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Fall 2013

Taxing "unhealthy" foods won't reduce obesity

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Canadian
student review

Welcome!

Dear Readers,

The fall 2013 edition of *Canadian Student Review* features many thought-provoking articles, including a book recommendation for Paul Zak's *The Moral Molecule* and op-eds from our researchers on junk food regulation and government policy vs. consumer interests. We have also delved into our *Fraser Forum* archives to find an article on the opportunity costs of government programs.

This issue also features an article on Canadian military spending and a captivating video presentation by Jonathan Kay of the *National Post* on aboriginal prosperity. Finally, you will find information on our student seminars which are taking place across Canada, covering a range of interesting topics from renowned speakers.

I hope you are settling back into school life and enjoy reading these articles.

Best,

Lindsay Mitchell
Editor, *Canadian Student Review*

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Taxing “unhealthy” foods won’t reduce obesity

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Nadeem Esmail

It seems health associations are once again calling for a "fat tax;" taxes on foods that some nutritionists and researchers don't want us to eat or drink.

Unfortunately, the lack of sound thinking behind vilifying sugary drinks or less healthful snacks has not changed, nor has the blunt, imprecise, and unfair nature of a "junk food" or "sugary drink" tax.

No matter the good intentions, taxing certain foods to make us healthier remains bad public policy. There are several reasons why this is so, the most fundamental being that such taxes affect everyone regardless of their girth or lifestyle choices.

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Consider the case of a Canadian who runs three times a week, plays sports from time to time, eats a well-balanced diet, and is in excellent physical condition. If she likes to relax with a pop and watch a movie on the weekend, or enjoy a chocolate bar with lunch, why should she pay more to do so?

Notably, in 2012, 52.5 percent of Canadians aged 18 and older, and 21.8 percent of Canadian youth (aged 12 to 17) reported themselves to be overweight or obese (Statistics Canada, 2013a). In other words, flip those statistics over and a sizable portion of the adult population and the majority of the youth population are neither overweight nor obese by body mass index (the common metric of overweight and obesity) standards.

"Junk food" or "sugary drink" taxes not only fail to distinguish between overweight/obese Canadians and those who are not, but they are also a regressive form of taxation. A number of studies have found that diets of less healthy food options are less

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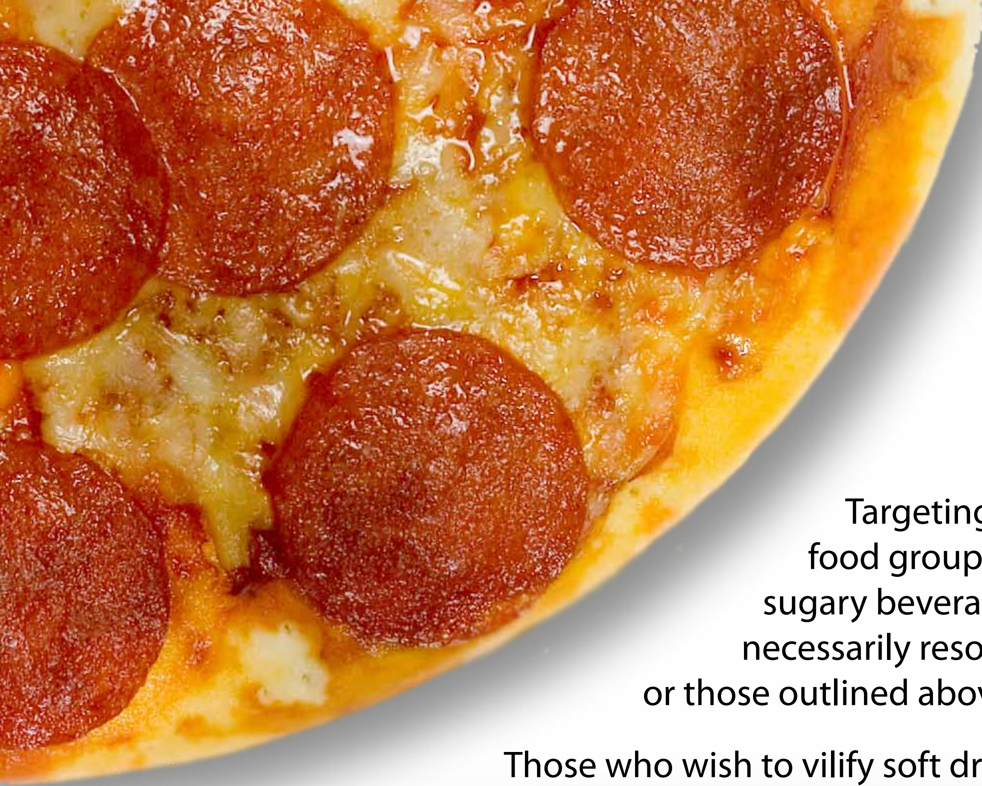
expensive than diets of healthier food options (Drenowski and Darmon, 2005; Drenowski et al., 2004; BCPHO, 2006; and CIHI, 2006). Further, lower socioeconomic classes are typically more dependent on fast foods for their nourishment (Eisenberg et al., 2011). Both suggest that a tax on less healthful/fattier food options will have a disproportionate effect on lower-income Canadians.

