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Improving Canada's labour market

There is no doubt that the current economic downturn has had a significant impact on Canada's labour market. According to Statistics Canada, over 1.6 million Canadians (out of a total workforce of about 18.4 million) are currently unemployed. Since October of last year, Canada's unemployment rate has increased 2.3 percentage points to 8.6%, the highest rate in 11 years.

This situation is troubling, particularly for Canadians who are living in areas where employment has declined the most.

In response to this trend, this summer the federal government created the bi-partisan Employment Insurance Working Group to examine various options to reform Canada's employment insurance (EI) program. A number of proposals are now being debated. For example, the federal Liberal Party has suggested that the EI qualification period be reduced dramatically, while the Ontario government has argued in favour of a nationwide qualification standard that would eliminate all regional disparities. The goal of most of the proposals on the table is to make it easier for Canadians to collect EI and to make the EI more equitable across the EI regions.

It may be tempting for our leaders to choose the most politically expedient option, but if they truly want to improve Canada's labour market over the long term, they must evaluate such proposals primarily in terms of costs and consequences.

As Niels Veldhuis and Amela Karabegović argue in this issue of *Fraser Forum*, a more generous EI program would actually lead to higher unemployment rates and longer periods of unemployment ("An insurance proposal that doesn't work," pg. 14). Plus, a more generous EI program would require even larger federal deficits, resulting in higher taxes for Canadians in the future.

The reality is that a more generous EI program will not improve Canada's labour market. To help our labour market bounce back as quickly as possible, our governments should work towards increasing Canada's labour market flexibility—the ease with which workers and employers can reallocate their resources to respond to changes in market conditions ("Labour relations laws: How do Canada and the US compare?" pg. 16). The flexibility of our labour markets could be greatly improved if the government implemented more balanced and less prescriptive labour laws.

Even if our governments adopt some of the policies discussed in this issue of *Forum*, Canada's labour market woes will not disappear overnight. But making positive changes now will result in a faster recovery and a stronger economy in the future.

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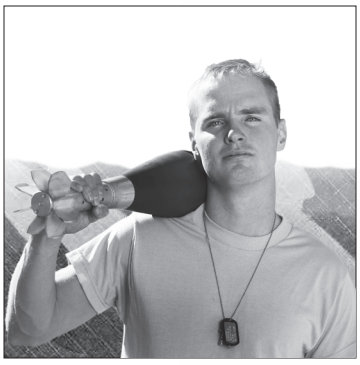

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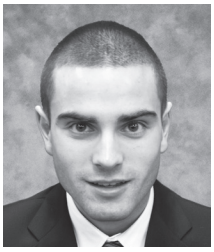

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Highlights of the 2009 Petroleum Survey

Manitoba is now the most attractive place in Canada for investment

Gerry Angevine

Alberta is now the least attractive Canadian province for petroleum investment, according to the Fraser Institute's 2009 *Global Petroleum Survey*. Alberta's fall from favour is mainly due to the province's new royalty framework.[1] Across the border, Colorado, California, and Alaska are the least attractive US states, largely because of relatively onerous environmental regulations. Of all North American jurisdictions, however, Canada's three northern territories received the lowest marks. This is mainly because of commercial issues (such as taxation, labour availability, and the inadequacy of required infrastructure) and regulatory issues (such as the high cost of complying with existing regulations and uncertainty regarding possible changes to the legal framework).

The petroleum survey identifies the provinces, states, and countries with the greatest barriers to investment in oil and gas exploration and production. This allows policy makers to consider reforms that would improve the investment environment of their jurisdictions. Petroleum companies also use the information to corroborate their own assessments and to identify jurisdictions where new investment may be attractive.

The survey results are based on the responses of 577 managers and executives in the "upstream" petroleum industry,[2] representing 276 companies. The exploration and development budgets of the participating companies totalled about $200 billion in 2008. That represents more than 50% of global upstream expenditures last year, according to the International Energy Agency's 2008 *World Energy Outlook*.

All of these jurisdictions have been assigned scores for each of 16 factors that affect investment decisions. These factors include items such as taxation, the availability of transportation infrastructure, political stability, security of personnel and equipment, environmental regulations, the cost of meeting regulatory requirements, and labour availability. The scores are based on the proportion of negative responses a jurisdiction received; the greater the proportion of negative responses, the greater the perceived investment barriers and, therefore, the lower the jurisdiction's ranking.

This year, 143 jurisdictions were rated, compared to 81 jurisdictions in 2008 and 54 in 2007. An All-Inclusive Composite Index derived from the un-weighted scores of each jurisdiction on all 16 factors is the most comprehensive measure of investment barriers.

How Canada and the US performed

Since 2008, some shifts have occurred in the relative attractiveness of Canadian jurisdictions (table 1).

Since last year, Saskatchewan and Manitoba—the two most attractive jurisdictions in Canada—have switched positions as Manitoba has taken the lead. Nova Scotia has moved ahead of Ontario, British Columbia, and the Yukon, which fell to 9th place (out of 11 Canadian jurisdictions) from third place (out of nine jurisdictions) in 2008. Alberta, once quite popular for petroleum investment, is now seen as the

least attractive Canadian province. This low ranking is largely due to Alberta's very poor performance on the survey question pertaining to fiscal terms which, essentially, refers to the portion of the value of the oil and gas produced that producers must pay to the province.

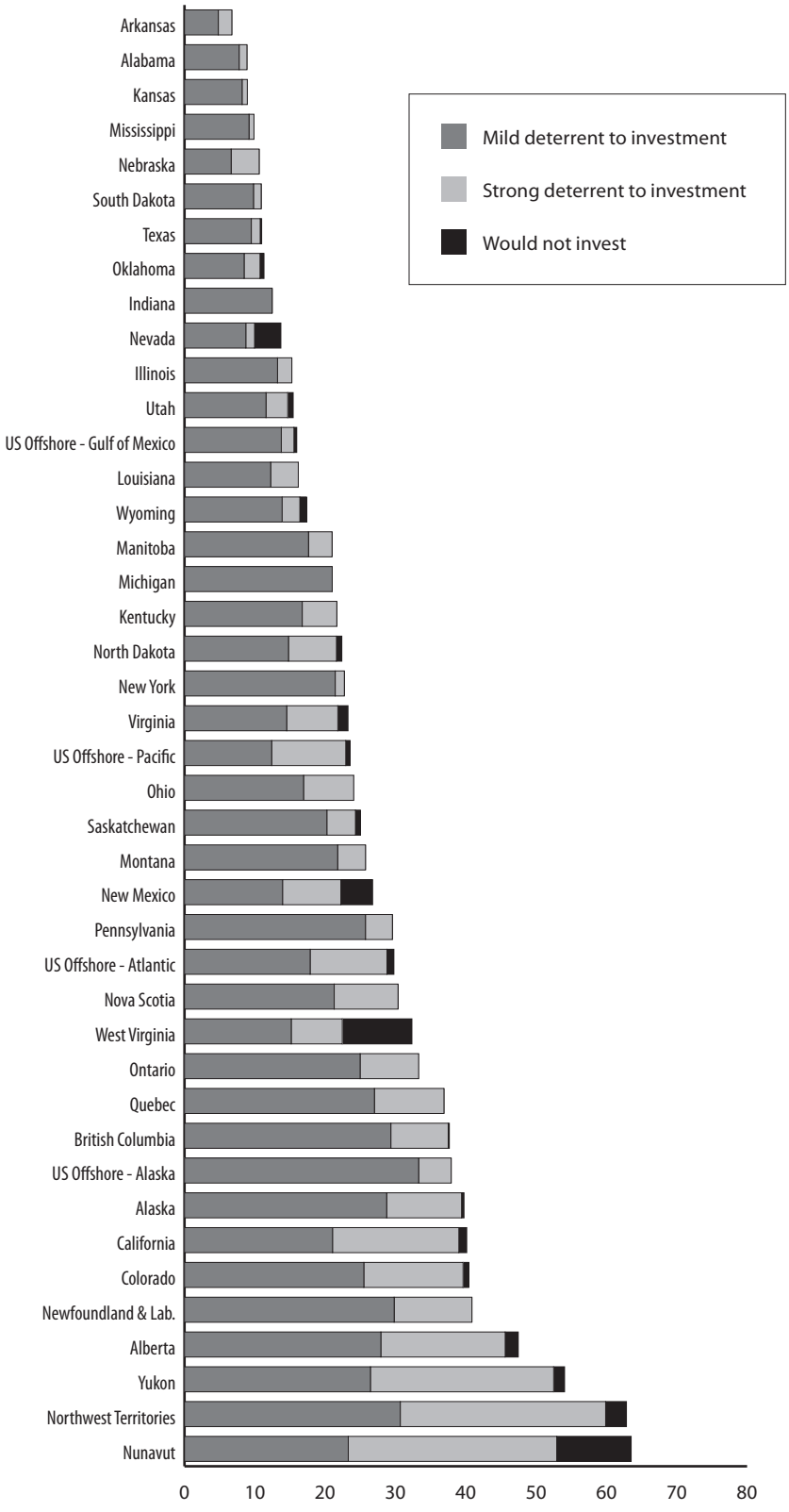
Canada's Northwest Territories and Nunavut were the least attractive jurisdictions in Canada for petroleum investment (figure 1). Each ranked relatively poorly on the All-Inclusive Composite Index alongside countries such as Pakistan, Algeria, Paraguay, and Cambodia. These two Canadian jurisdictions were also considered less attractive for investment than any of the 31 US jurisdictions rated this year.

As in 2008, investors' negative perceptions of the Northwest Territories related to concerns over the potential costs of aboriginal land claims, the availability of labour, and the high costs associated with regulatory compliance, regulatory uncertainty, and environmental regulations. Nunavut suffers from the same issues, although, in most cases, not to the same extent. The lack of a geological data base is of greater concern in Nunavut, where little exploration has taken place. Overall, Nunavut is seen as the least attractive Canadian jurisdiction.

The relatively low ratings received by Alberta, Newfoundland and Labrador, and the Yukon indicate that these jurisdictions are perceived as less attractive for investment than Manitoba, Saskatchewan, Nova Scotia, Ontario, Quebec, and British Columbia.

Across the border, California and Colorado received the worst overall scores among the US jurisdictions rated in this year's survey. Both states received poor scores because of issues pertaining to petroleum production taxation, taxation levels generally, and concerns about the cost of compliance with environmental regulations. Alaska was

Figure 1: All-Inclusive Composite Index scores, Canada and US



Source: Angevine et al., 2009.

Table 1: All-Inclusive Composite Index scores and rankings, Canadian jurisdictions, 2009 [2008 rankings (out of 9) in parentheses]

Rank	Province/Territory	Score
1	Manitoba (2)	21.0
2	Saskatchewan (1)	25.0
3	Nova Scotia (5)	30.4
4	Ontario (3)	33.3
5	Quebec (N/A)	36.9
6	British Columbia (4)	37.7
7	Newfoundland & Labrador (7)	40.9
8	Alberta (6)	47.5
9	Yukon (3)	54.1
10	Northwest Territories (8)	62.8
11	Nunavut (N/A)	63.5

Source: Angevine et al., 2009.

the third lowest-ranked state overall, mostly because of investment barriers associated with environmental regulations. In fact, Alaska was seen as the least attractive US jurisdiction in this regard and the third-worst jurisdiction worldwide.

All of the other US states and the four US offshore territories that were rated achieved much better scores, indicating that they are more favourably regarded for investment than Colorado, California, or Alaska. Of the 19 most attractive jurisdictions worldwide, as reflected by the All-Inclusive Composite Index, 15 are US states or offshore regions. Of the 59 next most attractive jurisdictions for investment (with scores between 20 to 39.9), 14 are US states or offshore areas.

