally performed in public hospitals would  
benefit the public health care system. If practitioners were  
allowed to enter the market, competition would provide  
incentives for them to cater to the patients' needs. By

increasing the availability of  
treatment, waiting lists would  
also decrease, allowing patients  
to obtain medical attention in  
a timely manner (Van Kampen,  
2002). Allowing private health  
clinics would also reduce health  
care costs for patients and em-  
ployers. For example, when wait  
times are long, patients must take  
long-term paid disability leave,  
which makes them less produc-  
tive during this time and their  
employer less profitable. In the  
case of a RCMP officer, treatment  
for a hip injury would take 37

weeks using the public system and cost the RCMP's insurer  
\$60,000. Conversely, if the officer were to use a private clinic,  
the waiting time would be, at most, two weeks, and the  
treatment would cost \$4,700, including three weeks pay for  
recovery (Van Kampen, 2002). This example demonstrates  
the benefits of opening Canada's health care system to the  
private sector.

Opponents of privatization believe that private clinics are  
more expensive to run than a non-profit, public hospital,  
and, therefore, believe that private clinics would not be  
beneficial. But tax revenue does not pay for the increased  
expenses of these for-profit businesses, and so this point  
becomes irrelevant. If a private clinic charges more than  
what patients are willing to pay, it will go out of business.  
While some Canadians fear that private businesses could  
develop too great a role in the system, the introduction



of competition would lead to better medical services and  
lower prices (Esmail, 2007).

Equal access is not fundamental to privatization. Opponents  
know that by allowing private insurance and private medical  
services, those who are wealthier would have faster access  
to better care, which infringes upon the primary objective  
of the Canada Health Act, which is "to protect, promote and  
restore the physical and mental well-being of residents of  
Canada and to facilitate reasonable access to health services  
without financial or other barriers" (Health Canada, 2008a).  
Though privatization may seem to pose a moral dilemma  
for Canadians, those who are not able to purchase private  
insurance would still qualify for public health insurance,  
guaranteeing that everyone has access to care (Esmail,  
2007). Further, patients still would not be able "queue

## The introduction of competition would lead to better medical services and lower prices

# High School Category

jump” since private insurance holders would not be able to gain faster access to non-elective services and procedures (Esmail, 2007). With the operation of private clinics, patients with private insurance could purchase their surgery outside the public system, significantly reducing wait times for operating rooms in public hospitals.

By allowing Canadians to purchase private insurance that covers the same services as Medicare, the public system would treat fewer patients and incur fewer expenses, allowing them to spend more money on new technology and better services. There would also be room for federal tax rebates to offset the medical expenditures for the patrons of private care. Privatization would help make vital strides toward upgrading medical services and technology for all Canadians. It would also provide an incentive for health

care professionals to practice in Canada.

By opposing privatization, the government is prohibiting Canadians from obtaining the economic and personal benefits that would result from a thriving private sector. The current Canadian health care system is detrimental to patients who are in need of treatment, as they are faced with unreasonably long wait times, old technology and equipment, and shortages of

first-rate health care professionals. The system must evolve so that all residents can gain quick access to the best health services available. In order to achieve this objective, Canadians must be granted access to private health care insurance and private hospitals. If patients truly do come first, then our health care system should permit private health care. ■



**Sarah Morris**, the first-place winner of the high school category in our 2008 Student Essay Contest, is a student at York House School, in Vancouver, BC.

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# in DEFENSE of GREED

The world runs on individuals pursuing their separate interests...—*Milton Friedman*

By Niels Veldhuis

**T**he common story now making the rounds is that Wall Street's "greed" is at the root of the financial crisis and that this "greed" needs to be reined in. Consider, for example, that while campaigning to be president, John McCain promised to put an end to the "unbridled greed that [has] caused a crisis on Wall Street," while Barack Obama claimed that the financial crisis is a "direct result of greed that has dominated Washington and Wall Street for years" (*Wall Street Journal*, 2008, Oct. 4; Langley, 2008, Oct. 14).

