

Why Canadian Travel Costs so Much

IN THIS ISSUE:

- Living wage laws
- First Nations education
- The state of Canada-US Relations in 2014

Canadian student review

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Canadian student review

Welcome!

Dear Readers,

The spring 2014 edition of *Canadian Student Review* features thought-provoking articles on First Nations education, minimum wage laws, pipeline protests, residential development charges, and why Canadians pay so much to travel, but have such limited options. We have also delved into our *Fraser Forum* archives to find an article on unintended consequences.



This issue also features a video presentation by Livio Di Matteo on government spending and a recommendation for a new data-rich website that provides comprehensive information on human progress—a great tool for writing academic papers!

Finally, you will find information on our 2014 essay contest, “The rise of crony capitalism: how government and business gain at the taxpayers’ expense”. The total prize amount for the essay contest is **\$9,000** and the deadline to enter is May 30, 2014. More details can be found on page 6.

I hope you enjoy reading these articles.

Best,

Claire Jones

Editor, *Canadian Student Review*

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Living Wage Laws Can Hurt the Most Vulnerable Workers



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Charles Lamman

What a world it would be if governments could simply legislate higher pay for low-wage workers without any ill effects. But we live in the real world and here public policy should be informed by evidence, not just good intentions. The reality that many labour activists fail to realize is that when

governments mandate wage floors, there are real adverse effects. And the people hurt are often the most vulnerable with the least skills.

The latest call for a higher wage floor in Canada comes from the Members of Health Providers Against Poverty, a group of doctors and nurses who are lobbying the Ontario government to increase the provincial minimum wage. The group claims that by hiking the minimum wage to \$14 per hour from the current \$10.25 rate, the government can “legislate low-wage workers out of poverty.”

If history is any indication, the actual outcome would be quite different.

When governments impose a wage floor higher than what would prevail in a competitive market, employers find ways to operate with fewer workers. While the more productive workers who keep their jobs gain through higher wages, their gain comes at the expense of other workers who lose as a result of fewer employment opportunities. Young and low skilled workers usually end up as collateral damage in the process.

Don't take my word for it. Consider a comprehensive review of independent, academic research on minimum wages and employment by University of California Professor David Neumark, the foremost expert in the area. The review looked at more than 100 studies covering 20 countries and found the overwhelming majority of studies concluded that minimum wage hikes negatively affect employment.

**Young and
low skilled
workers
usually
end up as
collateral
damage**

In Canada, more than a dozen studies have examined the impact of provincial minimum wage hikes. Based on those findings, a 10% increase in the minimum wage decreases employment for workers aged 15 to 24 by an average of 3% to 6%. For young workers most affected—those earning between the current minimum wage and the proposed higher wage—the impact can

be more acute, with job losses of up to 20%.

It gets worse; minimum wage policies have other unintended consequences.

Evidence shows that employers also respond by cutting back on hours, providing less on-the-job training, and giving employment priority to the most productive and experienced workers.

As for the link between minimum wages and

poverty, labour activists may be surprised to find a growing body of evidence that shows minimum wage increases actually do little to help households in need.

One recent Canadian study examined minimum wage increases across provinces from 1981 to 2004 and found that raising the minimum wage by 10% was associated with a 4% to 6% increase in the percentage of families living below Statistics Canada's low income cut-off.



Michael Fleshman

Labour activists continue to demand higher government-legislated pay

A 2012 study by leading minimum-wage researchers in Canada, including University of Toronto's Morley Gunderson, analyzed provincial data from 1997 to 2007 and found that raising the minimum wage did nothing to reduce measures of relative poverty.

A key reason for these findings is that the bulk of those working for the minimum wage do not actually belong to low-income households. In a 2009 study researchers used Statistics Canada data to profile minimum-wage earners in Ontario and found that "over 80% of low-wage earners are not members of poor households."

Yet despite scores of economic studies that contradict claims about minimum wages reducing poverty, labour activists continue to trot out demands for even higher government-legislated pay. The newest fad is "living wage" laws.

These laws require private employers who do contract work for a city and in some cases who receive city government subsidies to pay their workers a wage promoted by labour activists. Unlike minimum wage legislation, living wage laws cover smaller groups of workers and typically require a much higher wage. The living wage in New Westminster, B.C. (Canada's only city to adopt such a law) is currently \$19.62, almost double the prevailing minimum wage of \$10.25.

According to research from the United States (where more than 140 municipalities have such legislation), leading scholars in the field have determined a 100% increase in the living wage (say going from an hourly minimum wage of \$10 to \$20) reduces employment among low-wage workers by 12% to 17%. Like minimum wages, living wages also result in employers hiring more qualified workers to justify the wage increase while passing over those with fewer skills.

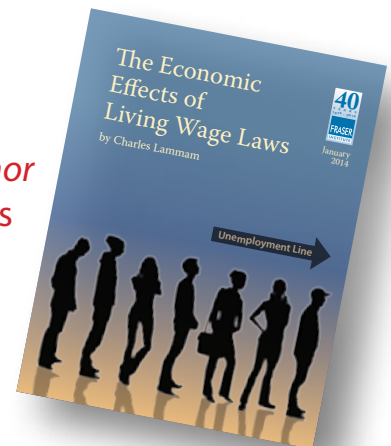
And living wage laws often don't help the most poverty-ridden families, in part because the overwhelming proportion of beneficiaries tends not to be poor. In fact, a study of seven major U.S. cities found 72% of workers benefitting from living wage laws were not poor. Of the 28% who were considered poor, only one-third moved above the poverty line.