Global results

This year, the 10 least attractive jurisdictions for investment were Bolivia, Niger, Venezuela, Ecuador, Sudan, Russia, Bangladesh, Nigeria, Kazakhstan, and Ethiopia. Of these, all but Niger, Ethiopia, and Bangladesh were among the 10 least attractive jurisdictions for upstream investment in 2008 as well. Niger and Ethiopia were not ranked in 2008; Bangladesh tumbled from 45th (of 81) in 2008 to 137th (of 143) this year. Bangladesh lost ground mainly because of investors' increasing concerns with fiscal terms, taxation, the local price of natural gas, and security issues.

The next 10 least attractive countries were Myanmar, Chad, Argentina, Democratic Republic of Congo (Kinshasa), Iraq, Cote d'Ivoire, Iran, Ukraine, Guyana, and Equatorial Guinea. Two of the five countries in this group that were also rated in 2008 experienced considerable drops in their relative positions this year: Cote d'Ivoire and Ukraine. Cote d'Ivoire's fall from 41st (of 81) in 2008 to 128th (of 143) this year reflects a deterioration in the commercial investment environment of that country, including changes in fiscal terms, the local price of natural gas, labour availability, and the availability of infrastructure. Ukraine's slide from 50th (of 81) in 2008 to 126th (of 143) this year reflects investors' concerns about political instability, labour issues, the cost of regulatory compliance, and geological data.

The 10 most attractive jurisdictions for investment were Arkansas, Alabama, Kansas, Austria, Mississippi, Nebraska, South Dakota, Texas, Oklahoma, and Indiana. Of these, Arkansas, Alabama, Texas, and Oklahoma were also among the 10 most attractive jurisdictions in 2008. Kansas rose to third (of 143) this year from 16th (of 81) last year, while Mississippi jumped from 27th (of 81) to 5th (of 143).[3] After the top 10, the next highest-rated jurisdictions were Nevada, Illinois, Utah, US Offshore – Gulf of Mexico, Louisiana, Wyoming, South Australia, the Netherlands – North Sea, and Namibia.

Most other US jurisdictions, most Canadian provinces, all of the Australian jurisdictions, New Zealand, several European countries, and a number of countries scattered throughout the world had relatively attractive values on the All-Inclusive Composite Index. All of the Canadian provinces except Alberta and Newfoundland and Labrador had scores in the relatively attractive 20.0 to 39.9 zone. Sixty-five jurisdictions, including those two provinces and Canada's three northern territories, had scores greater than 40, which indicate greater barriers to investment.

Conclusion

Changes in the rankings since the survey was first conducted in 2007 underscore the fact that jurisdictions that increase barriers to investment can expect to be regarded as less attractive targets for petroleum exploration and development. Alberta and Alaska have dropped

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Smart thinking on sales taxes

BC's new HST will provide significant benefits for the province

Niels Veldhuis and Charles Lammam

This summer, British Columbia's Finance Minister Colin Hansen took a bold step in announcing that BC will harmonize its provincial sales tax (PST) with the federal goods and services tax (GST) (British Columbia, Ministry of Finance, 2009a). While sales tax harmonization is unlikely to produce warm fuzzy feelings for British Columbians (or even most economists), it will make BC businesses more competitive, encourage investment, and provide significant and lasting economic benefits for the province.

Fotolia

As of July 1, 2010, BC will replace its independent provincial sales tax with a single harmonized sales tax (HST) of 12%—a combination of the current 7% PST and 5% federal GST.

Like the GST, the new HST will be a "value-added" tax in that it will only apply to the final consumption of goods and services. Currently, the PST applies to both business inputs and final goods and services, meaning that BC businesses pay 7% more for business inputs than their competitors in provinces that have harmonized sales taxes or no sales tax at all (as in neighbouring Alberta). This difference is not insignificant: $1.9 billion (or approximately 40%) of annual provincial sales tax revenue in BC comes from taxing business inputs.[1]

Because the current provincial sales tax applies to business inputs, it significantly increases the cost of investing in machinery, equipment, and technology. Consider, for instance, a business that purchases a $1 million machine that improves the productivity and wages of its workers, and makes the business more competitive. Under the current system, the firm must pay provincial sales taxes on the purchase of this equipment. This additional cost raises the real cost of investment and makes business development more expensive in British Columbia than in other jurisdictions.

Fortunately, the new harmonized sales tax will exempt business inputs, thereby reducing costs and the tax penalty on new business investment. Thus, reducing taxes on new business investment will improve the incentives for firms to invest.[2]

Past experience with sales tax harmonization in Canada provides evidence that harmonizing sales taxes can boost investment (Smart, 2007). In 1997, three Atlantic provinces (Newfoundland and Labrador, New Brunswick, and Nova Scotia) harmonized their previously independent provincial sales taxes with the federal GST. Professor Michael Smart of the University of Toronto examined the effects of the harmonization in Atlantic Canada and found that, after the 1997 reforms, per capita investment rose by more than 11% in the harmonized provinces compared to the non-harmonized provinces (Smart, 2007). In addition, total annual investment in machinery and equipment increased by more than 12% above the level of investment that existed prior to the 1997 reforms (Smart, 2007).

Harmonization will also reduce unproductive tax compliance costs for businesses (Plamondon and Zussman, 1998). Currently, the group of goods and services upon which BC's PST is applied (the tax base) differs from the tax base used for the GST. Differing tax bases, along with a host of different rules, force businesses that collect sales taxes to operate with two sets of sales records and two sets of compliance and reporting requirements. By simplifying the recording and reporting processes, harmonization is estimated to save BC businesses approximately $150 million annually in tax compliance costs (British Columbia, Ministry of Finance, 2009a).

Unfortunately, British Columbians will likely be exposed to many faulty objections and misperceptions regarding the HST over the coming weeks and months by those seeking to derail this reform.

A common misperception is that harmonizing the provincial sales tax with the GST results in a shift of the tax burden from business to individuals. This stems from the fact that business inputs will be exempt from the HST while a whole host of goods and services will be added to the tax base. Indeed, the expansion of the tax base is the primary reason why harmonization can occur at the existing 7% PST rate in a revenue neutral fashion.[3]

However, the tax shift argument ignores the fact that the provincial sales tax is embedded in the price of many of the goods and services that are currently exempt from the PST. Since business inputs (goods and services) are taxed, consumers pay higher prices, even if the final good or service is not taxed. In his study of the Atlantic provinces, Professor Smart found that businesses passed on to consumers the cost savings resulting from the elimination of sales tax on inputs, and this offset the imposition of the HST (Smart, 2007). As a result, overall consumer prices in the harmonizing provinces actually fell after the 1997 reforms (Smart, 2007).

In addition, the tax shift argument fails to recognize that the burden of all taxes ultimately falls on people (consumers, workers, and owners) in the form of higher prices, lower wages, and/or reduced rates of return on investments (see Palacios et al., 2008: 73–84).

BC's harmonization plan does have one critical flaw, however: its implementation date. Delaying implementation until mid-2010 may cause some businesses to hold off on major capital purchases—the exact opposite of what is needed in the current economic environment.

While it could be moving more quickly, the BC government should be commended for its decision to implement a harmonized sales tax. Improving the investment climate, increasing the competitiveness of BC-made products, and reducing tax compliance costs with little or no effect on consumer prices is wise economic policy. And that wise policy will ultimately benefit British Columbians through higher rates of economic growth, more opportunities, and a higher standard of living.

Notes

1 The BC government reports that exempting business inputs from the PST will save businesses $1.9 billion per year (British Columbia, Ministry of Finance, 2009a). Since total revenue from the PST in BC amounts to around $5 billion annually (British Columbia, Ministry of Finance, 2009b), this suggests that approximately 40% of revenues from the PST comes from taxing business inputs. Estimates for Ontario indicate that 40% of the provincial sales tax revenue comes from taxing business inputs (Smart, 2007), while estimates for Saskatchewan suggest that this figure is 54% (S-BTRC, 2005).

2 For a thorough discussion of the impact of taxes on incentives and economic behaviour, see Palacios and Harischandra (2008).

3 The government intends to collect roughly the same amount of sales tax revenue after harmonization, which means that the reduction in revenue from taxing business inputs will be offset by increased sales tax revenue in other areas as the HST will be applied to a host of goods and services previously exempt from PST.

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Real electoral reform

Referenda and plebiscite lessons from Switzerland

Mark Milke

Electoral reform has been the hallmark cry of political activists in British Columbia since at least the 2001 election, when the BC Liberals took power from the New Democrats on a platform of accountable government, and until the recent BC referendum on the matter. Activism in BC has also had an influence on debate elsewhere. For example, in 2007, Ontarians voted on a referendum to replace their existing electoral system with a new, more proportional system; the proposal was defeated with 63% of voters against the proposed change (Elections Ontario, 2007).

Before the 2001 provincial election in British Columbia, activists from Fair Voting BC had long lobbied all political parties to commit to a referendum on changing BC's first-past-the-post-voting system. In part, this was a result of the 1996 election in BC when the party with the highest percentage of the vote—the BC Liberals with 41.8%—took only 33 seats, while the New Democratic Party, with only 39.5% of the vote, took 39 seats and received a majority government (Elections BC, 1996).

As it turns out, many British Columbians have reservations about electoral reform. During the recent provincial election in BC, a referendum was held and voters turned down the chance to change how their government is elected. On May 12, 2009, almost 61% of voters who cast their ballot rejected the proposal to switch to a single transferable vote (STV) electoral system.[1] Instead, they voted to keep the existing system (Elections BC, 2009a).

This was a significant rejection and almost a complete reversal of the referendum results in 2005 when BC voters were previously asked whether they wanted to switch to STV. Back then, almost 58% of voters *favoured* switching electoral systems (Elections BC, 2005). However, in 2005, a supermajority provision was in effect, meaning that any change in the electoral system had to be endorsed by 60% of the ballots cast. This provision was also in effect in 2009 (Elections BC, 2009b).

The recent electoral reform referendum failed even though the provincial government gave $500,000 to both the pro and the con sides of the debate. The government also set up a neutral Referendum Information Office to provide information about the referendum (Elections BC, 2009b). This office was created because of complaints after the 2005 referendum that the public suffered from a lack of information about STV and thus voted against it on such grounds and not necessarily because they opposed electoral reform. However, given that public support has eroded significantly since 2005—perhaps not in spite of the additional information but *because* of the information, which made the details of the proposed system better known—electoral reform of this kind is now dead in British Columbia.

> In Switzerland, voters have almost unparalleled power to set policy.

The current first-past-the-post system leads to majority governments where politicians have to tow the party line or be expelled. This system increases rather than decreases the power of political parties, which are often more interested in winning elections than discussing policy.

Fotolia, Thorfinn Stainforth, public domain

The very point of electoral reform is to produce a legislature that more closely reflects voter preferences, but that is not the same as actually giving individuals more direct influence on policy. For the latter to occur, voters and proponents of greater citizen participation must look beyond STV, to electoral models in other countries that have the potential to offer such direct participation.

A different kind of electoral reform: referenda and plebiscites

Partisanship and winning too often take priority over intelligent consideration of policy. Consequently, policy is rarely debated—in Parliament or in provincial legislatures, between parties and leaders in leaders' debates or in media coverage of the same. A change to proportional representation might have allowed a few more ideas to reach a particular legislature, but it would have done little to give the average citizen increased power vis-à-vis the political class.

There is another option insofar as electoral reform is concerned that would allow Canadians to retain the current first-past-the-post system while providing a much-needed check on power, especially the power exercised by leaders and political parties.

What is needed is a kind of electoral reform that would directly affect the parties, politicians, and non-elected officials: referenda (which are binding) and plebiscites (non-binding), which are occasionally heard of but rarely used in Canada. Both mechanisms would provide a much-needed check on power in Canada.