However, "greed" (or, less derisively and more accurately, "self-interest") is not the problem or the reason for the current crisis. Wall Street, Bay Street, Main Street, my street, and every other street in North America is built on individuals and businesses pursuing their own self-interest. Self-interested individuals and businesses are the backbone of our economy, vital to economic progress and society's well-being, and ought to be celebrated rather than demonized.

Let's start with the definition of greed, "a selfish and excessive desire for more of something than is needed," according to the Merriam-Webster dictionary. But who exactly should determine what is really "needed," and by what measure?

Do we all really "need" mobile phones and iPods? Is it "excessive" for a family to have two cars and a 2,000-square-foot house? Do we "need" to eat out as often as we do or buy the latest clothing fashions? What is "needed" is a subjective judgment and makes the definition of "greed" vacuous.

The reality is that "greed" is a contemptuous word that is purposely used to stir emotions and negatively smear the principle tenet of human behaviour, self-interest. Simply put, self-interest is the human desire to improve our situation or the "concern for one's own advantage and well-being," according to Merriam-Webster.

The writings of Adam Smith, an eighteenth-century philosopher and the father of modern economics, provide great

insights into the positive impact that individuals acting in their own self-interest can have on society. As Smith famously noted, "It is not from the benevolence of the butcher, the brewer, or the baker, that we can expect our dinner, but from their regard to their own interest" (Smith, 1981: 26–27).

The quality of food and high level of service we receive at our favourite restaurant is not the result of a kind act by its owners; rather, the owners are self-interested and wish to operate a profitable restaurant. They do not provide us with great food and service because they like or care about us; they do so to secure our business, money, and our continuing patronage.

The same holds true for Sam Walton, founder of Wal-Mart, Howard Schultz of Starbucks, Bill Gates of Microsoft, Steve Jobs of Apple, and any other successful entrepreneur. All acted in their own self-interest and provided us with great innovations, cheaper products, better services, and technological improvements. All became extremely wealthy by providing benefits to others, benefits that have vastly exceeded the private benefit gained by these entrepreneurs.

Economically free societies, in which individuals and businesses are free to act in their own self-interest and to engage in voluntary exchanges, enjoy substantially higher living standards. Increased economic freedom has been shown to increase per-capita incomes, economic growth rates, investment, life expectancy, civil liberties, and environmental performance, while reducing poverty.

Of course, individuals and businesses can also do harm if their self-interest is channelled improperly through deceit, corruption, force, fraud, or theft. That is precisely why it is critical to maintain sound institutions (a sound legal system, protection of private property, an independent and unbiased judiciary, etc.) to provide people and businesses with the right incentives and to hold them accountable for wrong doing.





This brings us back to the current financial crisis. Of course, self-interested investors and banks played a part in the current crisis by lending money to unqualified applicants, issuing unsound mortgages, and trading in risky mortgage-backed assets. Home owners also acted in their own self-interest when taking on these loans. However, what is rarely mentioned is how government policy provided the incentives to do so.

The Federal Reserve kept interest rates historically low for too long, increasing the demand for mortgages and fueling the housing boom. In addition, government-backed mortgage giants Fannie Mae and Freddie Mac increased their purchases of mortgages issued to low-income earners, thereby funding billions of dollars in loans, many of which were sub-prime. The Community Reinvestment Act also played a part as it further encouraged banks to make high-risk loans to low- and moderate-income families. In general, lending standards fell to accommodate a social policy objective: increasing home ownership among those who are least able to afford a home.

It wasn't greed that fuelled the crisis; banks, borrowers, and investors simply acted rationally and in their own self-interest, following a set of rules created by poor government policy.

Canadians and Americans have benefited tremendously from individuals and businesses pursuing their own self-interest. While it may not be popular to endorse self-interest, vilifying it is to condemn the economic system that has significantly improved our lives.