"Junk food" taxes are also not guaranteed to reduce overall caloric intake, as some hope. Importantly, fast food consumption (a common target for a "fat tax") may be relatively unresponsive to price changes because individuals may simply switch to other non-taxed, but still energy-dense (lots of calories per serving size) foods (Eisenberg et al., 2011).

Then there is the issue of defining which foods should be taxed and the difficulties therein (think fruit juices for example). That will no doubt require increased bureaucracy: a new agency would need to be created to determine which foods or beverages qualify for the tax and which might be exempted. The proposal that such taxes be offset with subsidies or tax reductions for other more healthful foods or in other areas only compounds this problem.



Targeting only one food group, such as sugary beverages, does not necessarily resolve these issues or those outlined above.

Those who wish to vilify soft drinks must also contend with a problematic reality: According to Statistics Canada, soft drink consumption fell 35 percent in Canada between 1999 and 2012 (Statistics Canada, 2013b). Yet, obesity has risen over that time (Statistics Canada, 2013a).

Fundamentally, how much we eat (of all foods), how much we exercise, and how we live our lives generally (plus genetic factors) determines the size of our waistlines. And even then, the relationship to ill health is not clear and obvious as many studies show some extra weight may be protective (see for example Flegal et al., 2005; Gronniger, 2006; and Flegal and Graubard, 2009).

The consumption of less healthful and/or fattier foods when balanced with other foods and exercise will not lead to a person being overweight or obese, nor will it necessarily lead to poorer health. No single food or beverage can be held responsible for weight gain.

Overly simplistic solutions to obesity that vilify an industry or food product are bad public policy. The reality is that "junk food" taxes or "sugary drink" taxes are ineffective, blunt instruments that fail to recognize the complex and manifold causes of obesity. It's time we put the idea of such taxes in their rightful place: the junk bin.

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This article appeared in the *Vancouver Sun* and *Province* on July 16, 2013.

Nadeem Esmail is Director of Health Policy Studies at the Fraser Institute.

The VIDEO Gallery

From idle to prosperous: Canada's Aboriginal question

Jonathan Kay, Managing Editor for Comment for the *National Post,* discusses aboriginal policy and property rights at the Dr. Harold Siebens Luncheon Lecture in Vancouver on May 16, 2013.

See the video HERE

Canadian military spending: The great debate

Frazier Fathers

The state of the Canadian military has long been a topic of debate for academics, politicians, government officials, and military officers with many of them lamenting the constraints the Canadian armed forces face. In an article from 2003 titled *Alongside the Best*, Andrew Richter argued that the Canadian Forces were ill prepared to purchase the next generation of

Calgary Reviews

F-35 Lightning, a sole-sourced military purchase with skyrocketing development costs

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equipment required to remain a truly "multi-purpose combat force" (2003: 67). He concludes that there would be neither the funding nor the political will to properly outfit the Canadian military in order to maintain the three serviceable branches of the armed forces (Richter, 2003: 88-89). A decade later, we now face the situation that Dr. Richter foresaw: a political establishment unwilling to wisely spend taxpayer funds that are needed for the Canadian Forces to remain an active participant on the international stage.