In particular, referenda serve as a method by which voters can place measures on the ballot that politicians might otherwise avoid. For instance, California's famous Proposition 13, passed by 65% of voters in a 1978 referendum, capped property taxes that were previously allowed to soar with rising property values. The measure allowed the assessment on properties to rise by only 2% or by the rate of inflation (whichever was less) for existing homeowners; a higher assessment rate could only be applied to new construction or to a new homeowner. Proposition 13 saved many California seniors from losing their homes (Moore, 1998; California Taxpayers' Association, 1993). It was a victory for fiscal sense and it was the direct result of a binding referendum.

More recently, in May 2009, California voters turned down attempts by the state legislature to raise taxes to close the state's budget gap, which by law American states are not permitted to have. Voters were asked six questions which, if answered in the affirmative, would have allowed for higher sales and income taxes and a new automobile tax. Voters turned down the requests to raise taxes in five of the six questions. The sixth proposition, which passed with 74% of the vote, prohibits state legislators from raising their own salaries if the budget is in deficit. The state legislature is now in the process of cutting spending—something California needs to do given that its spending has outpaced inflation population growth over the last two decades (Young, 2009).

California's referenda process has been criticized for giving voters too many questions to vote on each year. The critique is fair, but California's system is not the only model worth emulating. Other models exist, including that found in Switzerland.

In Switzerland, voters have almost unparalleled power to set policy and thus the political course of local regions called "cantons" (which are roughly equivalent to Canada's provinces) and of the entire nation. For example, after Parliament passes a law, voters have 100

days to gather 50,000 signatures to force a referendum on that law, which can nullify Parliament's proposal. Similarly, voters can press for a change to the country's constitution by collecting 100,000 signatures, which guarantees a national vote to amend the constitution (Swissinfo, 2009: People Power).

Since 2000, the Swiss have voted on a variety of referenda, both those initiated by voters and those initiated by the national or canton legislatures. Examples of issues voted on by Swiss citizens include: membership in the United Nations (approved by 54%); making the Swiss army smaller and more professional (approved by 76%); more tenant rights (declined by 67.3%); four car-free Sundays in certain public squares (declined by 62.4%); an initiative to reduce costs in heath care (declined by 72.9%); and an initiative to extend the moratorium on nuclear facilities (declined by 58.4%), among other questions (Election Guide, 2009).

Observers and the Swiss themselves may disagree over the consequences of such votes, but no one could argue that Switzerland has become unstable as a result of referenda. Nor is the alpine country somehow a less desirable place to live as result of its referendum system, which gives voters an incentive to vote—because their votes actually count—and serves as a real check on parliamentary power.

Past referenda in Canada: How women achieved suffrage

Referenda and plebiscite have also been used in Canada, though not nearly as often as in Switzerland. For example, in British Columbia in 1916, a slim majority of voters agreed to enact a prohibition on alcohol. In 1920, that decision was reversed by a wide margin in a vote that directed the government to control the sale of alcohol but not to ban it. In 1916, another referendum was passed with 56% of BC voters in favour of women's suffrage (Elections BC, 1988).

At the federal level, national referenda have been few; in 1898, a referendum on alcohol sales was held, and in 1942, a referendum on conscription. More recently, in 1992 the federal government asked Canadians to vote on an amendment to the constitution, known as the Charlottetown Accord. Voters in all but four provinces rejected the accord (Elections Canada, 1993).

The advantages of referenda over the status quo

Referenda and plebiscites have several advantages over other types of electoral reform. First, they give voters a direct say on issues of principle and consequence which politicians may wish to avoid out of fear of losing votes (for example, health care reform). They can also help educate the public about matters of public policy.

Furthermore, referenda dilute the concentrated power that now exists in the office of the prime minister and the premiers, and help correct the skewed effect that extreme party discipline has on policy, which is often shunted to the side and is not vigorously debated by leaders and others.

That noted, politicians and parties can use referenda and plebiscites to get policy enacted that they otherwise might be wary of enacting on their own. By handing the decision directly to voters, the political class is free not to take a position that it is wary of taking, for whatever reason. Instead, the voters can address an issue—and any ensuing controversy—on its own merits.

Referenda and plebiscites, by their very nature, are debates about ideas and policy; they are not about the interests of a particular party or political leader. The prospect of more idea contests in British Columbia and the rest of Canada is reason enough to make referenda and plebiscites the object of those interested in electoral reform.

Note

1 The single transferable vote (STV) system, according to the neutral Referendum Information Office, is "an electoral system that is designed to produce a fairly proportional result—that is, the number of seats a political party wins will be close to its share of the overall popular vote." The office notes that ridings in BC would have had between two and seven Members of the Legislative Assembly per electoral district. Winning candidates would have to garner enough votes to pass a certain threshold. Voters would have been able to rank candidates by preference, i.e., 1, 2, 3 and so forth. For a more detailed explanation, see Electoral Reform Referendum Information Office (no date). To learn more about arguments for and against the STV system, see the February 2005 edition of *Fraser Forum*, which devoted six articles to the subject and is available on the Fraser Institute's website at www.fraserinstitute.org.

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Highlights of the 2009 Petroleum Survey

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from favour mainly because of increased royalties and production taxes. Colorado's fall in the rankings largely reflects the rising cost of complying with environmental regulations and the uncertainty created by these changes. Given the competition for petroleum investment worldwide, jurisdictions that fail to contemplate the impacts of policy changes may well experience reductions in employment, labour income, and overall economic activity.

Notes

1 Effective January 1, 2009, the royalty percentage applicable to crude oil was raised about 80% (for wells with average daily production of 150 barrels or more, with crude oil priced at $65 per barrel). The royalty on natural gas was increased about 40% (for wells with average daily production of 600,000 cubic feet or more, at a price of $7 per gigajoule). The government said that total energy royalties would be about $1.4 billion or 20% greater in 2010 as a result.

2 The "upstream" petroleum industry includes exploration for oil and gas reserves, and the production of crude oil, bitumen, and both conventional and non-conventional forms of natural gas. "Conventional" sources include production from gas or oil reservoirs that employ regular drilling methods and rely on natural pressure to bring the gas to the surface. "Unconventional" sources of natural gas include methane from coal seams and gas produced from shale formations. In the United States, gas embedded in tight sandstone formations is also considered an unconventional supply source. Bitumen from oil sands is an unconventional source of oil.

3 Austria, Nebraska, South Dakota, and Indiana were not assessed in 2008.

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An insurance proposal that doesn't work

A more generous EI program would increase unemployment permanently

Niels Veldhuis and Amela Karabegović

Over the summer, the newly minted Employment Insurance Working Group, consisting of three members selected by Canada's Conservative government and three by the Liberal Opposition, will examine various options to reform the employment insurance program, including the proposal by the Liberals to significantly shorten the qualification period for eligibility (O'Neill et al., 2009, June 17).

While proposals like that of the Liberals are well intended, they are ultimately misguided. Previous changes to Canada's EI program have shown that making the program more generous will lead to a permanent increase in unemployment rates and longer spells of unemployment (see, for example, Ham et al., 1987, and Riddell et al., 2006). In addition, making it easier for people to claim benefits will require even larger federal deficits that will saddle Canadians with higher taxes in the future. That is, shortening the qualification period for eligibility will increase EI spending (assuming EI premiums stay the same), resulting in larger federal budget deficits that will have to be paid with higher taxes in the future. While the employment insurance system needs reform, dramatically reducing the qualification period is not the solution.

Currently, most Canadians need to have worked between 420 and 700 hours in the prior year to qualify for employment insurance benefits (Service Canada, 2009). The precise number of hours depends on the unemployment rate in the region where the worker resides. Workers in high unemployment areas (13% or greater) need to work fewer hours, while workers in regions with low unemployment (6% or less) must work longer before qualifying. EI benefits, currently set at 55% of insurable earnings up to a yearly maximum insurable amount of $42,300, can then be collected for up to a year, depending on the unemployment rate in the region and the number of "insurable hours" worked over the past year (Service Canada, 2009).

Pressure to shorten the qualification period for EI eligibility is largely the result of grossly exaggerated claims about the number of unemployed workers that are now ineligible for employment insurance. For instance, the Liberal Party suggests that "over 60 per cent of unemployed Canadians … do not qualify for it [employment insurance]" (Liberal Party of Canada, 2009).

However, a recent TD Economics report notes that approximately 30% of unemployed persons were ineligible for EI because they did not contribute to the program (i.e., those who are self-employed or unemployed for more than 12 months). Another 16% did not qualify because they left their job for "invalid" reasons (i.e., they quit voluntarily) (Bishop and Burleton, 2009). The reality is that about 80% of people who are "potentially eligible" do receive EI benefits (HRSDC, 2009). That number reaches 90% for those who worked full-time before becoming unemployed.

Despite these facts, the federal Liberals continue to push for a dramatically reduced EI qualification period: 360 hours, or nine weeks, regardless of the unemployment rate in the region. Unfortunately, the Liberals' proposal does not account for the fact that people actually do respond to incentives. Providing 50 weeks of benefits after only nine weeks of employment would definitely encourage some Canadians to collect EI rather than continue to work. In addition, implementing such a change would increase the number of Canadians who enter the labour force for the sole purpose of working just long enough to collect benefits. The end result would be a

significant and permanent increase in Canada's unemployment rate.

To get an idea of the ultimate effects of such a change in employment insurance policy, the Employment Insurance Working Group would do well to consider the results of a recent study on unemployment differences in New Brunswick and the US state of Maine.

The study, *Long-Term Effects of Generous Unemployment Insurance: Case Study of New Brunswick and Maine,1940-1991*, compared employment insurance systems in New Brunswick and Maine—two relatively homogenous jurisdictions, socially and economically (Riddell et al., 2006).[1]

Prior to 1950, New Brunswick's unemployment rate was similar to and often lower than that in Maine. However, after Canada's employment insurance program (then called unemployment insurance) introduced seasonal benefits in 1950, New Brunswick's unemployment rate increased dramatically relative to that in Maine. By the end of the period under consideration, New Brunswick's unemployment rate was about 12%, while Maine's was 8%.

Dramatically reducing the qualification period is not the solution.

Even more relevant to the current proposal, a new EI formula was implemented in 1971 which further increased the generosity of the program and made it possible for workers to qualify for 40 weeks of benefits after just 10 weeks of work.

After the 1971 changes to EI, a very significant and permanent gap opened up between unemployment rates in New Brunswick and Maine. By 1990, 29.5% of males and 29.7% of females in New Brunswick collected Employment Insurance benefits compared to just 5.7% of males and 3.3% of females in Maine. Canadians should not expect different results if the current qualification period for EI is reduced to 360 hours.

Let's hope the Employment Insurance Working Group scraps the proposal to reduce the qualification period.

Note

1 In the very beginning of the period under consideration, New Brunswick had no unemployment insurance whereas Maine had a modestly generous unemployment system. EI was introduced on July 1, 1941, in New Brunswick, and by 1950 it was similar in generosity to the EI in Maine. But since then, New Brunswick's EI has been expanded twice, making it much more generous.

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Labour relations laws

How do Canada and the US compare?

Amela Karabegović and Alex Gainer

The current economic recession has significantly affected Canada's labour market. For example, over the past year employment across Canada has declined by 257,600 jobs and unemployment has increased dramatically from 6.1% to 8.6% (from July 2008 to June 2009) (Statistics Canada, 2008, 2009). These new developments have helped motivate massive government stimulus packages, corporate bailouts, and calls to further increase the generosity of Canada's Employment Insurance system.

Unfortunately, almost no attention has been paid to labour market flexibility—the ease with which workers and employers can reallocate their resources to respond to changes in market conditions. Improving labour market flexibility is especially important in an economic downturn as firms attempt to respond to changes in market conditions through restructuring and reorganization, and workers attempt to move from declining sectors and/or regions to prospering ones.

One way that policy makers could improve labour market flexibility—and the performance of Canada's labour markets generally—would be to pursue more balanced and less prescriptive labour laws. Regulations or labour laws that favour one group at the expense of another and laws that are overly prescriptive inhibit a labour market's ability to work properly and efficiently.