Nobel Prize-winning economist Milton Friedman (1979) said it best: "The world runs on individuals pursuing their separate interests ... the record of history is absolutely crystal clear: that there is no alternative way so far discovered of improving the lot of the ordinary people that can hold a candle to the productive activities that are unleashed by a free enterprise system." ■

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# Things folks know that just ain't so

Cap-and-trade schemes for carbon emissions are a market-friendly tool for combating climate change

## Why it ain't so...

by Courtenay Vermeulen

Recently, both the Canadian and American governments have considered setting up a cap-and-trade system to limit carbon emissions in order to combat supposed climate change. Cap-and-trade schemes remain popular among the general public and have been touted as a market-based alternative to carbon taxes.

But in reality, government-mandated cap-and-trade schemes are anything but market-friendly. Sure, they would allow individuals and firms to trade emissions quotas, and would encourage a "green" technology sector to develop, but they would also create negative and unproductive consequences for businesses, industries, and consumers. As history reminds us, there is immense potential for economic harm when a small



group of individuals attempts to design and orchestrate a market.

Consider that a cap-and-trade system requires central planning, whereby some level of government dictates a quota of carbon emissions for designated firms, which varies across industries. Firms may either purchase additional emissions credits from other firms to legally exceed their allotted emissions, or implement more stringent emissions-control technologies to meet their threshold. To think of this as a workable solution is to indulge in what economist Friedrich Hayek called the "fatal conceit": that is, to believe that the government possesses all the information necessary to determine how best to manage the means of production.

The European Union has had a cap-and-trade system, called the Emissions Trading Scheme (ETS), since 2005, with questionable results (Lewis, 2007). While many of Europe's industries have successfully reduced emissions, the public electricity and transport sectors, together emitting 40% of the EU's greenhouse gases, have experienced increasing levels of emissions (*Mail & Guardian*, 2008, June 18).

William Yeatman, an energy policy analyst at the Competitive Enterprise Institute who has studied the ETS, argues that the "evidence [from Phase I of the EU's ETS] suggests that controlling billions of tons of greenhouse gas emissions from thousands of sources is too complex for government bureaucracies to handle" (Yeatman, 2008, Mar. 31). In other words, a centralized bureaucracy is simply incapable of harnessing the millions of pieces of information necessary to determine the correct amount of emissions for every industry and every firm.

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When confronted with meeting new emissions standards, firms will be affected in various ways. They must work with the same limited resources as before, but must now shift their priorities and reallocate their costs to meet or beat a carbon emissions quota. Innovation, the driver of economic growth, will likely be diverted, favouring the development of “green” technologies above all other things. Previously productive activities may become restricted, relocated, or discontinued, and innovations that might have been profitable pre-quota may become more costly to pursue and develop. This vastness of innovative potential that never materializes is particularly troublesome, for we can never know the particulars of what we are ultimately giving up.

It may not be possible for anyone to determine what should be the focus of our innovation, but we must ask ourselves whether a cap-and-trade scheme, which refocuses innovation on “green” technology, would create a misallocation of resources? Given that “there exists considerable uncertainty about the interplay between CO<sub>2</sub> and temperature” (Veldhuis and Katz, 2008), we cannot expect a decrease in CO<sub>2</sub> emissions to cause any changes to our climate. Thus, a cap-and-trade scheme would create a costly misallocation of resources with very little, if any, return on the investment.

The negative consequences arising from this resource misallocation would bleed into all areas of business. First, higher production costs would limit job growth. With no choice but to buy credits or invest in emissions controls, many companies would have more limited resources to hire, train, and pay new employees. Proponents of cap and trade claim that demand for new emissions-reduction technologies would spur “green” innovation and job growth, but this claim remains unproven. Though cap and trade may lead to job growth and innovation, this has not been the experience of the European Union since it implemented Phase I of the ETS (Yeatman, 2008, Mar. 31).

Furthermore, if the cost of domestic production were to rise because of rising energy prices, “energy-intensive industries would have every incentive to move their operations to countries without carbon controls, like China” (Yeatman, 2008, Mar. 31). Rather than invest in green technology, companies could simply move their operations to countries where cap and trade does not

exist. Some companies may foot the bill for additional emissions permits in order to continue operations, but much of these cost increases would likely be passed on to consumers if those companies wished to maintain profitable margins for energy-intensive products, and thus remain in business. More likely, however, we would see operations move overseas as businesses pared down and created strategies to stay within the limits of their new CO<sub>2</sub> quotas.