All this should be a hard pill for activists to swallow since the most impoverished and least skilled workers are presumably the very people they want to help by increasing the minimum wage or imposing living wage laws. Yet the notion that we can, by government decree, increase people's pay and stamp out poverty remains a strong belief. The real world shows otherwise. ■

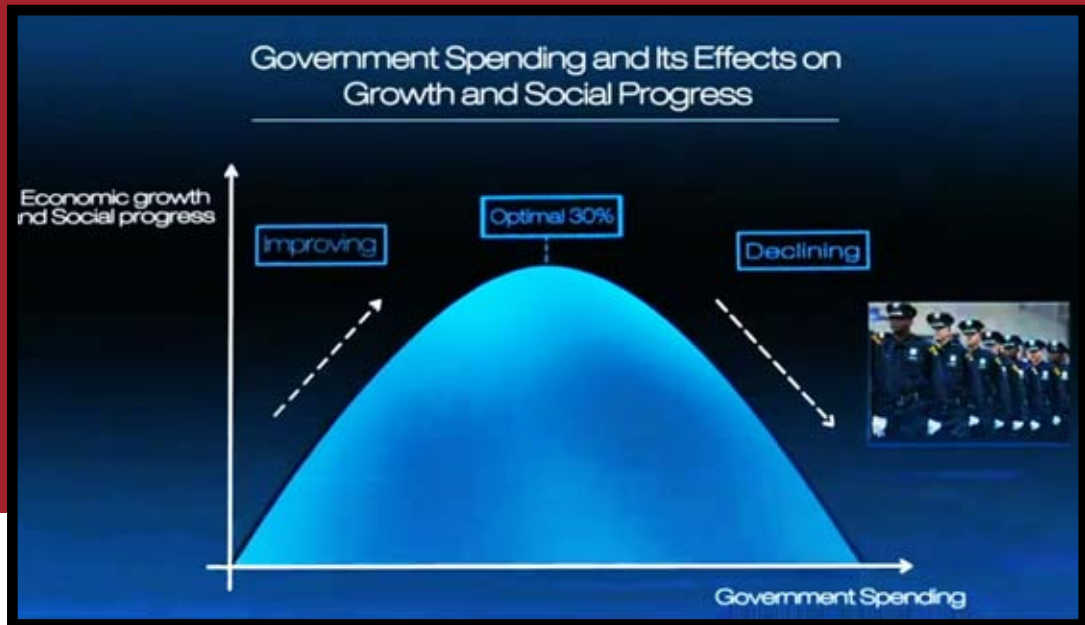


Charles Lammam is resident scholar in economic policy at the Fraser Institute and author of The Economic Effects of Living Wage Laws.

Read the study **HERE**



The VIDEO Gallery

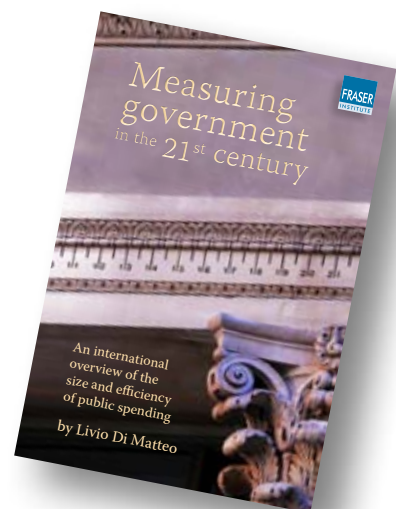


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Residential Development Charges Lead to a Hidden Tax for City Residents

Frazier Fathers



The argument that development charges are an efficient way to pay for new or upgraded infrastructure (roads, sewers, and mass transit) has been long favoured by urban planners and politicians as a practical alternative to increased property tax rates or user fees.¹ Unfortunately, development charges represent a bait and switch on city taxpayers. Although the charges force developers to pay for new infrastructure to support their developments, these same charges translate into higher housing prices and property tax rates for all residents.



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Origins of development charges in Ontario

Development charges emerged in Ontario in the 1950s as a result of the municipal growth pressures of the post-war period. Up to that point, the cost of development was covered by local tax levies that were implemented on developers and those who benefited from the service improvements of the development under the Local Improvement Act of 1914. Unfortunately, this funding formula saw municipalities become indebted as a result of developers failing to fulfil their obligations (Skaburskis and Tomalty, 2000: 304-05).

Citizens will ultimately pay through higher property tax assessments

Development charges partially emerged as a means for municipalities to ensure that developers fulfilled their obligations and what evolved were two distinct methods of implementation: marginal cost development charges and average cost development charges. Urban planners want to see land and city services used efficiently and argue that by setting these charges to the marginal cost of development in a neighbourhood or city district they

can effectively control the type and speed of development that occurs. Marginal cost charges can theoretically control growth by lowering costs in certain segments of a city while blanket average cost charges tend to encourage urban sprawl (Skaburskis and Tomalty, 2003: 144).

Developers, who prefer no charges at all, tend to also prefer the marginal or lot specific charges when compared to blanket average cost development charges. Marginal charges allow developers to pick the regions of a city with the lowest charges, which allows for higher profits rather than forced cost burdens from other parts of the jurisdiction on their projects (Skaburskis and Tomalty, 1997: 1993). In the 1980s developers challenged and lost cases (ex. *Wimpey v. Durham Region*) on average cost development charges at the Ontario Municipal Board (OMB).

From an economic standpoint, the average cost method seems to be the more efficient method. Local politicians often fall in line with economists with these charges, as they want to deliver services and amenities to their constituents while ensuring that the costs are kept low or are borne by other groups. Blanket charges, which are easy to understand and implement, ensure

that costs are borne by the largest group possible and limit political resistance.

Municipalities adopt various types of charges for different reasons, including: equity, efficiency, administrative considerations, public acceptability, and political considerations (Snyder and Stegman, 1988). Although the size of the jurisdiction does have an impact on the type of charges that are implemented, average cost charges have become increasingly common. Many larger and growing jurisdictions use a hybrid method with blanket average cost charges augmented by marginal cost charges or exceptions in certain areas to encourage or discourage growth compared to the mean. However, the altruistic motivations behind marginal cost charges have largely not been observed in practice. Evidence from some research shows that certain forms of development are more readily authorized as a result of financial revenues that come from the development charges and the future property tax potential of the development (Skaburskis and Tomalty, 2000: 317-318).