This article summarizes the results of a recent study, *Labour Relations Laws in Canada and the United States: An Empirical Comparison*, which quantifies differences in labour relations laws in the Canadian provinces and US states. The study found that Canadian provinces and the federal government maintain significantly more biased and restrictive laws than our southern neighbours.

Among other things, labour relations laws control the processes by which unions gain or lose the right to represent workers in collective bargaining. Once a firm is unionized, these laws also regulate the interactions between unionized employees, their collective representatives (unions), and employers.[1]

An important difference between Canada and the United States is the jurisdictional authority each has over labour relations laws. Canada maintains a decentralized system of labour relations laws for both the private and public sectors. The United States, on the other hand, has a centralized system of private sector labour relations laws.[2] State laws cannot conflict with federal labour relations laws, although states are able to expand upon and/or clarify federal laws.

Index of Labour Relations Laws

The Index of Labour Relations Laws (figure 1) quantifies the differences in private sector labour relations laws in Canada and the United States. Table 1 contains the overall results of the index, as well as the specific scores for the three categories included: (1) Organizing a union, (2) Union security, and (3) Regulation of unionized firms.[3]

The results suggest four distinct groups of jurisdictions. The first group includes the 22 right-to-work (RTW) states in the United States.[4] According to the index, these US states have the most balanced and least prescriptive labour relations laws in Canada and the United States; they scored 9.2 out of a possible 10.0 (table 1). RTW states differ from other US states in one key aspect of labour relations laws: dues payment. Workers in unionized firms in RTW states are able to completely opt out of any union dues payment, whereas unionized workers in other US states can only opt out of non-representation-related dues (for more information, see Clemens et al., 2005; Taras and Ponak, 2001).

The remaining 28 US states form the second group; they scored 7.5 out of 10.0. The third group is a single Canadian province: Alberta. With a score of 5.3, it was the top Canadian jurisdiction, but it fell short of competing with any of the US states.

The final group consists of the remaining nine Canadian provinces and the Canadian federal government.[5] These jurisdictions maintain the most biased labour relations laws. Their scores ranged from a low of 1.1 for the federal government to a high of 3.4 for Ontario.

Components of the Index of Labour Relations Laws

A brief description and overview of the results for each of the three categories included in the index are presented below.

Organizing a union

This category covers the process through which a union acquires and loses the right to be the exclusive bargaining agent for a group of employees. This section includes four measures: the use of secret ballot voting to certify and decertify a union, remedial certification, the differences between the thresholds for certification and decertification, and first contract provisions.

Findings

- Alberta received the highest score (10.0 out of a possible 10.0) because it (a) requires a secret ballot vote in order for a union to be certified or decertified, (b) does not allow remedial certification, (c) does not have different thresholds for certification and decertification applications, and (d) does not allow either the Labour Relations Board or an arbitrator to set the terms of a first collective agreement.[6]
- Saskatchewan, along with all of the US states, tied for second place with a score of 7.5.
- Four Canadian provinces (Manitoba, Quebec, Nova Scotia and Prince Edward Island) received scores of less than 6.0.
- The Canadian federal jurisdiction received the lowest score: 1.3 out of 10.0.

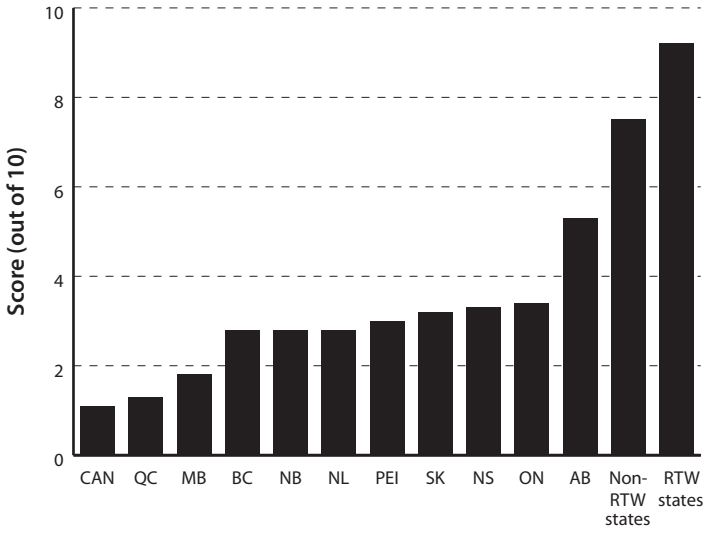
Union security

Union security examines the regulations governing union membership and the payment of union dues. Specifically, union security relates to whether workers can be forced to join a union and/or pay full or partial union dues as a condition of employment.

Findings

- US right-to-work (RTW) states received the highest score (10.0) because they give workers the right to choose to belong to a union or to fully opt out of union dues.
- US non-RTW states came in second place. Like the RTW states, these states allow all workers to choose whether or not to join a union. However, workers in non-RTW states are only able to opt out of union dues that are not directly related to collective bargaining.
- The Canadian jurisdictions (10 provinces and the federal government) performed poorly since they all permit mandatory union membership and full dues payment as a condition of employment.

Figure 1: Index of Labour Relations Laws



Source: Karabegović et al., 2009.

Table 1: Index of Labour Relations Laws

	Index of Labour Relations Laws		Organizing a union		Union security		Regulation of unionized firms	
	Score (out of 10)	Rank (out of 61)	Score (out of 10)	Rank (out of 61)	Score (out of 10)	Rank (out of 61)	Score (out of 10)	Rank (out of 61)
BC	2.8	56	6.3	53	0	51	2.0	55
AB	5.3	51	10.0	1	0	51	6.0	51
SK	3.2	54	7.5	2 (c)	0	51	2.0	55
MB	1.8	59	3.3	60	0	51	2.0	55
ON	3.4	52	6.3	53	0	51	4.0	52
QC	1.3	60	3.8	59	0	51	0.0	61
NB	2.8	56	6.3	53	0	51	2.0	55
NS	3.3	53	5.8	57	0	51	4.0	52
PEI	3.0	55	5.0	58	0	51	4.0	52
NL	2.8	56	6.3	53	0	51	2.0	55
Canada	1.1	61	1.3	61	0	51	2.0	55
RTW states (a)	9.2	1 (b)	7.5	2 (c)	10	1(b)	10.0	1 (b)
Non-RTW states	7.5	23 (d)	7.5	2 (c)	5	23 (d)	10.0	1 (b)

Notes:
(a) RTW states include: Alabama, Arizona, Arkansas, Florida, Georgia, Idaho, Iowa, Kansas, Louisiana, Mississippi, Nebraska, Nevada, North Carolina, North Dakota, Oklahoma, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, and Wyoming.
(b) Tied for first place.
(c) Tied for second place.
(d) Tied for twenty-third place.

Source: Karabegović et al., 2009.

Regulation of unionized firms

Regulations that affect unionized firms can be a source of competitive problems for those firms relative to their non-unionized counterparts. A number of provisions were examined, including successor rights, technological change, arbitration, replacement workers, and third-party picketing.[7]

Findings

- The US states all scored 10.0 out of a possible 10.0, indicating a high degree of fairness and balance between the rights/protection of workers, unions, and employers.
- Alberta was the only Canadian jurisdiction that scored above 5.0; the remaining nine Canadian provinces and the federal government scored below 5.0, and Quebec ranked last with a score of 0.0.

Successor rights provisions are a good example of how labour laws affect firms and thus labour market performance, especially in a difficult economic climate. Successor rights provisions determine whether and how collective bargaining agreements survive the sale, transfer, consolidation, or otherwise disposal of a business. If a business or a portion of a business is rendered uneconomical as a result of changes in the market, reductions in competitiveness, or other reasons, stringent successor laws will impede the reorganization of the business and the efficient reallocation of its capital.

Legislation in every Canadian province, as well as federal laws, make an existing collective agreement binding upon a new employer whenever a business—in whole or in part—is sold, transferred, leased, merged, or otherwise disposed of. Conversely, it is rare in the United States for a purchaser to be responsible for the incumbent collective bargaining agreement.

Moreover, successor rights in Canada apply even to changes of ownership due to bankruptcy. Needless to say, successor rights impede and frustrate the restructuring process, making it harder for firms to respond to changes in economic conditions, and can lead to idle labour and capital.

Conclusion

Canadian provincial and federal labour relations laws are significantly more biased and prescriptive than US legislation, resulting in a lower level of labour market flexibility. Labour market flexibility is especially important in an economic downturn as firms attempt to respond to changes in markets conditions through restructuring and reorganization. In order to promote greater labour market flexibility, the provincial and federal governments would be well advised to pursue balanced and less prescriptive labour laws.

Notes

1 In 2008, labour relations laws directly covered about 4.5 million workers in Canada—31.2% of the total public and private employment—and about 18 million workers in the United States—13.7% of public and private employment (Statistics Canada, 2008; Hirsch and Macpherson, 2009). In both countries, unionization rates in the private sector are significantly lower than those in the public sector. In 2008, Canada's unionization rate in the private sector was 17.9% compared to 74.2% in the public sector. Likewise, the United States' unionization rate in the private sector in 2008 was 8.4% compared to 40.7% in the public sector.

2 Public sector labour relations laws in the United States are decentralized in a manner that is similar in Canada. See Karabegović et al. (2004) for further information.

3 The Index of Labour Relations Laws is based on 11 components grouped into those three categories. The Index is computed as the average of the three categories.

4 The 22 US states with right-to-work laws are: Alabama, Arizona, Arkansas, Florida, Georgia, Idaho, Iowa, Kansas, Louisiana, Mississippi, Nebraska, Nevada, North Carolina, North Dakota, Oklahoma, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, and Wyoming.

5 Federally regulated industries include interprovincial transportation (air, land, and water), broadcasting, banking, longshoring, and grain handling. Workers in Canada's territories are also covered by federal labour law.

6 The first two provisions, secret ballot vote and remedial certification, assess the use of a secret ballot vote in the certification and decertification process. The third component measures whether certification and decertification application thresholds differ, and the last component measures the use of arbitration to secure a first contract.

7 Successor rights measure the extent to which a successor employer is bound by the existing collective agreement. A technological change determines whether an employer must notify a union and the length of notice that is required if a technological investment or change is made. Replacement workers and third party picketing assesses whether replacement workers and/or third party picketing are allowed during a strike or a lock-out. Lastly, arbitration gauges the use of arbitration to solve disputes regarding a collective bargaining agreement, its meaning, application, or alleged violation. For more information, see Karabegović et al. (2009).

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BC avoids the damaging effects of minimum wage increases

Charles Lammam and Niels Veldhuis

Unlike other Canadian provinces and the US federal government, British Columbia has steered clear of raising its minimum wage this year. This is welcome news in light of the mountains of evidence showing that minimum wage increases produce adverse impacts for workers. With unemployment rates already rising, governments in Canada and the United States are exacerbating labour market problems through minimum wage hikes. If the BC government wishes to act in the best interest of the province's young and low-skilled workers, it would be wise to continue its minimum wage freeze.

This year, governments of various political stripes across North America have taken steps to increase minimum wages (table 1). BC is the only Canadian province that has resisted doing so. After all the changes take effect, the largest annual minimum wage increase among the provinces will be in Newfoundland and Labrador (12.5%), followed by Ontario (8.6%) and Saskatchewan (7.6%).

Meanwhile, in the United States, where the federal government has the authority to impose countrywide minimum wage legislation, the federal minimum wage rate was bumped from $6.55 per hour to $7.25 per hour in July 2009—a 10.7% hike.[1]

While there is little doubt that minimum wage increases are made with good intentions, they have serious negative consequences.[2] The most damaging effect of minimum wage increases is that they result in higher unemployment, especially among low-skilled and young workers. This is because increases in the minimum wage raise labour costs for employers who respond by reducing the number of employees and/or the number of hours their employees work.