Now this isn't to say that governments haven't been willing to make promises for military upkeep. Following the 2006 election, Prime Minister Harper unveiled the Canada First Defense Strategy (CFDS) (Prime Minister's Office, 2008). This was a bold initiative that set out to provide $490 billion in funding through 2029 and committed to "reverse the damage done by major cuts to the defense budget in the 1990s" and to "plan for the future on the basis of stable and predictable funding" (DND, 2008:

11-13). This plan outlined an expansion of the Canadian forces personnel, major equipment purchases including: warships, fighter planes, ground vehicles, and search and rescue aircraft as well as various military infrastructure projects (including new bases).

In subsequent years, the current federal government maintained its commitment to the CFDS with the unveiling of the National Shipbuilding Procurement Strategy (NSPS) in June of 2010 to replace large segments of the Navy and Coast Guard aging fleets (PWGS, 2010). A month later the government announced that it would purchase the Joint Strike Fighter F-35 Lightning II (DND, 2010). In a period of two months, the government announced $29 billion of the $490 billion in the CFDS with tens of billions of long run training, maintenance, and upkeep costs attributed to this hardware over the coming decades. With this new spending, Canada seemed well on its way to replenishing its military capabilities. Unfortunately all was not as it seemed.

Troubled procurement processes

Regrettably these procurement projects are not going as smoothly as some had hoped. The troubles of the sole-sourced F-35 purchase have been well chronicled in the media. Sky rocketing development costs, unclear price figures, poor oversight, and a damning Auditor General's report resulted in the entire purchase being halted and oversight being stripped from the DND and given to the Department of Public Works and Government Services (DPWGS).

Following the initial contracts, the naval procurement process has been quieter in terms of political and media attention, but the waters may not be as calm as they seem. Recently, a report released by the Canadian Centre for Policy Alternatives on the state of the Arctic/Patrol Vessels Procurement began to question whether the naval hardware purchases are beginning to run into the same challenges as the F-35. Their principle finding shows that the A/OPC vessels are inadequate: too slow for coastal interdiction, too short range for proper deployment in the arctic without new bases (which have also been scaled back), too thin hulled for year round arctic deployment, and too expensive when compared to alternatives. One of the most damning sections in the report compares the costs of A/OPC ($3.1 billion for six ships) to other classes of patrol craft like the Sentinel American Fast Response Cutter ($1.5 billion for 34 ships) and Australian Armidale Patrol Craft ($533 million for 12 ships and 15 years of support) (Byers and Webb, 2013: 12-24). As media inquiries looked for explanation of these high cost vessels, the Minster of National Defense, Peter MacKay, said Canada was paying a "premium" to design and build the vessels at home (Milewski, 2013). The same article pointed out that Norway, Ireland, and Denmark have all built new patrol ships of similar size and capability as the A/OPCs costing between $100-$125 million for design and construction. This of course begs the question, why are we building these ships at such exorbitant costs?

This potential debacle could be just the tip of the iceberg, as the construction of new icebreakers may very well result in ships that are capable of operating in the arctic but are not equipped to handle military or policing duties that they may face in these waters (Parker, 2013: 36-37). This could result in two vessel classes being built at an exorbitant cost with neither capable of completely doing the jobs that they are intended to do.

Recently procured Arctic /Patrol Vessels, similar to the Norwegian Svalbard patrol craft (above) are being built in Canada at exorbitant costs. Doubts have been raised about the speed, range, and hull strength of the Canadian design.

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Made in Canada

As the Minister of National Defense stated, the premiums in cost are the price we pay to ensure that this procurement is made in Canada. The purpose of Canadian procurement content is to provide government funded stimulus to a nearly extinct, relatively small defense industry. This long term strategy is justified in the report, *Canada First: Leveraging Defense Procurements through Key Industrial Capacity,* which was subsequently enacted in the 2013 budget (Department of Finance, 2013: 106-108). This report, colloquially called the "Jenkins Report", recognizes that extra risk and/or price premiums would likely have to be paid in order for Canadian companies to support, develop, build, and maintain high end military hardware (Jenkins et al., 2013: 3). The Jenkins Report optimistically argues that these costs are bearable and acceptable as the economic spinoffs in the defense industry will assist in stimulating economic growth and make portions of the Canadian defense industry competitive internationally (Jenkins et al., 2013: 23).