For the average citizen already living in the city, the idea of making developers pay for the infrastructure of a new development through development charges is an attractive but misleading option; they will ultimately pay indirectly for the new



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infrastructure through higher property tax assessments and home prices.

Who pays the development charges?

Of course the charges outlined above need to be paid by someone, the question is whether the developer, the consumer, or both pays the additional cost. In general, development charges must be paid when acquiring a permit, which means that before a single scoop of earth has been moved the developer is often on the hook for millions, if not tens of millions, of dollars.

There is little question that the developer initially pays these statutory charges but the question of whether their costs are absorbed by the developer or passed directly to the consumer is important. To answer the question of who pays the charges one must look at the broader characteristics of the housing market, the availability of supply, and the demand for housing, along with their interrelated elasticities (Slack, 1994: 43-44). In cities, where demand for housing is high or supply is constrained, a seller's market exists. Developers of new homes hold purchasing power and are able to charge maximum prices for their property. The costs of development are then passed on to the buyer. The opposite is true for weaker housing markets where excess supply or low demand exist and buyers hold the purchasing power, and sellers are forced to reduce prices and absorb a portion of costs (or lessen their profits) (Watkins, 1999: 419-422).





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Market fluctuations will determine how much of the charges developers will have to absorb

From these factors it would be expected that high demand or low supply markets, based on consumer willingness to pay a

higher price, would result in at least a portion if not all of the development charge being passed on to consumers. A 2004 report commissioned by the City of Toronto recognized this fact and concluded that the possibility of the increased charge being passed to consumers is much higher in high demand areas of the city, such as the central downtown area, while also acknowledging “increased selling or rental prices by a small magnitude.” The same report justifies the raising of development charges by claiming that implementation will offset the need for tax increases or user fees, thus lowering the tax burden on the new residences (Hemson, 2013: 46).

Effect of development charges on housing prices and property taxes

Increasing development charges rather than tax rates may protect citizens from a direct tax increase, but in booming housing markets these charges have an impact on property taxes.² A City of Hamilton study of development charges found

that for every dollar increase in a charge, a \$1.60 increase in the price of new and existing homes occurs (C. N. Watson and Associates, 2007: 39).

In Ontario, calculation of property taxes is carried out by the Municipal Property Assessment Corporation (MPAC) in accordance with the Ontario Assessment Act. This assessment of home value is generated by MPAC through an evaluation of as many as 200 factors with the five primary factors being: location; lot dimensions; living area; age of the property, adjusted for any major renovations or additions; and quality of construction. They then take these factors and compare them to other housing in the area (MPAC, 2013).

Increasing development charges can lead to higher prices for new and existing homes



As a new development enters a neighbourhood, higher development charges prior to construction are not only passed on to the purchaser (depending on the elasticities of supply and demand) but they also raise the future tax cost of the unit being purchased through a higher property tax assessment (Urban Development Institute, 1990: 3). Since property taxes are calculated by using comparable purchase and sale prices, increased development charges also increase existing home values. This higher price is then passed onto the tax assessment of existing residences of the neighbourhood, resulting in a higher tax bill.

Conclusions

Raising development charges in order to fund major infrastructure projects or support a city's finances as a means to prevent property tax increases is a political bait and switch. Although these charges may bring some benefits, like access to greater amenities, the cost imposed on a city's residents results in an inflation of prices for new and existing homes which in turn impacts future property tax assessments. This coupled with evidence that development projects that garner greater charge fees and higher long run property tax assessments are more likely to be approved by cities, means that higher development charges are going to cost all city residents in the long term through higher tax rates and more expensive housing.

Notes

1 A development charge is a onetime fee that is charged to new development within a jurisdiction. These rates range in Canada from approximately 5-19% of a home's value (Canada Mortgage and Housing Corporation, 2010: 5). Property taxes and user fees are annual or usage based charges that are assigned to an owner of a property in a jurisdiction.