Studies from Canada and around the world demonstrate convincingly that higher minimum wages lead to lower employment levels (Godin and Veldhuis, 2009). One recent comprehensive study by renowned minimum wage experts Professor David Neumark of the University of California, and Dr. William Wascher, a US Federal Reserve Board economist, reviewed more than 100 studies covering 20 countries over the past 15 years and found that the "overwhelming majority" of studies, especially the most credible, consistently show that minimum wage increases result in decreases in employment (Neumark and Wascher, 2007).

Closer to home, 14 studies that specifically examined the impact of minimum wage increases in Canada found that a 10% increase in the minimum wage is likely to

Fotolia

Table 1: North American minimum wage rate increases from 2008 to 2009, select jurisdictions

Jurisdiction	2008 minimum wage, $/hr	2009 minimum wage, $/hr	Percentage change, %	Date 2009 minimum wage is effective
British Columbia	8.00	8.00	0.0	No change
Alberta	8.40	8.80	4.8	April 1, 2009
Saskatchewan	8.60	9.25	7.6	May 1, 2009
Manitoba (a)	8.50	9.00	5.9	October 1, 2009
Ontario	8.75	9.50	8.6	March 31, 2009
Quebec	8.50	9.00	5.9	May 1, 2009
Newfoundland & Labrador (b)	8.00	9.00	12.5	July 1, 2009
New Brunswick (c)	7.75	8.25	6.5	September 1, 2009
Nova Scotia	8.10	8.60	6.2	April 1, 2009
Prince Edward Island (d)	8.00	8.40	5.0	October 1, 2009
United States (federal)	6.55	7.25	10.7	July 24, 2009

Notes:
(a) Manitoba has planned two minimum wage hikes in 2009: one to $8.75 effective May 1, 2009, and another to $9.00 effective October 1, 2009. Only the October increase is shown in this table.
(b) Newfoundland and Labrador has planned two minimum wage hikes in 2009: one to $8.50 effective January 1, 2009, and another to $9.00 effective July 1, 2009. Only the July increase is shown in this table.
(c) New Brunswick has planned two minimum wage hikes in 2009: one to $8.00 effective April 15, 2009, and another to $8.25 effective September 1, 2009. Only the September increase is shown in this table.
(d) Prince Edward Island has planned two minimum wage hikes in 2009: one to $8.20 effective June 1, 2009, and another to $8.40 effective October 1, 2009. Only the October increase is shown in this table

Source: HRSDC, 2009.

decrease employment by 3% to 6% among workers aged 15 and 24. For the young workers who are most directly affected—those whose compensation falls between the old minimum wage and the new higher minimum wage—the impact is more acute, resulting in employment losses of 4.5% to 20% (Godin and Veldhuis, 2009).

Based on past experience with minimum wage increases across Canada, Ontario's recent minimum wage increase of 8.6% to $9.50 per hour is estimated to lead to a loss of up to 48,000 jobs for workers aged 15 to 24 (Veldhuis and Karabegović, 2009, Mar. 31). Similarly, Saskatchewan's 2009 minimum wage rate hike from $8.60 to $9.25 (a 7.6% increase) is estimated to lead to a loss of up to 4,000 jobs (Veldhuis and Karabegović, 2009). Further, Manitoba's planned minimum wage hike in October to $9.00 per hour (a 5.9% increase from $8.50) is estimated to cause a loss of up to 3,500 jobs for young workers (Veldhuis and Karabegović, 2009). Clearly, these are not insignificant impacts.

In BC, unions and other activists are demanding that the provincial government increase the current minimum wage rate of $8 per hour to $10 per hour (BC Federation of Labour, 2009). If the government succumbs to these calls for a 25% minimum wage hike, estimates suggest that the province would shed upwards of 52,000 jobs for workers aged 15 to 24 (Godin and Veldhuis, 2009). Fortunately, the government has resisted those demands so far.

Those fortunate enough to retain their jobs in jurisdictions where the minimum wage has increased may not actually benefit, as employers often reduce hours, fringe benefits, and/or training to offset the higher wage costs (Godin and Veldhuis, 2009). Again, these effects are borne out in the

academic literature. For example, a study published in the *Journal of Labor Economics* found that a 10% increase in the minimum wage reduced the proportion of minimum wage workers aged 20 to 24 who received on-the-job training by two percentage points (Neumark and Wascher, 2001).

Of course, some minimum wage earners would benefit from an increase, but the typical minimum wage earner is not the person depicted by advocates of higher minimum wages (i.e., an adult supporting a family). In reality, the majority of minimum wage workers are young people, often students living at home with family.

According to the most recent Statistics Canada data available, only about 5.2% of workers in Canada earned the minimum wage in 2008 (Statistics Canada, 2009). Of these, 63.4% were between 15 and 24 years old, and most of those persons (87.3%) were living at home with family (Statistics Canada, 2009). Many of the remaining individuals earning minimum wage in Canada were adults supplementing their family's income during child-rearing years or after retirement. Therefore, changes to the minimum wage would most likely affect younger workers, not working adults or those supporting families.

Finally, it is important to note that working for the minimum wage is largely a temporary experience (Godin and Veldhuis, 2009). Research shows that after one year, more than 60% of minimum wage workers earn more than the minimum wage, with a typical wage gain of about 20% (Long, 1999). After two years, the percentage of workers earning more than the minimum wage increases to over 80%. Increasing the minimum wage would rob young and low-skilled workers of work opportunities, making it harder for them to gain the experience and skills necessary to increase their productivity and command higher wages.

While the trend of increasing minimum wages in North America is certainly a concern, the BC government should be commended for not following suit. Labour markets are currently under strain due to the economic recession, and increasing the minimum wage would only make matters worse.

Notes

1 This federal increase is the third in three years. The US government raised the federal minimum wage rate to $5.85 per hour in July 2007, to $6.55 per hour in July 2008, and finally to $7.25 per hour in July 2009. For details on these increases, please see Labor Law Center (2009).

2 The standard argument among minimum wage advocates is that minimum wage increases are needed to reduce poverty for the "working poor," and that those increases could be implemented without negatively impacting employment.

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The end of free choice?

America's Employee Free Choice Act offers lessons for Canada

Amela Karabegović and Niels Veldhuis

Fotolia

The US Employee Free Choice Act (EFCA), an ill-named bill that would adversely affect the US labour market, seems to be making a comeback in Washington. The original bill failed to pass the US Senate in 2007, but recent developments in Washington indicate that it might be given another chance, this time without one of its key provisions: the "card-check" system of certifying unions. Some of Canada's elected officials, both federal and provincial, should take note of this development and recognize the negative effects that card-check union certification can have on workers.

The original EFCA proposed the most significant changes to US labour relations laws in decades. Most importantly, the bill would have given unions the right to become the exclusive bargaining agent for a group of employees without a secret ballot vote if a majority of workers indicated support through signed union cards (this is referred to as a "card-check" system).[1]

The card-check system has a number of serious problems. First, card checks are inherently confrontational. Union organizers and workers wanting union representation are able to go to the homes of other workers or approach them in other public places in order to persuade them to sign union membership cards. If a worker decides not to sign a membership card, there is nothing to stop union organizers from repeatedly approaching that person.[2]

Because it is confrontational by nature, the card-check system can create hostilities between workers in a company. Given that individual decisions are known by all workers, card checks often create conflict between co-workers who must continue to work together after a union certification drive commences.

The dissemination of information is yet another problem associated with the card-check system. Under that system, certification drives can be largely conducted in secret. As a result, employers often have no opportunity to offer workers an alternative view. Without proper access to a full range of information regarding the consequences of their choice, workers cannot make an informed decision about union representation.

> The EFCA seems to be making a comeback in Washington.

Perhaps the most troubling outcome of the card-check system is that it does not seem to reflect worker preferences regarding union representation. The

card-check provisions rob workers of a secret ballot vote, a cornerstone of the democratic process, and thus the right to privacy in voting for or against certification. As the Canadian experience shows, when workers are given the right to vote for union representation using a secret ballot, they choose collective representation much less often compared to card-check campaigns. This difference could be due to a number of factors, including peer pressure.

The Canadian experience with the card-check system is informative as several provinces have switched between card-check certification and secret ballot voting over the past 30 years.

For instance, secret ballot voting to certify a union was first introduced in British Columbia in 1984 and then eliminated in 1993.[3] Professor Chris Riddell of Queen's University examined unionization rates in British Columbia between 1978 and 1998 and found that union success rates fell by 19 percentage points after mandatory secret ballot voting was introduced.

Ontario, which moved from a card-check system to mandatory secret ballot voting in 1995, provides another example. Professor Sara Slinn, also of Queen's University, investigated the effect that this change had on union certification and found that the introduction of secret ballot voting in 1995 reduced the likelihood that a union would be certified by 21%. In 2005, Ontario reintroduced the card-check system in the province's construction sector. Bartkiw (2008) found that this change resulted in an overall increase in certification success rates in Ontario.

Fortunately for workers in the United States, a few Democratic senators now oppose the card-check provision in the original Employee Free Choice Act, which means that the revised bill will likely not have the card-check provision.[4] While the EFCA will still shift the balance of power towards organized labour and away from workers and employers, it will be much less damaging without the card-check provision.

In Canada, however, a number of jurisdictions still allow card-check certification. Unions in Manitoba, Quebec, New Brunswick, Prince Edward Island, and in the federal jurisdiction[5] can be certified without a secret ballot vote.

Moving to a secret ballot voting system in these jurisdictions would allow workers to obtain more information regarding the benefits and costs of union representation, and would give them the privacy of a voting booth to confidentially express their preferences.

The card-check provisions rob workers of a secret ballot vote, a cornerstone of the democratic process.

Fotolia, iStockphoto

Notes

1 The EFCA proposed two additional major changes. First, the EFCA would have introduced binding arbitration to settle disputes over a first collective agreement. Settling disputes over a first collective agreement through arbitration is an important aspect of becoming unionized, as a failure to settle a first collective agreement essentially makes certification moot. This change would likely result in more collective agreements (i.e., higher unionization rates). Second, the EFCA would have introduced much stiffer penalties for employers that commit unfair labour practices during a unionization drive. The EFCA made no such proposal in relation to unions committing unfair labour practices during unionization drives.

2 This sort of confrontation may occur even with secret ballot voting, but the significance of signing union membership cards is drastically reduced. With a secret ballot vote, signing union membership cards can, at most, trigger a certification vote, but under a card-check system, union membership cards determine the certification outcome.

3 Secret ballot voting was reinstituted in 2001.

4 Specifically, six Democratic senators expressed their opposition to the card-check provision: Arlen Specter of Pennsylvania, Mark Pryor of Arkansas, Tom Harkin of Iowa, Thom-

as R. Carper of Delaware, Charles E. Schumer of New York, and Sherrod Brown of Ohio (Greenhouse, 2009, July 17). In its place, proponents of the bill are considering additional provisions: (a) shortening the union election period to five to 10 days (from the current median time period of 38 days); (b) requiring employers to give union organizers access to company property; and (c) prohibiting employers from requiring that the workers hear the employers' side (*Wall Street Journal*, 2009, July 21; Greenhouse, 2009, July 17).

5 Approximately 800,000 Canadian workers (5.5% of total public and private employment) are employed in federally regulated industries such as interprovincial transportation, banking, broadcasting, and telecommunications. This number includes workers in the Canadian territories who are also covered under federal labour relation laws (Canada Industrial Relations Board, 2009).

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COMPETITION

Encouraging excellence in the marketplace

Lawrence W. Reed

Gym Now Stresses Cooperation, Not Competition" blared a headline in the July 5, 2000, edition of the *New York Times*. The story was about an elementary school where "confrontational" games, team sports, and elimination rounds were changed or scrapped so that differences between students' athletic abilities would be minimized. For instance, they would be no more "strike-outs" when the students played baseball. Every team would get an equal 10 minutes at bat, then 10 minutes in the field. If a student was not good at swinging a bat, he or she could hit the ball off a tee instead. Traditional dodge ball, deemed too rough and tumble, was banned altogether. Everybody would get to "win."