Regrettably these higher costs still have to be paid and will have to be carried in addition to development, construction, and maintenance costs that the DND and the Canadian Forces have budgeted. Since no additional funds are budgeted outside of those assigned in the CDFS to cover the costs, orders will likely have to be reduced to make up the difference. Even within the defense industry there is skepticism about the government's motives and willingness to follow through on spending promises (Bray, 2013: 22). Both the Jenkins Report and industry members admit that Canada has no recent experience when it comes to large scale military procurement and homegrown defense industry. This is why the Jenkins Report calls for the creation of an "independent, third party defense institute or network" to inform the decision making process (Bray, 2013: 22). The unfortunate conclusions that can be drawn from these circumstances are that even if the government wanted to quickly move forward on its planned hardware purchases, it is unclear if they truly know what is best for the Canadian military and taxpayers. Which in turn raises the question, is expediting the process in order to not miss out on potential economic benefits the way to ensure our military has the equipment it needs?

Virginia Guard Public Affairs

Reforming the Canadian Forces

If Canada cannot afford to purchase or maintain the elements of an all-purpose armed forces then the question must be asked, do we need an all-purpose military? According to available public opinion polling, defense matters do not rank high among Canadian voters (Policy Priorities, 2011). Although Canadians like the idea of a military, when push comes to shove, they prioritize health care, the economy, or other policy initiatives over the armed forces (Nanos, 2012). This brings us back to Andrew Richter's original conclusion that Canada cannot afford to maintain an all-purpose military and should instead focus on specializing and modernizing one of the branches of the armed forces (Richter, 2003: 88-89).

At this point, his argument makes sense. Government cuts have already come to the DND in the 2013 Federal Budget (Brewster, 2013) and there is no guarantee that the funds promised under the CFDS will be there in the five or ten years when they are needed. Would it not be better to have a truly world class army, air force, or navy that Canadians can be proud of and our allies can rely on, than an all-purpose military that wants to do everything but isn't capable of accomplishing anything? The spiraling costs of the next generation of equipment and hardware for all three branches coupled with the lack of strategic vision over what the Canadian Forces' role will be in the world makes the prioritization of a branch the most attractive option.

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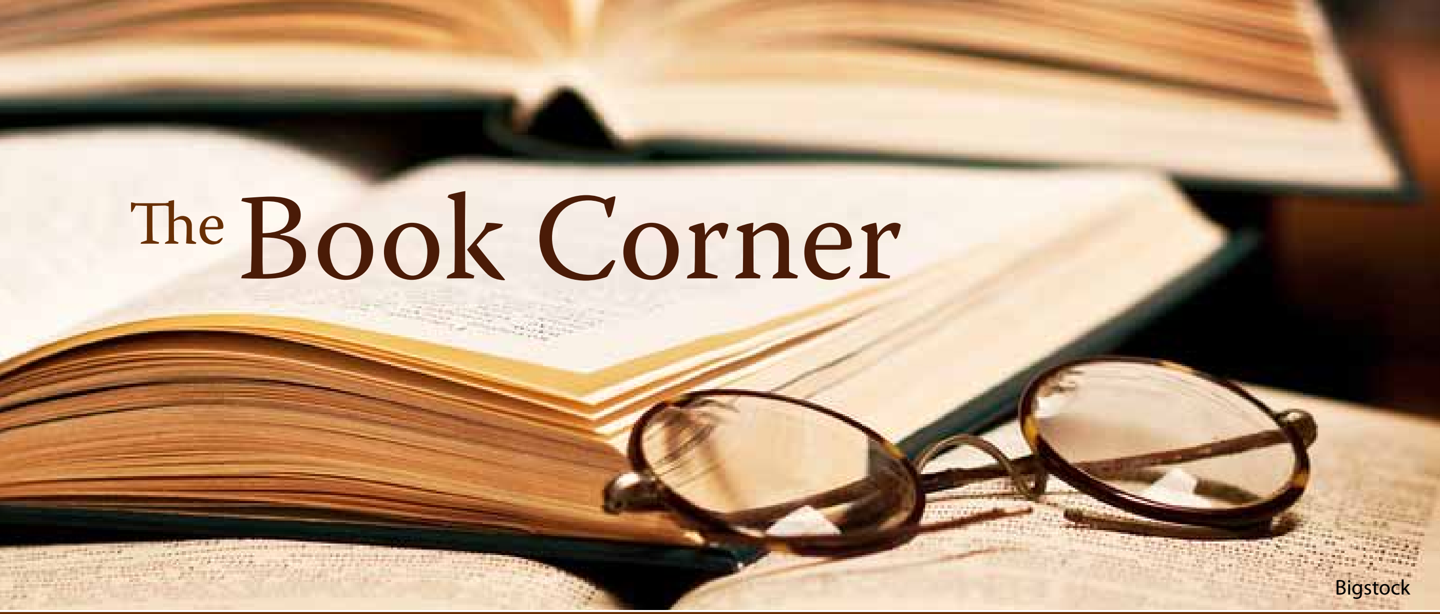
Frazier Fathers was a 2013 summer research intern with the Fraser Institute. A dual masters graduate, he holds a Master of Arts in Political Science from the University of Windsor and a Master of Public Policy from the University of Michigan.