2 Property taxes are calculated based on an assessment of a household property value within a city.

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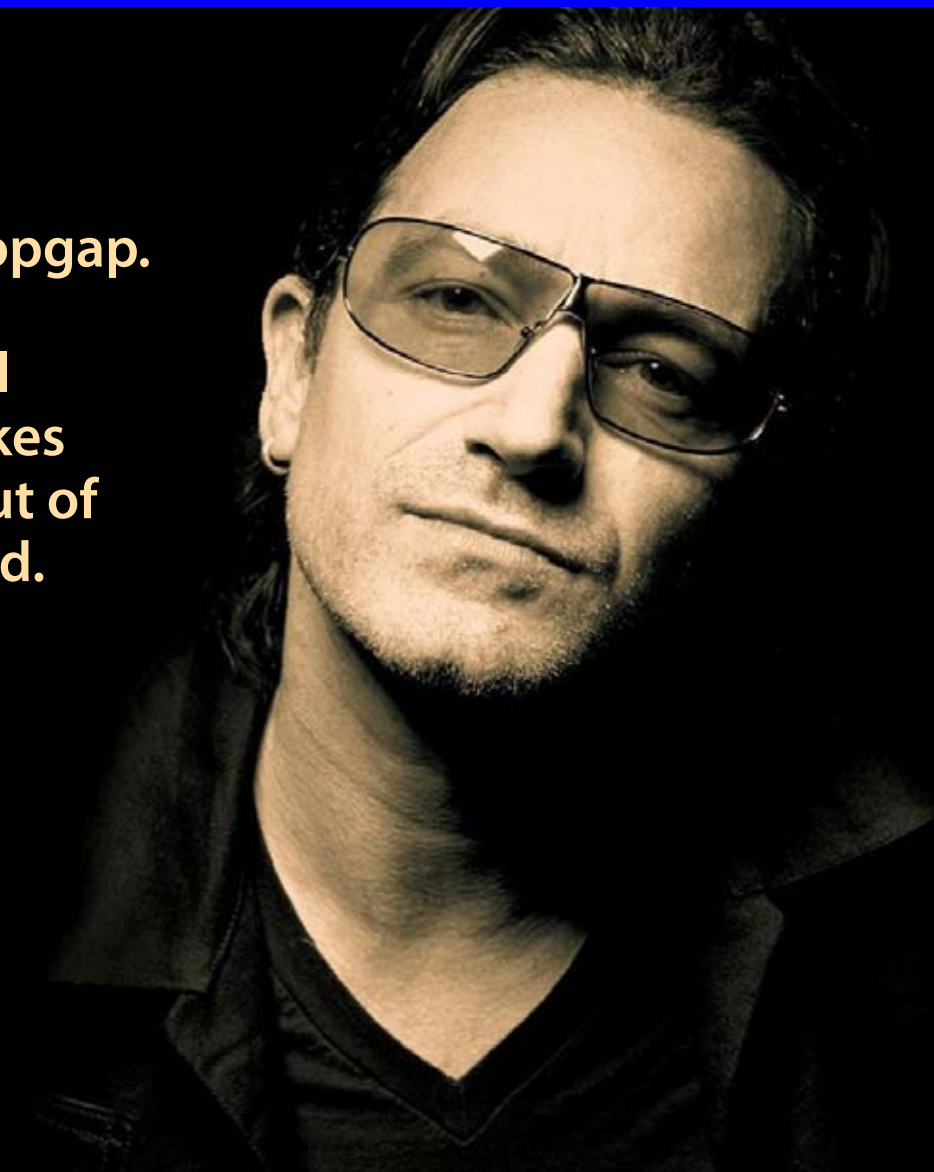
Frazier Fathers was a 2013 summer research intern with the Fraser Institute. A dual masters graduate, he holds a Master of Arts in Political Science from the University of Windsor and a Master of Public Policy from the University of Michigan.

THE QUOTE WALL

“Aid is just a stopgap. Commerce—entrepreneurial capitalism—takes more people out of poverty than aid.

We need Africa to become an economic powerhouse.”

Bono, 2012



blogspot.com

Why Canadian Travel Costs so Much

Mark Milke

If you have traveled recently, here's a question you might have pondered: Why does it cost so much to travel? Answer: government policy.

Consider two examples, starting first with taxi fares. Across Canada, cities limit the number of taxi licences available. This, we are told, allows drivers



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to make a decent living and consumers to know the cabs they step into are safe.

Nonsense. An open market in taxicabs, where anyone or any company who wants a licence can get one (subject to reasonable safety requirements of course), would not only reduce fares, but wouldn't automatically mean drivers make less. Those who choose to drive solo, or formed co-ops, or started a smaller cab company, might well make more money even while passenger fares were reduced.

This in fact was the model in existence a few years back when I was in Washington, D.C. One driver who picked me up owned his own cab. He did not work for a taxi company nor did he take dispatch calls; he made his living solely from picking passengers up off the street. He preferred this to working for some company because his income was greater and he could also set his own hours.

When cities limit the number of taxi licences, the price of such licences increases to levels that only a select few can afford. In turn, a high price for a taxi licence means drivers are forced to pay substantial rents to the licence owners.



A cab driver not working for a company could have a greater income and work his/her own hours

Mr. TinDC

The last time I talked to a cab driver about his costs, drivers paid several hundred dollars per week (one fellow paid close to \$400 weekly) to the cab company, plus fuel, for the privilege of driving a taxi. In other words, cut out the middlemen and drivers could make more even as fares are reduced for the public.

As for quality and safety, a competitive taxicab market need not sacrifice security. Drivers and their vehicles could still be licenced and regulated by cities with requirements that address the driver's character (i.e., no criminal record), safety of the vehicle and so on.

Reform would be useful. On taxis, the Organisation for Economic Co-operation and Development (OECD) surveyed 17 countries back in 2007. It found that those who had "removed or loosened supply restrictions on taxis" ended up with strongly positive results: "Reduced waiting times, increased consumer satisfaction and, in many cases, falling prices being observed." That's one example of how governments artificially inflate travel costs. Here's another: airline fares.

Back in 2012, I compared European countries, Canada and the United States on kilometre-for-kilometre flight costs.

I compared five return domestic flights of roughly similar kilometres with a total of 5,400 kilometres flown (and within the same jurisdiction, i.e., just in Canada, or in the United States, or in a select European country).

The five European tickets cost just \$689.68 with taxes and fees at 36 per cent of the total fare price; the U.S. total was \$841.10 with taxes and fees at 16 per cent; the Canadian five fares cost \$1,815.14, including taxes and fees at 28 per cent.

When I performed the same calculations on cross-border return flights of similar individual distances (Canada-U.S. flights versus cross-border flights in the European Union), the five-fare bill for the 10,000 total kilometres flown was \$1,277.94 in Europe. That included 43 per cent in taxes and fees. In North America, the five return fares with 9,660 kilometres flown would set back a passenger \$2,266.13 with taxes/fees at 22 per cent of the total.

Given that taxes and fees are higher in Europe, that means another factor helps explain the lower European fares: competition.

Europe's pro-consumer ticket prices exist because European airlines and even airports have fiercely competed for passengers ever since the European Union air travel market was opened up to full competition in 1997. Any carrier from any member country can pick up and drop off passengers anywhere, regardless of the airline's home country.

That's a policy known as "cabotage." But Europe's open skies are in distinct contrast to North America. Here, both U.S. and Canadian governments still prohibit "foreign-owned" airlines from offering wholly domestic flights in our markets. Because neither the United States nor Canada allows "foreign" carriers to pick up and drop off customers in their respective countries (they can do only one or

European airlines fiercely compete for passengers



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the other), competition is less than it would be if the European approach was in play. That results in higher airline fares.