Perhaps this emphasis on inclusiveness, self-esteem, and "kumbaya" is fine for a grade school gym class, but it would make for a rather boring Olympics. And were it imposed as the guiding rule in the world of production and trade, it would condemn millions to poverty and early death.

In economics, competition is not the antithesis of cooperation; rather, it is one of its highest and most beneficial forms. That may seem counterintuitive at first. Doesn't competition necessitate rivalrous or even "dog-eat-dog" behaviour? Don't some competitors lose out to those who are better, faster, or cheaper? A definition is in order. Competition in the marketplace means nothing less than striving for excellence in the service of others for self-benefit. In other words, sellers cooperate with consumers by catering to their needs and preferences.

What about those restaurants that do not seem to be striving for excellence at all, where surly waiters bring poor food to your table at a high price? Everyone has been to one or two of those. But a competitive market does not mean that everybody is equally competitive. The most competitive firms are those that work the hardest and the smartest to provide the quality and service that consumers desire most at the best price. They do so not because they like or even know you, but because, in a free market, that's how businesses survive, grow, and do well.

If restaurants performed the way that the students now do in that elementary gym class, their dining patrons would undoubtedly employ many choice words to describe the results. "Cooperation" would likely not be one of them. In the real world, being competitive means appealing to customers, and usually more than once; the "self-esteem" part comes later, if and when you succeed.

Many people think that competition is directly related to the number of sellers in a market. According to this popular notion, the more sellers there are, or the smaller the share of the market any one of them has, then the more competitive the market. This view, however, is simplistic and often dead wrong. Competition can be just as fierce between two or three rivals as it can be between 10 or 20.

Moreover, market share is a slippery notion. Almost any market can be defined narrowly enough to make someone look like a monopolist instead of a competitor. I have a 100% share of the market for articles by Lawrence W. Reed, for example. I have a far smaller share of the market for articles, generally.

In the early 1970s, the US Federal Trade Commission (FTC) filed a suit against cereal makers Kellogg, General Mills, and General Foods. The FTC claimed that the three companies were inherently anti-competitive because, together, they sold about 80% of all ready-to-eat cereal. Ten years and a lot of wasted taxpayer money later, the suit was dismissed. It was rather obvious to everyone except the regulators that those three companies

In the real world, being competitive means appealing to customers, and usually more than once.

not only compete against each other, but also against anything that anyone eats for breakfast—from bacon and eggs to a Coke and a cigarette.

Markets are inherently competitive when the incentive for profit is allowed to work, though sometimes it takes time and investment for new competitors to make a difference. To ensure that competition happens, governments do not have to decree it; all governments have to do is prevent and punish force, violence, deception, and breach of contract. Enterprising individuals will compete because it is in their financial interest to do so.

Fotolia

In the nineteenth century, Colin Pullinger typified the spirit of British competitive entrepreneurship. He designed a "perpetual mousetrap" that could humanely catch two dozen mice per trap in a single night, and then sold two million of the devices. Perhaps Ralph Waldo Emerson had Pullinger in mind when he famously wrote, "If a man write a better book, preach a better sermon, or make a better mousetrap than his neighbour, tho' he build his house in the woods, the world will make a beaten path to his door."

Competition does many things. It spurs creativity and innovation. It prods producers to cut costs. It encourages improvements in quality. You wouldn't think of stopping a horse race in the middle and complaining that one of the horses was ahead. The same should be true of free markets, wherein competition is a dynamic, ceaseless process by which the leader today can easily become the follower tomorrow.

Consider one of the most competitive markets in the world: consumer electronics. Thanks to competition, you can buy a hand-held calculator today with a hundred times the computing capability of its counterpart of 20 years ago, and at a fraction of the cost. Sellers may not start businesses because they want to "cooperate" with consumers, but that is the way things go; the businesses that fail to compete are left by the wayside.

An economy where competition is hobbled, taxed, or otherwise legislated against would be hopelessly stagnant. Mousetraps might never change, even if they didn't work. So which would you prefer: an economy in which sellers compete or one in which they can't and don't? The answer is a no-brainer.

Suggestions for further reading

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*__Key Concepts__ is a series of essays on the fundamentals of economics and markets. In addition to appearing in *Fraser Forum*, these essays will form the basis of a live Ask the Professor discussion, held at **www.fraserinstitute.org** each month.

Please join us on September 24 at 11:00 am Pacific time for an online discussion of this essay with Lawrence W. Reed.

Waiting for new medicines in Canada

Mark Rovere and Brett J. Skinner

Last month, the Fraser Institute released *Access Delayed, Access Denied*, its third annual report on the wait for new medicines in Canada. The report measures the length of time that Canadians must wait before they can have access to the newest prescription medicines, and it draws attention to the impact that Canada's public policies and institutions have on this delay. The report also compares the wait for new medicines in Canada to waits in the European Union and the United States.

An estimate of the total time that Canadians must wait for access to new medicines because of government policies and institutional performance can be calculated by adding:

- The national delay—the time spent waiting for Health Canada to certify the safety and effectiveness of new drugs and approve them for use in Canada; and,
- The provincial delay—the time spent waiting for provincial drug insurance programs to approve the public reimbursement of new drugs.

The national delay

Figure 1 shows the average time taken (in days) by Health Canada to grant market authorization for new drug submissions (NDS) that were approved between 2004 and 2007.[1] As displayed in figure 1, Health Canada's approval times have consistently improved over the observed period. In 2004, Health Canada took approximately 839 days (on average) to grant market approval for new medicines, compared to 453 days (on average) in 2007. Thus, over the four-year period, Health Canada reduced the average approval delay for new medicines by approximately 386 days.

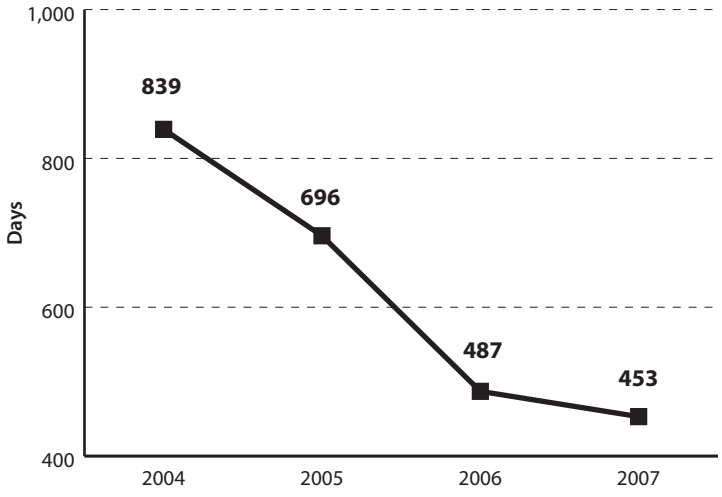
International comparisons

Canada and the United States

A comparison of the performance of Health Canada with that of its counterparts in the United States the European Union shows that although Health Canada has significantly improved its approval delays (figure 1), it consistently lags behind its international counterparts[2] in terms of the length of time it takes to grant market approval for new medicines.[3]

Figure 2 displays the differences between median approval times (weighted average medians[4]) in Canada and the United States for new drug applications that were approved between 2004 and 2007. As figure 2 shows, Health Canada took longer than the US Food and Drug Administration (FDA) to grant market approval for new drugs in all four years observed.[5] The most significant difference

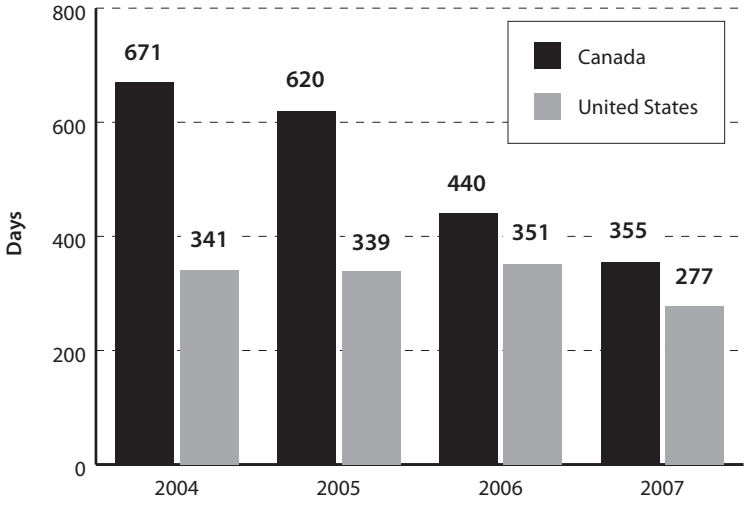
Figure 1: Weighted average delay (days) for Health Canada to grant new drugs regulatory/marketing approval, 2004–2007



Source: Skinner and Rovere, 2009.

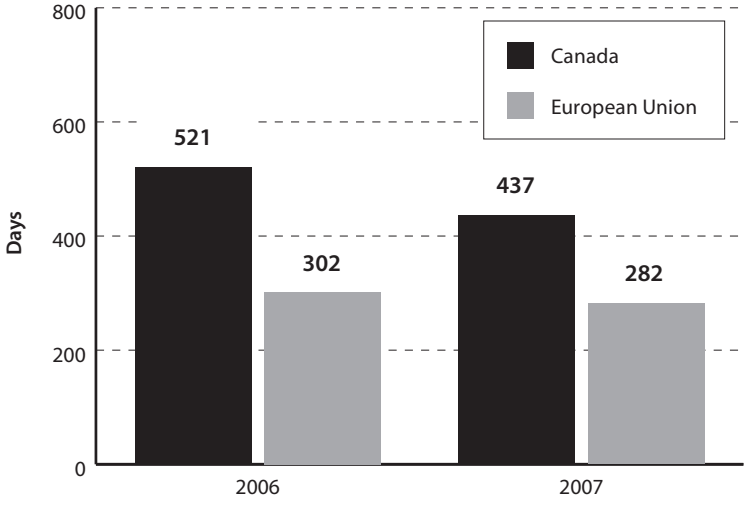
in median approval delays between the two regulatory authorities occurred in 2004 when Health Canada took approximately 671 days to approve new drugs while the FDA took only 341 days. In contrast, Health Canada's median approval time dropped to 355 days in 2007, while the FDA's median approval time was 277 days. Thus, over the period observed, Health Canada improved its approval delay relative to its American counterpart; however, Health Canada has consistently taken longer than the FDA to grant new medicines market approval.

Figure 2: Weighted average median delay (days) for regulatory/marketing approval of new drugs, Canada and the United States, 2004–2007



Source: Skinner and Rovere, 2009.

Figure 3: Non-weighted consolidated average delay (days) for regulatory/marketing approval of new drugs, Canada and the European Union, 2006–2007



Source: Skinner and Rovere, 2009.

Canada and the European Union

Figure 3 displays the average number of days spent waiting for the approval of new medicines in the European Union and Canada in 2006 and 2007, the only years for which comparable data are available.

As figure 3 shows, Health Canada took longer (on average) than the European Medicines Agency (EMEA) to grant market approval for new drugs in both 2006 and 2007.[6] In 2006, Health Canada took 521 days (on average) to approve new medicines, while the EMEA took 302 days. Similarly, Health Canada took 437 days (on average) to grant market authorization for new medicines in 2007, while the EMEA took 282 days. Thus, as with the Health Canada-FDA comparison, Health Canada reduced the length of time it took to approve new medicines relative to the EMEA, but it still took longer than the EMEA to approve new medicines in both 2006 and 2007.

Total delay for access to new publicly insured medicines

After a new drug has obtained market authorization from Health Canada, Canadians who are covered under provincial drug programs cannot access the drug until it has been approved for public reimbursement by their respective provincial governments. The average time taken by the provinces to grant reimbursement eligibility for new drugs that were approved by Health Canada in 2004 was 552 days; the average for new drugs that received market approval in 2005 was 499 days; the average for new drugs approved in 2006 was 455 days; and the average for new drugs approved in 2007 was 314 days.