It is important to recognize the existence of trade-offs in any decision-making process. From the public’s point of view, the impetus behind cap and trade appears to be a choice between saving the Earth from the supposed destruction of global warming, or pursuing economic growth. But this is a false dichotomy. We have evidence that cap and trade has not systematically reduced carbon emissions in the EU. Thus, the appropriate trade-off for the public to consider—one that is generally not presented in the media—is a choice between embracing a centrally planned, arbitrary government mandate that will grossly interfere with economic activity in North America, or allowing economic activity to continue without unjustified attention to carbon emissions levels. ■

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BOOK REVIEW

# BLUE PLANET *in* GREEN SHACKLES *by Václav Klaus*

## Sounding the Alarm on Alarmism

by Tim Mak

Václav Klaus believes that the world is in danger of being shackled to dangerous and damaging climate change policies. In *Blue Planet in Green Shackles*, Klaus goes to great lengths to sound the alarm on alarmism. This book is not a plea for a sensible, prudent response to a frantic opposition, but rather a furious herald's call to battle. Indeed, Klaus' denunciations of the atmosphere and ideas surrounding the climate change public policy debate involve no hint of restraint.

In this book, Klaus, current president of the Czech Republic, argues that the debate over climate change is not a dispute over the environment, but an underhanded attack on economic freedom. He attacks the so-called "climate consensus" for what he characterizes as scaremongering, and accuses environmentalists of promoting a regressive "anti-human ideology" (pg. 5).

He also reminds readers of the failures of past doomsday predictions, holding up as evidence biologist Paul Ehrlich's now widely derided book, *The Population Bomb*. In the 1960s, Ehrlich predicted that overpopulation would cause catastrophic famines. Of course, Ehrlich's prediction that hundreds of millions would die of starvation never came to pass, and Klaus seems to find great satisfaction in comparing the overpopulation panic to the current "terror" surrounding the global warming debate.

Furthermore, Klaus argues that it is a "fatal mistake to base our thinking about the situation 100 years from now on the knowledge of today's technologies and wealth" (pg. 30). He

also asserts that increasing wealth and economic growth is the best solution for addressing environmental problems. To do this, he presents academic research that shows that the relationship between wealth and the state of the environment takes the shape of an inverted "U"; that is, that economic growth will be harmful to the environment before ultimately benefiting the environment.

It is dishonest to claim that things that will benefit the environment, writ large, will necessarily address climate change. While discussing the inverse "U," Klaus notes that an academic paper published in 1991 found that increasing wealth ultimately leads to decreasing environmental degradation. But what kind of environmental degradation is he referring to? Klaus makes the common mistake of muddling up climate change environmental problems with other environmental problems like forest degradation and damage to river systems. He does not seem to realize that one has to differentiate between the usual environmental problems and the issue of greenhouse gases, where externalities [1] are the major problem.

The rest of the book is a whirlwind tour through existing climate change heterodoxy. As the chapters continue, he unceasingly hammers the point home: that climate change as it currently exists is limited in scope and not unusual. If it is abnormal (and it isn't), it is not man-made. If it is man-made (and it's not), then there is little we can do about it. It should be of little surprise to the reader that Klaus' book finishes with the conclusion that "the only reasonable answer to







## KLAUS RIGHTLY CONDEMNS THE MISLEADING INTENTIONS OF ENVIRONMENTALISTS

the question of [what to do] is 'nothing', or rather, 'nothing special'" (pg. 83).

Overall, the book is unsettling for two reasons. First, it demonstrates convincingly that a sense of rational restraint should be injected into the current debate. There is no doubt that environmental demagoguery is a serious threat to human freedoms. Of course, any radical change to our economic and political systems carries this danger. In *Blue Planet*, Klaus rightly condemns the misleading intentions of environmentalists, accusing them of manufacturing a false feeling of fear. The obvious prescription to this problem would be to slow down and have a reasoned debate.