Fraser Institute researcher-recommended books on free market policies and economics

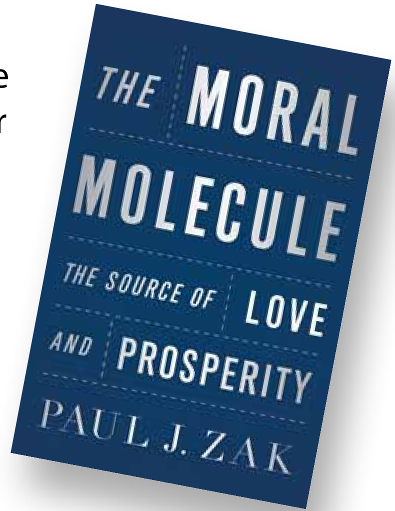
THE MORAL MOLECULE: The Source of Love and Prosperity

by Paul J. Zak

An altar boy and son of a former nun, Paul J. Zak grew into a neuroscientist searching for the origin of moral behaviour. He found it not in the heavens, but in human biology.

Oxytocin, a reproductive hormone, had long been associated with breastfeeding, sex, and the bonding of mothers and babies. Beyond that, its role in human behaviour was ignored—until Zak made an astonishing discovery: Oxytocin is in fact the molecule responsible for regulating trustworthiness, generosity, and empathy in both men and women, at all stages of life. In short, Zak had found the "moral molecule."

Originally trained as an economist, Zak went on to found a new field called "neuroeconomics," which incorporates the methods of brain science in studying social behaviour. Over the past decade, he and his lab at Claremont Graduate University have conducted cutting-edge research exploring oxytocin and its implication for everything from business to politics to religion. Now, in his groundbreaking book *The Moral Molecule: The Source of Love and Prosperity,* Zak shares the lively story of his innovative research—some have called it "vampire economics"—while elucidating oxytocin's influence on the individual, on close personal relationships, and on society as a whole.



Zak's explorations have extended well beyond the lab, taking him to the dense jungles of Papua New Guinea, 10,000 feet in the air on a tandem skydiving jump, and to a wedding party in an English village, where he drew blood samples from the bridal party before and after the ceremony to measure their oxytocin levels. The book follows Zak all over the world, as well as back through evolutionary time, as he traces the origins of oxytocin to the novel chemical that first allowed creatures to set aside fear and aggression long enough to mate. Zak follows the biological story all the way up to the evolution of human societies built on mutual cooperation, and markets enhanced by trust.

Paul J. Zak

The Moral Molecule reveals the origins of our most human qualities—empathy, happiness, and the kindness of strangers. ■

Paul Zak will discuss the Moral Molecule *at the Fraser Institute's* Explore Public Policy Issues *student seminar in Vancouver on October 19, 2013.*

Opportunity Costs:

Calculating the alternatives

Niels Veldhuis

Though we may not realize it at the time, most of us get our first dose of economics at a relatively early age. More often than not, our first exposure to economics is through the concept of opportunity costs. When economists refer to the "opportunity cost" of an action or purchase, they are referring to the value of the next best alternative to that action or purchase. The opportunity cost of something is what you give up in order to get it. The "opportunity" in opportunity cost reminds us that an opportunity was forgone in taking a particular action or making a purchase.