Figure 4 shows the total delay for access to publicly insured new medicines in Canada from 2004 to 2007, broken down by wait segment: national delay and provincial delay. Since 2004, the total delay for access to new publicly insured medicines in Canada has consistently decreased.

While the total delay was approximately 1391 days in 2004, it was approximately 767 days in 2007, a difference of 624 days.

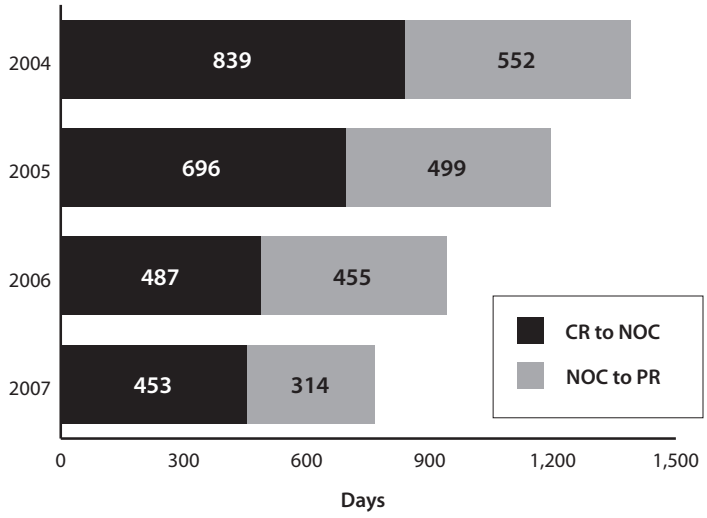
Denials of access

Although the provincial governments have improved their reimbursement delays since 2004, this does not necessarily mean that patients have access to more drugs. While provincial agencies could be taking less time to approve new medicines for public reimbursement compared to previous years, they could also be approving fewer drugs. Thus, it is imperative to examine provincial decisions on drug reimbursements, not just in terms of delays, but also in terms of denials of access.

Table 1 displays provincial reimbursement approvals[7] as a percentage of new drugs approved by Health Canada from 2004 to 2007, broken down by province. As table 1 shows, averaged across all provincial drug programs, only 10.1% of new drugs approved by Health Canada in 2007 had been approved for reimbursement by the provinces as of December 31, 2008, compared to 20.4% of new drugs approved by Health Canada in 2004, 15.2% of new drugs approved in 2005, and 25.6% of new drugs approved in 2006.

Thus, the most recent edition of *Access Delayed, Access Denied* shows that most of the new medicines that are granted market approval by Health Canada are not declared eligible for public reimbursement under the provincial drug plans.

Figure 4: Weighted average total delay (days) for access to publicly insured new medicines in Canada, by wait segment, averaged across all provinces, 2004–2007



Abbreviations:

CR: the date the drug manufacturer's application for marketing approval is recorded or filed in Health Canada's Central Registry.

NOC: the date Health Canada issues an official Notice of Compliance, certifying that the new drug is safe and effective and is legally approved for sale in Canada.

PR: the date on which the first public reimbursement of the new drug is recorded in the formularies of each provincial drug program.

Source: Skinner and Rovere, 2009.

Policy recommendations

Access Delayed, Access Denied shows that Canadians wait too long to have access to new medicines, especially in comparison to Europeans and Americans. Rather then replicating the same regulatory process that is performed in Europe and in the United States, Health Canada could benefit from sharing data and resources with its international regulatory equivalents. If Canada recognized the approval authority of its international counterparts through an agreement of "mutual recognition," then new drugs could be launched into the Canadian market (and international markets) far more rapidly

The most recent edition of *Access Delayed, Access Denied* shows that formulary restriction through central planning significantly restrains access to the newest medicines for patients who require financial assistance. Canadians who are dependent on provincially funded drug programs could benefit from receiving means-tested subsidies to purchase private drug insurance. Alternatively, these patients could greatly benefit from a private drug insurance market where insurers could compete on price and service (Skinner and Rovere, 2009).

Notes

1 Previous editions of the report included all types of new drug applications. The current edition focuses more narrowly on the wait to access new drugs classified by Health Canada as new drug submissions (NDS) and excludes supplemental new drug submissions (SNDS). A NDS is any drug that has never received market authorization from Health Canada, and thus has never been sold in Canada. In contrast, an SNDS is any drug that has received market approval from Health Canada, but requires additional approval because of a change in formulation, labeling, strength, indication, etc. (Health Canada, 2006).

2 The World Medical Association *Declaration of Helsinki* has established international scientific standards for clinical trials,

Table 1: Public reimbursement approvals, as a percentage of NDS-class drugs approved by Health Canada, by province, 2004–2007, as of December 31, 2008

	2004		2005		2006		2007	
	Number of drugs approved	Drugs approved as a % of NOCs	Number of drugs approved	Drugs approved as a % of NOCs	Number of drugs approved	Drugs approved as a % of NOCs	Number of drugs approved	Drugs approved as a % of NOCs
AB	8	17.4%	2	4.8%	9	20.9%	1	2.3%
BC	7	15.2%	2	4.8%	5	11.6%	2	4.7%
MB	8	17.4%	4	9.5%	7	16.3%	3	7.0%
NB	10	21.7%	9	21.4%	16	37.2%	1	2.3%
NL	9	19.6%	9	21.4%	13	30.2%	3	7.0%
NS	8	17.4%	7	16.7%	14	32.6%	5	11.6%
ON	7	15.2%	4	9.5%	7	16.3%	3	7.0%
PEI	8	17.4%	7	16.7%	9	20.9%	0	N/A
QC	17	37.0%	13	31.0%	18	41.9%	19	44.2%
SK	12	26.1%	7	16.7%	12	27.9%	2	4.7%
Provincial average		**20.4 %**		**15.2%**		**25.6%**		**10.1%**
Total NDS NOCs	**46**		**42**		**43**		**43**	

Note: Provinces often take more than a year to decide whether or not to make a new drug eligible for public reimbursement. Therefore, more new drugs that were approved by Health Canada in 2006 and 2007 could eventually be granted eligibility for public reimbursement in the future. The delay will be captured in future reports and will be reflected in the percentages shown above.

Source: Skinner and Rovere, 2009.

which are accepted as the minimum global standard (WMA, 1964). Therefore, safety standards for the approval of new medicines are virtually identical across international jurisdictions.

3 Due to data reporting differences in Canada, the United States, and Europe, median approval times are used to compare the United States and Canada, while average approval times are used to compare Europe and Canada. The delays for pharmaceutical and biological drugs are consolidated for all three jurisdictions (see Skinner and Rovere, 2009, for further information about methodology).

4 The Canadian data is weighted by drug type (biologic or pharmaceutical) and drug submission category (priority or non-priority). The US data is weighted by drug submission category only because the FDA does not provide enough detailed information to weight the data by drug type (see Skinner and Rovere, 2009).

5 These results are different than in previous reports due to the change in methodology. Whereas previous reports included the approval delay for all drug types, the 2009 report only includes new drugs that have never received market approval (Skinner and Rovere, 2009).

6 The data from the EMEA does not permit the calculation of an average that is weighted by drug type. Therefore, in order to make the Canadian and European data comparable, the data are shown as non-weighted, consolidated averages across biological and pharmaceutical drug types (see Skinner and Rovere, 2009).

7 Provincial reimbursement approvals include all new drugs that have received full or partial reimbursement status by the provinces as of December 31, 2008.

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NATO's new mission statement

Alan W. Dowd

This July, NATO officially started the process of revamping its Strategic Concept. NATO considers the Strategic Concept "the authoritative statement of the alliance's objectives," providing "the highest level of guidance on the political and military means to be used in achieving them" (NATO, 2009c). Think of it as NATO's mission statement. NATO last reworked its Strategic Concept in 1999, which means that this process is overdue.

At the moment, the next Strategic Concept is "a blank sheet of paper," as Jaap de Hoop Scheffer, NATO's outgoing secretary general, has said (de Hoop Scheffer, 2009). But NATO's current challenges offer plenty of guidance on how to fill the page.

The common defence

First, NATO nations need to invest more in defence, if for no other reason than this: NATO is doing more in more places than at any time in its history. The alliance is waging war in Afghanistan, keeping the peace in Kosovo, fighting piracy, transporting peacekeepers in Africa, training Iraqi soldiers, engaging in cyber-defence, and, of course, keeping an eye on Russia.

Indeed, NATO's members must remember that theirs is, above all, a military alliance. As de Hoop Scheffer has observed, military operations are "NATO's core business" (de Hoop Scheffer, 2009).

While the United States spends 4% of its GDP on defence, only five NATO members have mustered the will to meet the alliance's benchmark of investing 2% of GDP on defence (NATO, 2009a). Investing 1.3% of GDP in the common defence, Canada is in line with Germany (1.3%), Italy (1.3%), and Spain (1.2%) (NATO, 2009a: 6). Even Britain, generally considered America's nearest technological peer within NATO, invests only 2.2% of GDP on defence—"its lowest level since the 1930s" (Gardiner, 2008, Apr. 14). With the exception of the United States, all of these percentages are considerably lower than they were in 1994, when NATO, focused largely on stabilizing post-Soviet Eastern Europe, had far fewer responsibilities on its plate (NATO, 2009a: 6).

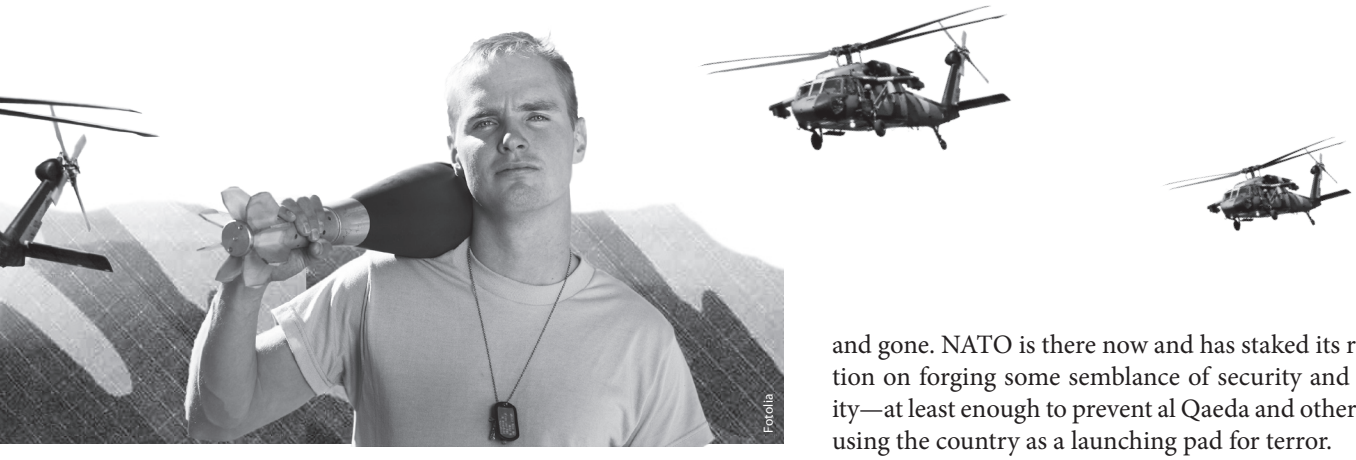
A libertarian might argue, on purely economic grounds, that each member has simply determined its own optimal level of defence spending. However, neither NATO nor its members base policy decisions purely on economic grounds. There are responsibilities and expectations that come with membership, and one of those expectations happens to be investing 2% of GDP on defence. It's an arbitrary number, to be sure, but it is an attainable goal and it is based on the notion that (a) there should be no free riders in NATO, and (b) members need to be prepared when called into action.