Second, the book is unsettling because it adds little moderation to the debate. While claiming that the debate has become increasingly radicalized, Klaus falls into such extremism, decrying his opponents and questioning their academic morals and integrity. It is exceedingly ironic that Klaus would respond to alarmism with overblown rhetoric and unnecessary comparisons of environmentalism to Nazism (pg. 17). Further, his obstinate and dogmatic criticism of the current orthodoxy is inappropriate. Unlike Bjorn Lomborg's measured *Cool It – The Skeptical Environmentalist's Guide to Global Warming*, Klaus stubbornly offers no pragmatic solutions. This is not to say that Klaus is completely wrong in substance, but that his tone and style leave something to be desired.

In this book, Klaus finds himself in a quandary facing many proponents of free markets (a label that I would proudly wear myself). Faced with a problem that cannot be

spontaneously addressed by the free market on its own, he proposes solutions that will not fix the problem, then denies the existence of the problem altogether. He also says that if climate change were anthropogenic (man-made), it would not really matter because there is little that humans can do to stall its effects.

*Blue Planet* is not a bad book to read if you are new to the climate change debate and want to read about the non-anthropogenic point of view. Klaus' point that climate change policies could diminish our liberties is well taken, but the book could be more productive. At times it seems as though Klaus did not write this book to change minds, but to get high-fives from those who already agree with him. At the end of the day, this book lacks the calm reasoning of Bjorn Lomborg's *Cool It*, a title that Klaus might do well to take to heart. ■

### Note

1 An externality is a secondary or unintended consequence resulting from a particular action. An externality occurs when a decision made by one party impacts others who were not involved in the decision making.



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# Health Care Crossroads



## Pivotal Changes for Reform

By Teri Sproul

Macquarie University, New South Wales, Australia

In 2000, Canada ranked 30th out of 191 member states by the World Health Organization's *World Health Report* on overall health system performance (Buske, 2001). Indeed, being in the top 20% may seem like an achievement to some, but our health care system contains fatal flaws. Yes, all Canadians citizens receive "free" health care from physicians and hospitals at no out of pocket expense—but at what cost?

Various problems permeate the Canadian system. Patients often wait in excess of four weeks to see a specialist, and sometimes recover before having an opportunity to be examined (Reay, 1999). Even emergency cases do not receive required attention. For example, Maureen Whyte, vice president of Vancouver General Hospital, reports some heart attack victims wait an hour or more to see a doctor (Matthew, 2004). In May 1999, the *Canadian Medical Association Journal* reported that during a 12-month period, 121 Ontario patients who were waiting for coronary bypass surgery were removed from the list because their condition had weakened them to the point where they would not survive surgery (Matthews, 2004). Faced with a lack of qualified professionals and an aging population, Canadians are wondering whether there is a more effective way to provide a higher quantity of quality health care. There is a way, but it requires careful economic analysis and an overhaul of the system.

In the Canadian health system, every citizen is guaranteed access to hospital and physician care services without personal expenditure at the point of service. It is a responsibility orchestrated by, and constitutionally under the jurisdiction of, the provincial governments, but it is financed by both the provincial and federal governments. Physicians

are paid on a fee-for-service basis: meaning that they invoice the provincial government for every office and hospital visit and performed procedure (Reay, 1999).

But there is much evidence to suggest that our health care system is not functioning properly. In a well-functioning health system, there are an adequate number of doctors to provide services. Patients are able to access quality care or surgery within a time frame that prevents their condition from worsening, and they are treated using up-to-date equipment and diagnostic tools.

Unfortunately, this is not the case in Canada. Our medical resources are allocated inefficiently, our waiting lists are getting longer, costs are increasing, and political decisions are often made with the intent of winning votes rather than with the intent of bettering the health care system.

Resources such as doctors and medical equipment are in high demand and short supply. In fact, one out of nine doctors trained in Canada drifts south to practice in the United States, leaving only 2.14 doctors for every 1,000 Canadians (World Health Organization, 2006). This number is about two-thirds of the number of doctors per thousand people in the OECD collective (OECD, 2008). As increasing numbers of people reach retirement years, waiting lists will grow even longer. And although advances in medicine have given us the ability to deliver more and better treatments to more people than ever before, medical equipment is overbooked, and people are dying while waiting for diagnosis and surgery.