The concept of opportunity cost hit home recently while my wife and I were babysitting our three-year-old nephew. We

...it’s what you give up in order to get something

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wanted to buy him a small toy. At the toy store, our nephew found plenty of toys he wanted. We were thankful that he eventually gravitated toward a truck and a steam-train engine, both of which were affordably priced at $10 each. When we were ready to leave, we told our nephew that he had to choose between the two. He reluctantly chose the truck and in doing so clearly understood that the cost of getting the truck was the lost opportunity to get the train. The opportunity cost of the toy he chose (the truck) was the toy he gave up to get it (the train).

Another example of the importance of opportunity costs in economic reasoning came up during a recent conversation with my friend Laura, who runs a hairstyling business. For some time, Laura has been planning to take a two-week holiday in Europe to visit family. She made a budget and estimated that the flight to London would cost $900. However, since she calculated her budget, ticket prices have increased to roughly $1,500. Being an economist, I asked her whether the increase was enough to make her reconsider her trip. Laura told me that the increase would likely not make her reconsider because it was not the most significant cost. Indeed, she said that the income she would have to forgo while not running her small business was the largest portion of the total cost of her trip. Laura estimated that she would lose approximately $3,150 in income during her two-week vacation. The total opportunity cost of the trip was the value of the next best alternative: staying at home and working. If Laura decided to stay home, she would have earned the $3,150 and not spent the $1,500 on a flight. Therefore, the opportunity cost of her trip was $4,650. This hairdresser is no economist, but her calculation indicates that she understands the concept of opportunity cost better than most.

Opportunity costs are also extremely useful in analyzing government policy, though they are unfortunately often glossed over by those proposing the policies.

When governments, politicians, and interest groups propose new government programs or increased spending on existing programs, the benefits of their proposals are most often their single focus. For example, governments frequently provide subsidies to certain industries (often ones that are not doing well), claiming that the money will create jobs and improve the economy. Likewise, governments often subsidize sports stadiums with the hope of attracting a major professional sports franchise or keeping an existing franchise from moving to another city. The argument for using millions of taxpayers' dollars to subsidize the construction (and in some cases operation) of stadiums is that attracting a major sports franchise will positively influence the jurisdiction's economy by increasing jobs and incomes.

When governments or others focus exclusively on the benefits of a subsidy (real or not), they do not account for alternative uses of the funds. For example, the funds used to subsidize companies or build stadiums could have been spent on transportation infrastructure, medical technologies, or education, all of which might have had a more positive impact on the economy and created better overall social outcomes than corporate subsidies or sports stadiums.


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But the opportunity cost of government programs goes beyond just alterative uses for the money. An analysis of the opportunity cost of government programs must include the economic outcomes that would have been achieved if the money was left in taxpayers' pockets instead of being extracted by governments. For example, taxpayers would have spent the money on all sorts of goods and services or invested it in the economy, and done so in a way that more accurately reflected their preferences.

The opportunity cost of government programs also includes the costs of the taxes themselves, as well as the resources used by governments to collect taxes and the costs borne by individuals and businesses to maintain appropriate tax records and comply with various tax rules.

It is important to remember, as well, that collecting taxes distorts the economy by influencing our incentives to work, save, and invest. That is, taxes reduce the return (the after-tax income) people receive from these activities, which ultimately reduces how much people are willing to work, how hard they work, and the amount they save and invest.

Clearly, there are costs associated with imposing new taxes or increasing existing ones. When these costs are considered as part of the opportunity cost of government programs, the claims made by governments, politicians, and interest groups about the benefits of these programs are often not true because they have not included the value of the next best alternative as part of their evaluation of the cost.