With apologies to Karl Marx, if governments embraced competition more robustly, consumers would have nothing to lose but their overpriced taxi fares and high-priced airline tickets. ■



Mark Milke is Senior Fellow at the Fraser Institute. He has a PhD in political science and is a lecturer at the University of Calgary.

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Food consumption, per person, per day - Need Help?

Food consumption, per person, per day

calories

Amount of food available for each individual in the total population during the reference period. Caloric content is derived by applying the appropriate food composition factors to the quantities of the commodities. Per person supplies are derived from the total amount of food available for human consumption by div. [Read More](#)

Food consumption, per person, per day, 1996
2,780.67
1,490 3,490

Play 1991 1996 2007

Food consumption, per person, per day across countries and regions

Explore Data

This tool allows you to compare the selected dataset across countries and regions.

Food consumption, per person, per day and Economic Freedom

Explore Data

This tool allows you to correlate the selected dataset with data from the Economic Freedom of the World Index published by the Fraser Institute, www.freetheworld.com.

All the data come from third parties, including the World Bank, the OECD, Eurostat, and the United Nations.

This impressive, data-rich site requires no registration or membership. All data, charts, maps, and calculation tables can be used free of charge, but require an acknowledgment. ■



Not Your Grandmother's Civil Disobedience

Kenneth P. Green and Mark Milke

Activists in British Columbia have responded to the National Energy Board's approval of the Northern Gateway oil pipeline with threats of illegal activism reminiscent of the 1990s. Greenpeace spokesman Mike Hudema, for example, said his group will "do what it takes" to ensure the pipeline is never built (and he specifically mentioned civil disobedience).

Given the nature of the NEB's process, such civil disobedience would be inappropriate, and detrimental to society. It would overturn the assumption that people are free to engage in lawful



Appeared in the *Huffington Post*, January 28, 2014

350.org

commerce if they obey the rules, without an endless process of protests, lawsuits, and smear campaigns.

Others, however, disagree. One Vancouver writer has argued that potential civil disobedience against the oil pipeline is akin to historical protests in favour of female suffrage, slavery, indentured servitude, and against clear-cutting forests.

Civil disobedience has an honourable history; the question is whether a particular group on a particular matter is justified in such actions. Such steps are, after all, violations of the law, whether property rights, trespassing, and so on.

Greenpeace's Mike Hudema says his group will "do whatever it takes" to ensure the pipeline is not built

Where people's rights are systematically violated, where they are denied recourse to the courts, or to their elected representatives, the case for civil disobedience is clear.

But the Northern Gateway Pipeline proposal does not represent such a violation, and there has already been a rather extensive process of discussion and consultation.

The consultation and regulatory process conducted by the National Energy Board spanned four years, cost some \$500 million, involved 180 days of hearings, worked through 9,400 submitted letters and took oral testimony from nearly 1,200 people. That process may not have been perfect but even perfection would not have satisfied those opposing the pipeline: their opposition is absolute. They are not interested in whether Northern Gateway is safe or not, or economically helpful to Canada; they oppose it, period.

Threatened civil disobedience over Northern Gateway rather trivializes the idea of civil disobedience. Another pipeline is hardly an existential threat to Canada's (or B.C.'s) environment, much less anyone's civil rights. Already, 825,000 kilometers of pipelines criss-cross Canada, with about 40,000 km in British Columbia (as of 2011). Another 1,200 km is hardly earth-shattering.



Dave Cournoyer

Then there is another other argument made by some activists: that civil disobedience in the early 1990s against the forest industry did not collapse B.C.'s economy the last time environmental activists upped the ante, so neither will it this time. But economies need not collapse to harm some people and kill off opportunities for others.

Consider one example. The 1990s-era decision to ban mining in the Tatshenshini-Alsek region of northern B.C.—the Windy Craggy deposit, a claim owned by Geddes Resources. The mine potential (in 1992 estimates) of \$15 billion in copper, silver and gold extraction was at stake, with 500 direct jobs then valued at \$78,000 each annually, along with another 1,500 indirect jobs.

Rather than accept a mine proposal that amounted to 1,100 square km out of 958,000 square km in total—barely more than one-tenth of one per cent of the Tatshenshini-Alsek region—a



travisblanston

1993 decision by the provincial government killed off the potential mine. Tourism jobs could have co-existed with mining jobs in the Tatshenshini; instead, the current tourism potential in a remote corner of the province has not and never will match the high-paying jobs of the long-scuttled \$15 billion mine (\$22 billion in current dollars).

This absolutist positioning is an ongoing problem in Canada. In his 2000 book on the conflict in B.C.'s forests in the 1990s, then-UBC Professor William Stanbury noted the vandalism, sabotage, ignored court injunctions, and international boycott campaigns organized by some green activists. As Stanbury wrote, "one of the more disturbing issues raised in the course of this study is that there appears to be declining respect for rationality in making major public decisions in B.C. relating to environmental issues."

Indeed. And we see a replay of the irrational, absolutist problem now with violent protests over pipelines and violent protests

Current protests are the reflex action of absolutists who would destroy opportunities for others

over hydraulic fracturing. We will probably see more such protests should Northern Gateway receive federal approval.

Threatened protests over Northern Gateway are not your grandmother's civil disobedience where great injustices were challenged by brave people willing to suffer jail, violence, and more to right those wrongs that afflicted the daily lives of millions.



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Mark Milke is Senior Fellow at the Fraser Institute. He has a PhD in political science and is a lecturer at the University of Calgary.

The current and predicted protests are, instead, the reflex action of absolutists who would destroy opportunities for others regardless of how one of the world's better-functioning democracies allows for companies to engage in lawful commerce. There is nothing noble about such "resistance." It instead has the distinct whiff of unnecessarily severe Puritans in more modern, green attire. ■

Unintended Consequences

How Regulation Influences Behaviour

Christopher J. Coyne

Unintended consequences are the results of an action that differ from the expected outcome. As the name implies, these consequences are not the intended outcome of the action taken. Unintended consequences can be either positive or negative.