This increased burden on limited resources means that costs are increasing dramatically. Provincial health expenditures

## Post-Secondary Category



increased from \$11.1 billion in the fiscal year 1977/1978 to \$56 billion in 1999/2000. In some provinces, health care spending represents almost 50% of the provincial budget (Provincial and Territorial Ministers of Health, 2000). During the same time period, health transfers as a proportion of provincial health care costs decreased from 26.9% to 9.7% (plus a one-time payment equal to 3.6%) (Provincial and Territorial Ministers of Health, 2000). Not helping matters, the federal government has been unable to keep up with the rising costs of administering a single-payer health care system. If we hope to restore our health care system to an acceptable standard, then we must explore some alternative ways to administer the system.

Canada could cure many of the pitfalls of the current system by borrowing approaches from successful health care delivery models abroad. For example, some European countries have parallel public-private systems that work for every economic background and status. In Germany and the Netherlands, for example, the government provides basic medical service for all its residents, but also allows them to buy insurance and take part in private sector medicine (Francis, 2000, Nov. 27). It works much like the Canadian education system. Everyone pays taxes that go towards school facilities and management. If a parent enrolls their child in a private school at an additional cost, it is their choice. So it is in some European nations where the entire tax-paying population pays for basic health care for all, and those who wish to pay extra for private health care do so at additional expense. This does not mean that only the rich can afford faster and better care from private health clinics. To make it more affordable, 35% of people in the Netherlands pay for the added service through regular payroll deductions, as do 10% of Germans (Francis, 2000, Nov. 27).

A similar system of private insurance through payroll deductions could be adopted in Canada.

The European system could also have other beneficial implications for Canada, such as dramatically lowering health care costs and increasing Canada's physician retention rate. With more choice available to Canadians, increasing numbers of people would invest in health insurance to access private clinics. Also, employers may begin to offer more competitive health care coverage to attract quality employees. This means that fewer people would be using the public system, more bills would be paid by insurers and employers instead of governments, and health care professionals would have more opportunities to work and prosper in Canada.

Adopting a parallel public-private system would also allow private practice doctors to have more time to focus on creating better health outcomes. Doctors still working in the public sector would be able to work in a less stressful environment without overtaxed resources, enabling them to do their jobs more efficiently. Both of these factors could increase the number of doctors available to serve Canadians.

Point-of-access fees are another important practice Canada could adopt. In the current Canadian system, people are isolated from the cost of health care, and tend to spend more time at a doctor's office than they would otherwise (Matthew, 2004). Paying for services with user fees would prevent

**Waiting lists are getting longer, costs are increasing**

people from making unnecessary health care appointments. The experience of other fee-charging universal access health care systems demonstrates that health care costs per capita could be significantly reduced with a point-of-access fee (Esmail and Walker, 2007). For example, how much pressure would be relieved from a doctor's waiting room if people stopped making appointments for a common cold? Instead, people would be more inclined to speak with a pharmacist about obtaining over-the-counter drugs, making doctor's appointments available for someone with something more serious than a runny nose.

Economic analysis suggests that a parallel health care system can deliver better service at lower prices. If medicine were delivered through a free-market system, the simple concept of supply and demand would determine the price of health care. With additional private practices, there would be more equipment available for diagnosis and less pressure put on the public system.

## A parallel system can deliver better service at lower prices

It is widely believed that if a parallel system existed in Canada, then health care prices would be outrageous and the nation's poor would go without any service. But in reality, a public system would continue to exist and may even feel pressure to improve due to the existence of private practitioners. The price of health care would be determined just like everything else, and as a result, it would be in a doctor's best interest to provide quality goods and services at affordable prices. Ensuring satisfaction

would be important to every doctor who does not want to lose his patient's business; therefore, physicians would be inclined to negotiate their fee and offer better value than their competitors.