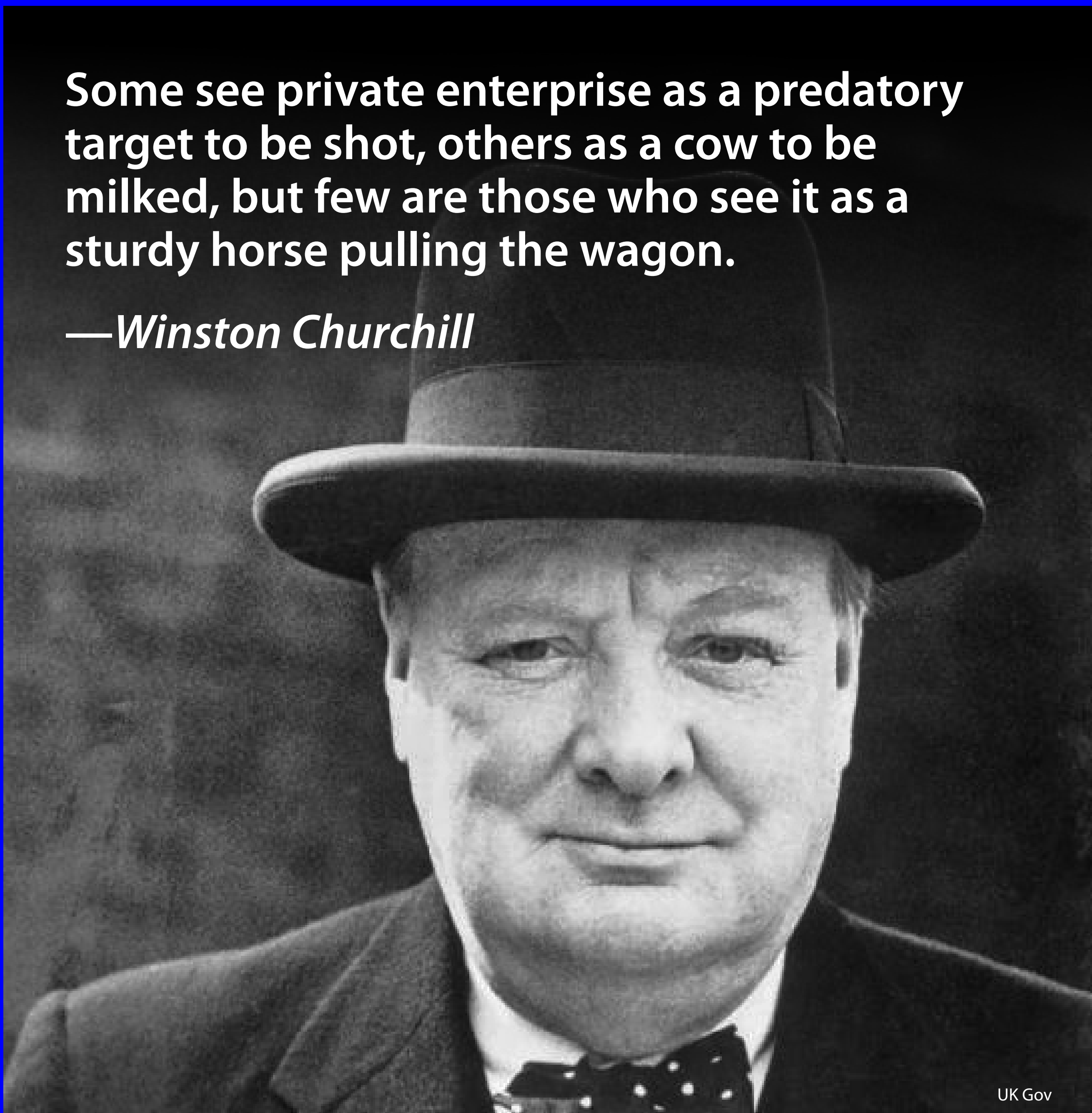
The concept of opportunity costs is relevant to all aspects of our lives. Whether the decision is an individual day-to-day decision, a major investment decision, or a government policy decision, the cost of undertaking a particular action or making a purchase is ultimately determined by the value we place on the next best alternative. ■

This article was originally published in *Fraser Forum* in October 2009.

Niels Veldhuis (niels.veldhuis@fraserinstitute.org) is president of the Fraser Institute.

Some see private enterprise as a predatory target to be shot, others as a cow to be milked, but few are those who see it as a sturdy horse pulling the wagon.