A positive unintended consequence is an unanticipated benefit that emerges from an action. Adam Smith's notion of the "invisible hand" is one example of a positive unintended consequence. Smith famously argued that each individual pursuing his own ends generates widespread benefits beyond that individual. For example, the butcher does not provide beef out of benevolence, but in order to make profit. However, in pursuing his own self-interest, the butcher generates unintended benefits for numerous consumers who now have access to his product.

Given that positive unintended consequences often emerge from individuals' actions, emphasis should be placed on allowing



Mandatory seat belt use has not reduced traffic fatalities

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individuals the freedom to act and interact. As individuals discover and pursue opportunities to better their own situation, they will also inadvertently contribute to improving the well-being of others. This process can only take place within an environment characterized by private property and individual freedom, where individuals have an incentive to experiment and act entrepreneurially.

Unintended consequences can also be negative. Negative unintended consequences often emerge when a simple regulation is imposed on a complex system. Regulations are relatively simple because regulators cannot possess all of the relevant knowledge regarding the workings of the complex institutions that underpin economic and social interaction. Because of their simplicity, regulations often change the incentives individuals face, resulting in unforeseen consequences.

Fuel efficiency standards result in between 2,000 to 4,000 additional car occupant deaths each year



Seat belt laws provide one example of unintended consequences arising from regulation. Economist Sam Peltzman analyzed the effects of mandatory seat belt laws in the United States. Regulators believed that requiring drivers to wear seat belts would reduce the number of automobile related fatalities. Surprisingly, Peltzman found that there was no change in auto-related deaths. The reason was that seat belt laws changed the incentives drivers faced. The perceived safety provided by the seat belt reduced the cost of driving recklessly, so more drivers operated their vehicles in a dangerous manner. The increase in reckless driving not only increased the danger for other drivers, but also for pedestrians and cyclists. Indeed, there was an increase in pedestrian and cyclist deaths after seat belt laws were passed. Overall, Peltzman found that while seat belts might have saved lives in a given accident, the total number of automobile-related fatalities did not change.

This finding is known as the “Peltzman Effect”—the tendency of individuals to respond to safety regulations by engaging in more dangerous behaviour. An explanation for this tendency is that people have a desired level of risk when it comes to driving (and

other activities) and will change their behaviour as regulations change. The Peltzman Effect was confirmed in a recent study by economists Russell Sobel and Todd Nesbit, who found that increased safety regulations by the National Association for Stock Car Auto Racing (NASCAR) led to more accidents due to riskier driving.

Fuel efficiency regulations provide another example of negative unintended consequences. At first look, increased fuel efficiency appears desirable because of the associated reductions in fuel consumption. However, in order to increase fuel efficiency, automobile manufacturers tend to reduce the size and weight of automobiles. While accomplishing the goal of increasing fuel efficiency, smaller and lighter vehicles also offer drivers and passengers less protection. The result has been an increase in the number of automobile-related deaths. A study by economists Robert Crandall and John Graham found that fuel efficiency standards result in between 2,000 to 4,000 additional car occupant deaths each year. Another unintended consequence of increased fuel efficiency is that the cost of driving has fallen because drivers can now get more miles per gallon of gasoline. As such, these regulations may actually result in more driving, leading to more congestion and accidents.

Negative unintended consequences can arise from all types of policy and regulation, domestic and international. For example, government efforts to manipulate international trade through tariffs, quotas, and other controls can generate perverse outcomes. While trade restrictions may protect members of a specific industry, they also raise the price of goods for consumers and “downstream” producers who use those goods as inputs in their products.

The US sugar industry provides an example of such consequences. The US government has put a variety of controls (i.e., price supports, tariffs, and quotas) on international sugar trade to protect the US sugar industry. As a result, the domestic price of sugar is artificially high, and this has harmed other US industries. For example, a 2006 report by the US Department of Commerce found that the high price of sugar was driving US food and candy manufacturers to reduce their

workforces and, in some cases, relocate abroad. Because sugar was a significant input for these producers, the artificially high price of sugar increased the costs of production. In the end, the regulations that were intended to protect members of the US sugar industry actually harmed producers and those employed in other industries.

Recognizing the possibility of negative unintended consequences, regulators must appreciate the role that incentives play in directing individuals' actions. Even regulations motivated by the best of intentions can have perverse secondary effects that generate significant costs. The possibility of negative unintended consequences does not, by itself, mean that regulators should never intervene. However, it does mean that regulators should be extremely humble in both their decision to intervene and in the design of their regulations. Given the complexity of our social and economic systems, negative unintended consequences are likely to emerge and to be significant.



Regulations meant to protect the US sugar industry actually harmed producers and employees in other industries

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Suggestions for further reading

Bastiat, Frederic (1850). *What is Seen and What is Not Seen*. Library of Economics and Liberty. <<http://www.econlib.org/library/Bastiat/BasEss1.html>>.

Crandall, Robert, and John Graham (1989). The Effect of Fuel Economy Standards on Automobile Safety. *Journal of Law and Economics* 32, 1: 97–118.

Merton, Robert K (1936). The Unanticipated Consequences of Purposive Social Action. *American Sociological Review* 1, 6: 894–904.

Peltzman, Sam (1975). The Effects of Automobile Safety Regulation. *Journal of Political Economy* 83, 4: 677–725.

Sobel, Russell S., and Todd M. Nesbit (2007). Automobile Safety and the Incentive to Drive Recklessly: Evidence from NASCAR. *Southern Economic Journal* 74, 1: 71–84.