Of course, no matter how much alliance members invest in defence, they need to invest wisely. Britain's recent experience in Afghanistan shows that meeting the 2% threshold doesn't automatically translate into preparedness. Many British policy makers blame the country's growing list of casualties in Afghanistan—recently surpassing British losses in Iraq—on the government's inadequate investment in helicopters, helicopter interoperability, and helicopter training (Alexander and Donaldson, 2009, July 16). There also is, apparently, a logistics or allotment problem, given that the British military has some 240 transport helicopters (Sengupta, 2009, July 17), but only 30 to support its 9,100-person contingent in Helmand province (Burns, 2009, July 16). By way of comparison, an equivalent contingent of US Marines operating in the region has 100 helicopters at its disposal (Alexander and Donaldson, 2009, July 16). So stretched is the British helicopter fleet that Britain's top military commander was recently forced to fly into Helmand in a US Blackhawk helicopter. "Self-evidently, if I move in an American helicopter, it's because I don't have a British helicopter," he said when asked about his mode of transportation (Burns, 2009, July 16).

Actions and words

Second, NATO needs to make its words matter. Only once in its history has NATO invoked Article V—the alliance's collective defence clause. That was on September 12, 2001, which explains why NATO is in Afghanistan. However, some NATO members don't seem to take Article V all that seriously.

If they did, Washington would not have to beg for more troops to support NATO's Afghanistan mission, the troops that are already there would not have limits on where they can go, and individual governments



would not handcuff their militaries with onerous rules of engagement. German forces, for instance, refer to a seven-page guidebook before engaging the enemy. Until mid-2009, most situations required them to shout warnings to enemy forces—in three languages—before opening fire (Boyes, 2009, July 29).

The half-hearted, constrained commitment of certain allies to NATO's mission in Afghanistan even prompted de Hoop Scheffer—succeeded by Anders Rasmussen in August—to argue that the new Strategic Concept needs to "reassure our new allies that NATO takes its Article V collective defence commitment seriously" (de Hoop Scheffer, 2009).

One way to do that is to abolish what NATO euphemistically calls "caveats," which allow members to opt out of combat operations. As a blue-ribbon panel of former NATO commanders argues, caveats "prevent the operational commander from making adequate use of allocated forces" (Naumann et al., 2007: 80). Worse, they strike at the heart of the alliance's cohesiveness. After all, an ally that promises to help only when the guns are quiet and where the scenery is serene is not much of an ally.

To its credit, Canada, which has deployed some 2,800 troops in the thick of the fighting in southern Afghanistan, understands that there are responsibilities as well as benefits to NATO membership. Regrettably, countries like Canada and Britain are the exceptions.

If NATO's own members do not take Article V seriously, then neither will NATO's current and future enemies, which brings up an important question for the 60-year-old alliance. As Canadian Defence Minister Peter MacKay puts it, "If NATO cannot deter or defeat the real physical threat facing alliance members, and indeed contribute to the building of security for the larger international community, then we have to ask ourselves, what is NATO for?" (Baker, 2009, Feb. 16).

It would be a grim irony if a ragtag gang of stateless terrorists and rootless tribesmen were able to do what the Red Army never even attempted: defeat the NATO alliance in battle.

The troubles in Afghanistan may lead some to question NATO's intervention there. However, the time for debating whether NATO—an alliance created to deter the Soviet Union— should be in Afghanistan has come and gone. NATO is there now and has staked its reputation on forging some semblance of security and stability—at least enough to prevent al Qaeda and others from using the country as a launching pad for terror.

Expansion and the unexpected

Finally, NATO needs to be open and creative about expansion. While the 2009 NATO summit promised that "NATO's door will remain open" (NATO, 2009b), Russia's lunge into Georgia has had a chilling effect on expansion plans. The remaining shards of what was once Yugoslavia may join NATO in the coming years, but Georgia and Ukraine—who were, in 2008, promised membership at some unspecified future date—could be on the outside looking in for a while. To be sure, NATO held exercises in Georgia earlier this year, and the United States has signed bilateral charters with both Georgia and Ukraine referencing support for "sovereignty, independence, territorial integrity and inviolability of borders" (US Department of State, 2009). But all sides understand that none of this equals a NATO security guarantee.

That does not mean that NATO expansion should be put on permanent hold, however. There are other opportunities for partnership and perhaps even expansion.

Once a small club of Western nations clustered near and around the Atlantic Ocean, NATO added Turkey in the 1950s. In the 1990s, NATO made room for three former Warsaw Pact members, and in the 2000s, the alliance added nine countries once trapped behind the Iron Curtain, including three former Soviet republics.

NATO now encompasses a wide swath of the northern hemisphere and maintains what it calls "unique" relationships with Australia, Japan, New Zealand, Singapore, and South Korea (NATO, 2008). One or more of these partnerships may grow into something more formal, as NATO leaders suggested during their Bucharest Summit (NATO, 2008). Australia, for example, has played a major role in Afghanistan. Japan has partnered with NATO in Afghanistan and on the Indian Ocean.

Finally, and most importantly, NATO needs to expect the unexpected. After all, when NATO's last Strategic Concept was approved, no one envisioned that the alliance would be where it is today. At that time, NATO was concerned about securing Europe's eastern half and smothering ethnic wars in the Balkans. Indeed, reading the 1999 Strategic Concept is like sifting through a time capsule. The document focuses on Europe's "ethnic and

religious rivalries," commits the alliance to "partnership, cooperation, and dialogue with other countries in the Euro-Atlantic area," and vows to promote "the vision of a Europe whole and free" (NATO, 1999).

All of these were legitimate concerns and worthwhile goals, but the 1999 Strategic Concept included nothing about NATO's current worries: the Arctic, Africa, Afghanistan, and al Qaeda. In fact, terrorism was something of an afterthought, mentioned alongside organized crime and sabotage.

Ten years later, the alliance includes 28 members, enfolds virtually all of Europe, and is fighting terrorism in Afghanistan. In the past decade, NATO has deployed aircraft to North America as part of its Article V commitments, formed the basis of an international armada to intercept weapons of mass destruction on the high seas, fought piracy off the Horn of Africa, bolstered African Union peacekeeping efforts, trained Iraqi troops, and scrambled to assist a member crippled by cyber-attacks.

Some argue that this "mission creep" is evidence that NATO has outlived its usefulness, if not its raison d'être. However, given the importance of these missions—and NATO's effectiveness in many of them—the opposite argument seems just as strong: by evolving, NATO has served the global interests of its members, even while carrying out its core mission of providing security to its members.

The form and function of tomorrow's NATO is difficult to predict. Will the NATO of the next decade be "an expeditionary alliance," as former President George W. Bush envisioned, stabilizing the world's trouble spots in order to protect NATO's core (Bush, 2008)? Will it help "combat fear and want wherever they exist," as President Barack Obama has suggested (Obama, 2009)?

Will it be an extension of Washington or of the European Union? Will it become a global gendarme or a mini-UN?

Will it need to carry out military operations in space or cyberspace, air strikes in Iran or Lebanon, humanitarian interventions in North Korea or Nigeria, peacekeeping missions in Palestine, defensive manoeuvres in the Arctic, or airlifts into Tbilisi, Georgia—or, for that matter—Atlanta, Georgia? Or will it retrench, retreat, and retract?

The new Strategic Concept may not answer those questions, but in recalibrating the alliance it will help determine how tomorrow's NATO answers them.

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Improving health care in BC

Increased private sector involvement would lead to better universal access health care at a lower cost

Nadeem Esmail and Niels Veldhuis

BC Health Minister Kevin Falcon recently indicated that he is open to greater private sector involvement in BC's health care system (Fayerman, 2009, June 25). Not surprisingly, defenders and beneficiaries of the status quo have been quick to say that increased private sector involvement will adversely affect BC's health care system. But evidence from the rest of the world shows that a greater role for the private sector leads to better universal access health care at a lower cost.

Among the 28 developed nations that have universal health insurance programs, Canada ranks second-highest in health care spending as an age-adjusted percentage of GDP (Esmail and Walker, 2008). Despite that, this country ranks poorly in terms of access to technology (i.e., MRIs, CT scanners, etc.) and physicians (Esmail and Walker, 2008). In addition, Canadians endure some of the longest waiting lists in the developed world (see, for example, Schoen et al., 2007). Among the provinces, British Columbia's health care program is slightly less expensive than the national average (on an age- and sex-adjusted basis), has slightly better than average wait times, but delivers below average access to physicians and medical technologies (CIHI, 2008; Esmail and Hazel with Walker, 2008; CIHI, 2007; Esmail and Wrona, 2008).

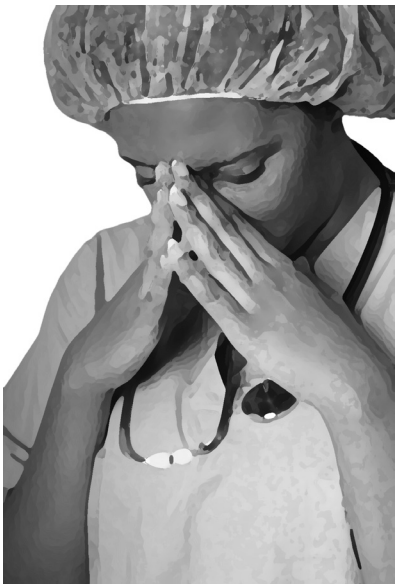
Part of the problem in BC and, indeed, in Canada generally is our monopolistic, government-run health care system. Canadians have no effective choice in the health care they receive. Without choice, health care delivery becomes a common, uncontested standard, leaving patients without the option to get better quality care from a provider other than the government. Shackling patients to a monopolistic health care system results in a more expensive system and a lower standard of care than would be available otherwise.

Canada stands alone in its prohibition of privately funded and provided health care among developed nations with universal access health care systems (i.e., systems that provide health care to citizens regardless of ability to pay). Countries like Austria, Australia, Belgium, France, Germany, Japan, Luxembourg, Switzerland, and Sweden all involve the private sector in health care (Esmail and Walker, 2008).

Take Sweden, for example. That country's health care program has long taken advantage of the private sector's ability to deliver services efficiently. In the mid-1990s, the Swedes began to rely on private management and operation of health care facilities. In fact, one of the largest hospitals in Stockholm, St. Goran's, is privately operated by a for-profit company and competes

with public hospitals for public dollars. The result has been more cost-efficient delivery of services and a reduction in waiting times for patients receiving publicly funded care (Ramsay and Esmail, 2004; Lofgren, 2002; Mitchell, 2001).

In fact, the majority of the 28 developed countries with universal access health care systems allow private providers to compete for and deliver publicly funded services. International evidence shows that the competitive private provision of services is more cost-efficient and produces higher quality care than monopolistic public provision of services (Esmail and Walker, 2008).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International evidence also shows that the operation of a parallel private health care sector is essential to providing high-quality universal access health care. Indeed, all of the nations that deliver universal access health care services without waiting lists and those that outperform other developed nations in health care outcomes have privately funded parallel health care sectors that patients can access when they desire (Esmail and Walker, 2008; Esmail, 2004).

Defenders of the status quo falsely claim that a parallel private health sector might increase wait times because physicians will be drawn away from the delivery of publicly funded services. Such claims rely on the assumption that Canadian physicians are unable to provide more services than they currently deliver through the public program, which is simply not true.

The reality is that despite the relative lack of physicians in Canada, many Canadian physicians spend a good deal of their time waiting for access to operating rooms or are unable to treat patients because of government-determined quotas and limits. In other words, there are idle physician resources in Canada that the public system is simply unable or unwilling to employ. Allowing private access to these resources would increase the quantity of services available to British Columbians and make better use of highly trained specialists.

Health Minister Kevin Falcon is correct to favour greater private sector involvement in the health care system. While no single solution to BC's health care woes exists, allowing private hospitals to compete for the delivery of publicly funded care and allowing patients to seek care with their own resources are proven policies that would improve the state of health care in British Columbia.

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