—Winston Churchill



UK Gov

When setting policy, governments too often ignore consumers

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Mark Milke

The ongoing debate over the three Canadian telecommunications giants and the possibility of United States-based Verizon entering the Canadian market has once again brought consumer issues to the fore.

I shall beg off addressing that particular issue—it has been covered in detail by others, but the fact so many have passionate views is a reminder that consumer issues matter. This is unsurprising, given that almost everyone outside of some fellow in a remote cabin in North Korea is a consumer. Almost everyone then has an interest in such pocketbook issues.


Greenow

Regrettably, when it comes to government policy, the interests of consumers are often neglected. I'll address several consumer issues shortly, but first, some context for how governments should formulate consumer policy in general.

Government policy is often set not with an eye to what is best for consumers but in response to pressure from existing interests. Thus, for example, federal policy on airline competition forbids "foreign" airlines from picking up and dropping off passengers within Canada, a policy known as "cabotage" (Oxford Dictionaries, undated). That protects domestic airlines

Dairy and poultry producers are protected behind a wall of high tariffs

from competition; it means airfares are higher (Milke, 2012) in Canada than they would be with full competition, such as in the European Union (Milke, 2007).

Or consider dairy and agricultural marketing boards. Existing dairy and poultry producers are protected behind a wall of high tariffs on imports that range from 202 percent on skim milk to 298 percent on butter, with cheese, yogurt, ice cream, and regular milk within that range (Milke, 2011).

Then there is automobile insurance. There, contrary to myth, the rule is that private sector provinces have cheaper premiums than provinces with government monopolies (Mohindra, 2011). [The exception is Ontario, and the reason for the exception is important: higher claims costs per vehicle which drive costs up, not because the private sector operates in that province (*National Post*, 2007)].


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In each case, when governments restrict competition, or outlaw it entirely, they do so at the behest of existing interests/producers.

Thus, politicians protect "domestic" airlines at the expense of travellers; governments give 12,965 dairy farmers protection and pricing power over 35 million shoppers; where competition in basic automobile insurance is banned, provincial governments protect their own Crown corporations at a cost to drivers (Statistics Canada, 2013).

If governments were interested in what's best for consumers, here's a simple suggestion: stop favouring existing producers and players, be they government-owned corporations or private sector corporations.

For competition to flourish, it doesn't take a reinvention of the competitive wheel. Instead, some straightforward principles can be applied that open up markets and allow consumers to purchase goods and services based on what's important to them, be it budget, desired quality, convenience, or some other personal priority.

First, ensure there are no government-induced policy barriers to entry into a marketplace—this because no one can possibly know the "right" number of firms that will compete for consumers. When the federal government prevents a foreign airline such as Lufthansa from picking up and dropping off passengers in Canada, that's a barrier to entry; it should be scrapped (Lufthansa, undated).

Second, stop assuming a monopoly provider, including in the public sector, somehow leads to lower prices. In some cases, government Crowns might charge less than a private provider in some other province. They can accomplish this only by neglecting investments in needed infrastructure and/or by allowing Crown debt to build up.

In other cases, such as in government-owned insurance companies, cross-subsidization of certain cohorts can take place at the expense of others and lead to the illusion of lower prices. In reality, there is no downward pressure on average prices because of tough competition since such competition is by law, absent. In general, if governments were so sure their Crowns were the most efficient providers, they'd open up the market to competition.

The benefit of favouring consumers over producers is not theoretical. One can observe how competition works every day. Grocery stores compete on many items and adjust their pricing daily to reflect what the "other guy" is up to.

In the European Union, the European Commission-Mobility and Transport, the agency tasked with overseeing transportation, has long noted that wide open airline competition has resulted in prices that "have fallen dramatically, in particular on the most popular routes" (European Commission, 2013).

The benefits have been widespread: "Consumers, airlines, airports, and employees have all benefited," notes the European

Provincial governments protect their own Crown corporations at a cost to drivers

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Union, "as this policy has led to more activity, new routes and airports, greater choice, low prices, and an increased overall quality of service" (European Commission, 2013).

Back in Canada, if governments wish to actually favour the average consumer, they must abandon their habit of protecting existing cartels, producers, and vested status quo interests, over the more invisible but most important interest: the consumer.

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