US Department of Commerce (2006). *Employment Changes in US Food Manufacturing: The Impact of Sugar Prices*. <<http://www.ita.doc.gov/media/Publications/pdf/sugar06.pdf>>. ■



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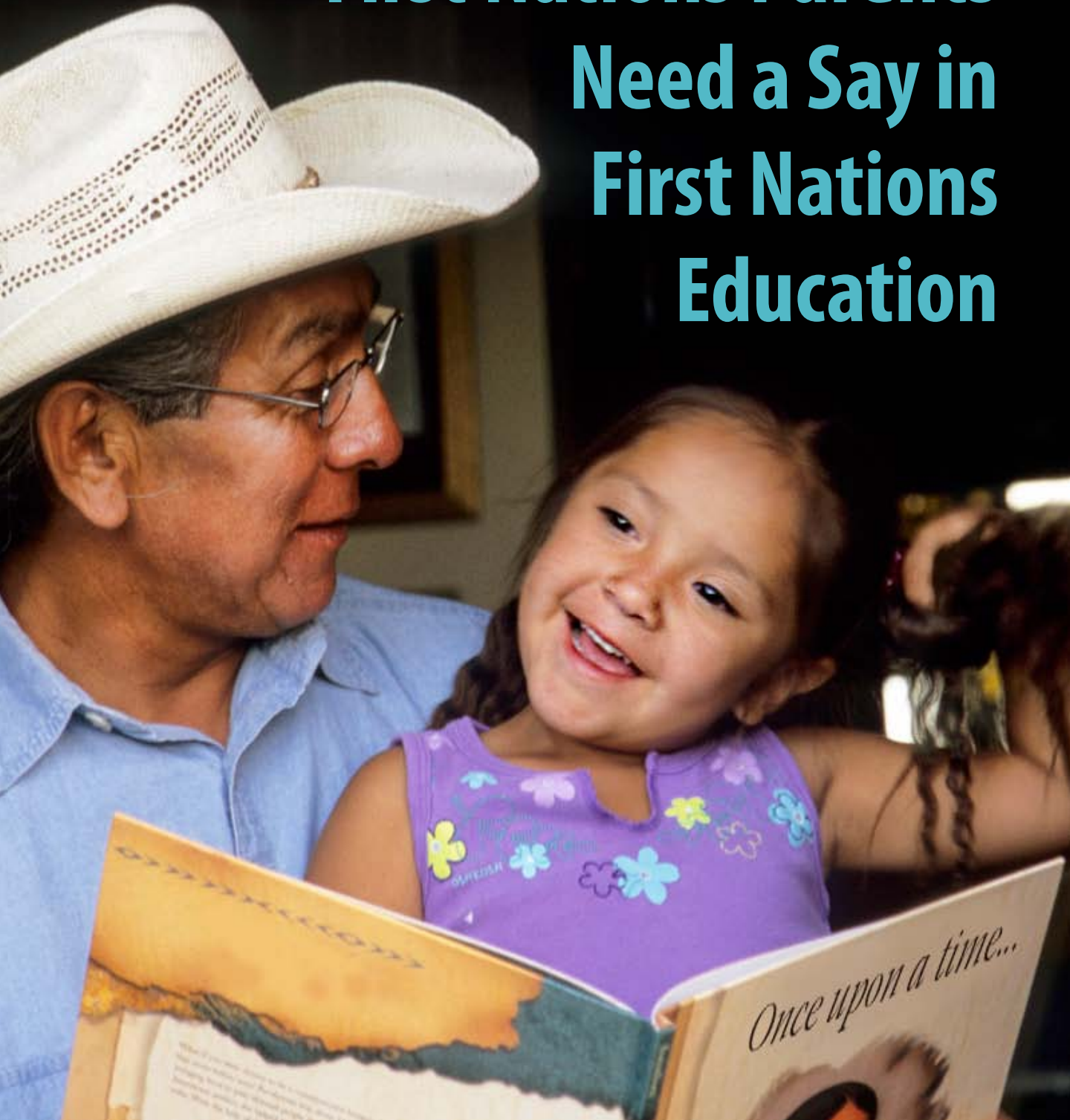
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First Nations Parents Need a Say in First Nations Education