Clearly, our current health care system is no longer able to provide an acceptable level of care. With our population aging and requiring more services, our health care resources are under tremendous strain. Allowing Canadians more choice through access to private care would help alleviate this strain, significantly reduce provincial costs, and reduce waiting times for diagnosis and treatment. Canadians may soon have the option to pay at the point of service for some of their health care, and after years of waiting, we may finally be satisfied with our results. ■

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# HOT TOPICS!

STUDY RESULTS

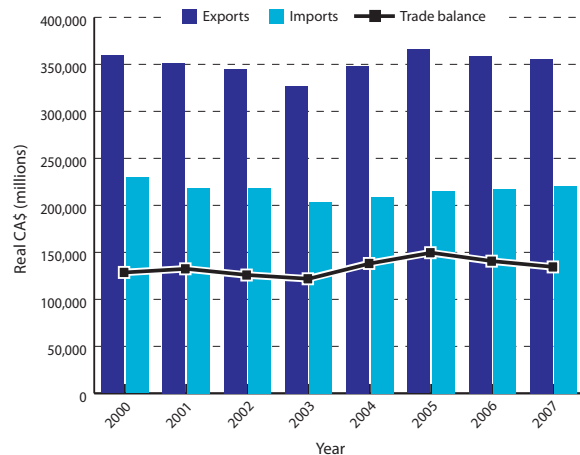
## Harper must gain Obama's attention ... **FAST!**

Despite Canadians' stated preference for a Barack Obama presidency, Prime Minister Stephen Harper will have his work cut out for him to convince the new president not to pursue policies that will negatively affect Canada, concludes a new study from the Fraser Institute.

"On all the key economic and bilateral issues between our two countries, including trade, energy, border management, and defence, the Obama administration poses a major challenge to Canada's immediate interests," says Dr. Alexander Moens, author of *Canada and Obama: Canada's Stake in the 2008 US Election* and a senior fellow with the Fraser Institute.

"Prime Minister Harper has a very large hurdle ahead of him in terms of trying to gain Obama's attention, build a relationship, and advance Canada's interests."

Canadian trade balance with the United States, 2000–2007



In the new study, Moens, a political science professor at Simon Fraser University and an expert on Canada-US relations, looks at the main policy issues of Canadian interest facing the two North American neighbours, and examines how the Obama administration is likely to approach them. He concludes that the new administration's policies may negatively affect the Canadian economy, which relies heavily on exports to the United States. ■

A free PDF version of *Canada and Obama: Canada's Stake in the 2008 US Election* is available at [www.fraserinstitute.org](http://www.fraserinstitute.org).

## "Smart growth" policies yield few real benefits

The "smart growth" ideal of high density urban housing and limits on land use yields few real benefits but imposes enormous costs on families, according to a new study by noted environmental economist Randal O'Toole.

Cities such as Vancouver and Toronto have prohibited development on huge swaths of green space based on the notion that suburban development wastes land and promotes automobile use. But impeding development actually increases housing costs and exacerbates auto congestion, O'Toole writes in a chapter in *A Breath of Fresh Air*, a new digital book published by the Fraser Institute.

"These policies hit young and low-income families the hardest because they lose both mobility and the ability to buy a home," O'Toole says.

Not surprisingly, there is a gap between what the average taxpayer desires—a home on a spacious lot with a garage—and what central planners believe is appropriate, O'Toole points out.

"Planners see high land and housing prices as a virtue because high prices encourage people to live on smaller

lots and in multifamily housing instead of single-family homes with large yards. But they fail to accept that most people want to live in a single-family home and enjoy the convenience and freedom provided by automobiles," O'Toole says. ■

A free PDF version of *A Breath of Fresh Air* is available at [www.fraserinstitute.org](http://www.fraserinstitute.org).

EXTRA COSTS



# Ask the Professor

*This online column examines a new topic each month through the lens of economics, philosophy, and history. Join us on the Fraser Institute website for a live online discussion with students across Canada, or post your questions for the professor today!*

*The following is an excerpt from "An Open Letter to My Friends on the Left" by Dr. Horwitz. The letter can be read in full at [www.lionrockinstitute.org](http://www.lionrockinstitute.org).*

My friends,

Over the last few months, I have heard frequently from you that the current financial mess has been caused by the failures of free markets and deregulation. I have heard from you that the greedy lust after profits—any profits—that is central to free markets is at the core of our problems. I ask you to consider an alternate explanation of this crisis, and to thereby reconsider your calls for more government intervention to resolve it.