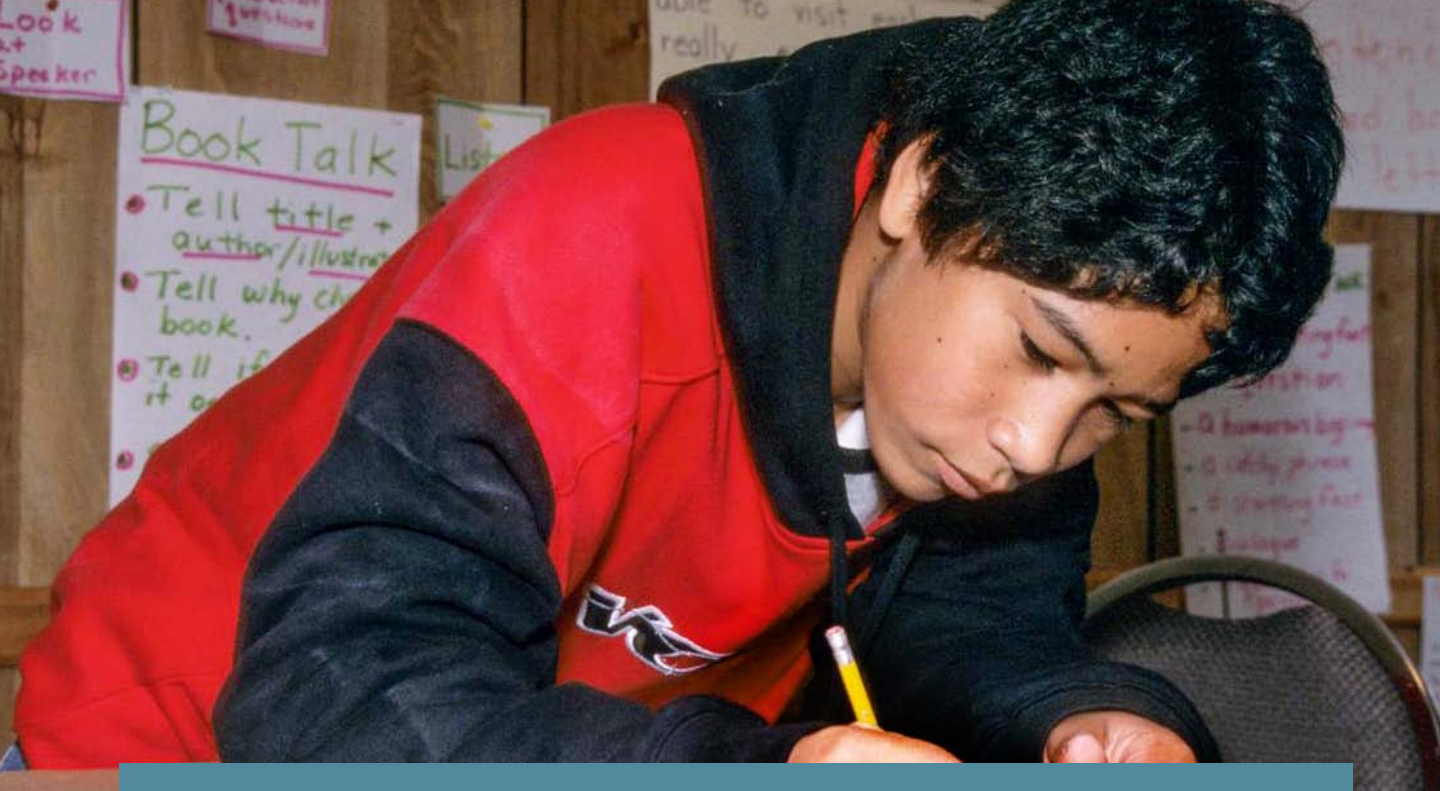
Ravina Bains

While the recent federal budget received much attention for its debt and deficit forecasts, a smattering of legislative reforms giving First Nations greater control of on-reserve education went largely unnoticed. Hand-in-hand with the proposed reforms, the feds also promised an additional \$1.25 billion in core funding for on-reserve education over three years, on top of the current \$1.5 billion spent annually. All of which was supported by the Assembly of First Nations.

There's no doubt that reform of the on-reserve education system for aboriginal students is well overdue. Less than half of on-reserve students graduate from high-school compared to the 80 per cent graduation rate for all other Canadian students. And 60 per cent of First Nations youth in their early 20s do not have a high school diploma compared to just 10 per cent of all other Canadians in the same age range. This lack of basic educational attainment is reflected in high unemployment rates on reserves —reaching an average rate of 23 per cent.

But the real question is not whether reform is needed but rather if the proposed plan enacts the right types of reforms. The answer to that question may depend on the meaning of “First Nations control of First Nations education” and whether this will be interpreted as protecting and strengthening parental choice or placing further control in the hands of First Nations political leadership.

The economist Milton Friedman once wrote “education spending will be most effective if it relies on parental choice and private initiative -- the building blocks of success throughout our society.”



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Interestingly, the Assembly of First Nations has expressed similar views about the importance of parental choice in education. In 1972, the AFN said “Indian parents must have control of education with the responsibility of setting goals. What we want for our children [is] to reinforce their Indian identity, to provide the training necessary for making a good living in modern society.”

But the existing structures for on-reserve elementary and secondary education vests control not in parents but typically in First Nations political leadership or education authorities. These authorities offer either on-reserve education or they can negotiate tuition rates for parents who wish to send their children to a non-reserve school. In either case, the federal

education transfers are used to pay for the education of on-reserve students. But should these authorities refuse to support an off-reserve option, parents have no recourse but to pay for their children's education privately or, against their wishes, send their children to the on-reserve school.

This is the key point. A parent's choice to transfer their child from a band operated school to an off-reserve provincial school should be respected and funding should follow the student.

Enabling and protecting parental choice in any First Nations education reform can ensure that on-reserve families are able to enjoy the same freedom of school choice that other citizens—both off reserve First Nations and non-First Nations citizens, now enjoy. At the end of the day, First Nations parents, not political leadership, should have control over their children's education.

The federal government and the Assembly of First Nations may well be putting First Nations students first by trying to find a common path forward on education reform. However, what is still unknown is whether the new plan will contain meaningful education reforms that will protect and strengthen parental choice. If, after all, parents have no real opportunity to choose the school that they believe is best for their children, real improvement will likely be a long time coming. ■



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HOT TOPICS!

Canada's Catch-22: The State of Canada-US Relations in 2014



Economic and political relations between Canada and the United States, our most important foreign relationship, have worsened since the Fraser Institute's previous report on the state of Canada-US relations, *Skating on Thin Ice* (Moens, 2010). Canadian merchandise exports to the United States have weakened in relative terms. At the same time, there is not enough Canadian export diversification to other destinations to make up this relative loss.

While Canadians are selling relatively less to the US than they buy from the US, they are also not selling substantially more to the rest of the world. In other words, Canada's record for diversifying its trade from the US is modest over the last five years. The conclusion of the Comprehensive Economic and Trade Agreement (CETA) with the European Union offers a small trade effect for Canada and also promises an important advance in lowering certain regulatory barriers to trade.

Read the study [HERE](#)

Corporate Income Taxes— Who Pays?

Whenever governments are strapped for cash—which is most of them, most of the time, given their voracious appetite for spending—eyes quickly turn to corporate income taxes as an expedient and presumed painless way to help balance their books. In Canada, two provinces raised corporate tax rates in 2013. Opposition leader Thomas Mulcair proposes to raise the federal corporate income tax from 15% to 22% while freezing personal income-tax rates, an implicit recognition that Canadians have reached the limits of the tax burden they are willing to tolerate. The erroneous thinking behind raising corporate income taxes, however, is that corporations and not people bear their burden.

Read the study [HERE](#)



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