To call the housing and credit crisis a failure of the free market or the product of unregulated greed is to overlook the myriad government regulations, policies, and political pronouncements that have both reduced the "freedom" of this market and channelled self-interest in ways that have produced disastrous consequences, both intended and unintended. To suggest as an antidote the very interventionist poison that ails us will only lead to more trouble.

The catalogue of government interventions that produced this crisis is long. For starters, Fannie Mae and Freddie Mac are "government-sponsored enterprises." Though technically privately owned, they have particular privileges granted by the government, they are overseen by Congress, and, most importantly, they have operated with a clear promise that if they failed, they would be bailed out. In the early 1990s, Congress eased their lending requirements (to 1/4 the capital required by regular commercial banks) so as to increase their ability to lend to poor, and especially minority, populations. In 1995, Fannie and Freddie were allowed to become more involved in the sub-prime market and regulators began to crack down on banks that were not lending enough in distressed areas. In addition, Congress explicitly directed Fannie and Freddie to expand their lending to

borrowers with marginal credit as a way of expanding homeownership.

Complicating matters further was the 1994 renewal/revision of the Community Reinvestment Act (CRA) of 1977. The CRA requires banks to make a certain percentage of their loans within their local communities, especially when those communities are economically disadvantaged. In addition to the pressure on Freddie and Fannie, there were significant, though artificial, incentives for banks and others to lend to riskier borrowers. However well intentioned these attempts to extend homeownership to more Americans were, forcing banks to do so or artificially lowering the costs of doing so has played a huge part in creating the situation we now find ourselves in. At the same time, home prices were rising, although not to the same degree everywhere. The rise in prices affected most strong cities with stricter land-use regulations. These regulations prevented much land from being used for homes, and pushed the rising demand for housing (fuelled by the considerations above) onto a slowly

## ***The current mess is largely the result of the government's meddling***

responding supply of land. The result was higher prices. Again, it was regulation, not free markets, that drove the search for profits.

Perhaps most importantly, while all of this was happening, the Federal Reserve, nominally private but granted enormous monopoly privileges by the government, was pumping in the credit and driving interest rates lower and lower. This influx of credit provided the fuel for the housing lenders to give mortgages to anyone and everyone, regardless of their credit or income. Thanks to your friendly monopoly central bank, banks could afford to continue to lend riskier and riskier applicants.

Finally, in 2004 and 2005, following the accounting scandals at Freddie, both Freddie and Fannie did penance to Congress by agreeing to expand their lending to low-income customers. Both agreed to acquire greater amounts of sub-prime and Alt-A loans, sending the green light to banks to originate them. From 2003 to 2006, the percentage of loans in those riskier categories grew from 8% to 20% of all



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US mortgage originations. And the quality of those loans was dropping, too: down payments were getting progressively smaller, and more and more loans carried low starter interest rates that would adjust upward later on. Yes, banks were “greedy” for new customers and riskier loans, but they were responding to incentives created by perhaps well-intentioned, but economically misguided, government interventions. These interventions, which are ultimately responsible for the risky loans gone bad, and the complex financial instruments based on them are at the center of the current crisis.

Thus, the current mess is largely the result of the government’s meddling with free markets, through the Federal Reserve, the CRA, land-use regulations, and Fannie and Freddie, which created an artificial market for risky mortgages in order to meet Congress’ demands for more home ownership opportunities for low-income families. Calling the crisis a “failure of free markets” or blatantly blaming greed ignores the major role played by a whole variety of government interventions and institutions that created incentives for people to undertake activities that led to disaster. In truly free markets, self-interest is generally channelled to benefit the public. When governments intervene, this process breaks down.

My friends on the left, I only ask that you consider whether interventionism or the free market is the real cause of this mess, and then consider whether increased regulation is the ideal solution. ■

# Log on!



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