

## CONFRONTING CANADA'S HOUSING CRISIS







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# WELCOME

Dear Readers:

Happy Spring!

First and foremost, I hope you are doing well and keeping well in these uncertain times.

This issue features many of our student contributors. William Dunstan presents a fascinating piece on the effects of education subsidies, and Brennan Sorge discusses how policy makers should address Canada's housing crisis. In addition to these two, this issue also highlights an article from Fraser Institute Student Ambassador Measar Musa on the effects of Canadian competitions laws on consumers, along with a piece by former Fraser Institute Intern, Jairo Yunis, who presents a case for privatizing alcohol sales.

We're also including a recent infographic and an interview with senior fellow Prof. Lydia Miljan.

If you or someone you know would like to contribute to the *Canadian Student Review*, please have them contact me directly at [Ryan.Hill@fraserinstitute.org](mailto:Ryan.Hill@fraserinstitute.org).

Regards,

Ryan



# CONFRONTING CANADA'S HOUSING CRISIS

**BRENNAN SORGE**

Housing in Canada has become a major topic in recent years, and for good reason. Rising prices have made ownership much more difficult, especially for young and low-income Canadians.

A number of factors have led to the housing market's current circumstances. Low interest rates have enabled home buyers to borrow much larger sums than in the past, which in turn has pushed up prices. Poor zoning policies and long approval times for new builds have made the development of affordable high density housing very difficult (Green, Filipowicz, Lafleur, and Herzog, 2016). As a result, Canadian home prices have been driven upward at an alarming rate (Statistics Canada, 2020).

Price increases haven't been uniform across the country, however. Urban areas have felt price increases

**URBAN AREAS HAVE THE HIGHEST DEMAND FOR HOUSING, WHILE SIMULTANEOUSLY HAVING LOWER AVAILABLE SUPPLY AND A MUCH HIGHER COST TO EXPAND THAT SUPPLY?**

the most, especially the Vancouver and Toronto metro regions (Better Dwelling, 2019). In less urban regions, housing prices have remained much lower (Bada, 2019).

Since prices in rural areas have not grown as much as in the urban areas, why has the housing crisis become so dire in big cities? One answer is

population growth. Rural populations are growing much slower than urban ones, and the housing market reflects this imbalance in population growth (World Bank, 2020).

Another factor causing increased housing costs is the imbalance in available land. Urban areas have limited space for construction, and what is available is often entwined in myriad rules and regulations that slow construction and increase costs. Urban areas have the highest demand for housing, while simultaneously having lower available supply and a much higher cost to expand that supply. Conversely, rural regions have a nearly limitless area for new housing developments but little demand for it.

With this in mind, there are a couple of approaches that could help resolve Canada's housing crisis. First, we should dispense with the idea that we can reduce costs by dropping demand as a long term solution. Canada has a growing population, and people will want to own homes, regardless of higher taxes or stricter mortgage rules. Demand reduction policies serve to delay or exclude entrants into the housing market by making purchases more difficult or more expensive, but they do nothing to address the root problem—supply—or that there are not enough houses available for Canadians to buy at affordable prices.

Instead of demand reduction, Canadian governments should pursue policies that increase supply, or encourage purchases in regions where greater supply is already available. In urban regions, supply can be expanded by reviewing zoning laws and improving project approval times. Urban zoning should sanction



much higher density and allow apartments to replace some of the single family housing that is currently common in Canadian cities.

In more rural areas, access to land, a major cost in the construction of new homes, can easily be improved. Canadian governments (provincial and federal) own the majority of the land in Canada in the form of crown land (Canadian Encyclopedia, 2013). If government were to provide greater access to crown land for development, it would enable homes to be built with negligible land costs, thus substantially reducing one of the largest expenses for new housing developments.

Importantly, lowering the cost of rural housing would make it more attractive, allowing for some of the housing demand that is currently focused on the cities to be diverted to rural areas.

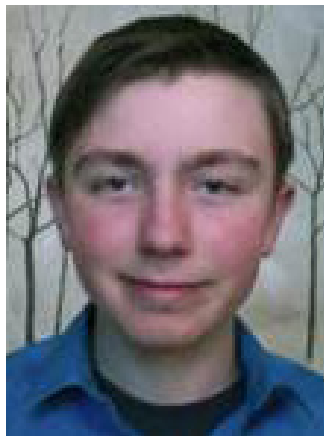
There are a variety of ways this policy could be implemented. Crown land could be given to municipalities, ensuring that local city planning is not disrupted and access to services is easy to maintain. Additionally, provincial governments could take the lead in planning new communities by zoning land and building basic infrastructure. Then they could offer the land to developers, entrepreneurs, and citizens at cost



with the stipulation that they use it to build new homes and businesses. There are already vast tracts of crown land available for such developments located along our major highways, ensuring that new communities have access to jobs and services in nearby towns and cities even while these new communities are in their early stages of development. Beyond these two approaches, there are many other ways crown land could be leveraged to improve housing access, and given the amount of land Canada has, more than one approach can be taken.

Canada is the second largest nation on earth geographically, yet it has a population of less than 40 million. If we are able to draw upon the vast amount of land available to us, and encourage the development of new homes and communities by loosening the binds of regulation and poor zoning rules in our cities, the Canadian dream of home ownership could once again be within reach. ♦

*Brennan Sorge is currently an economics and business student at Thompson Rivers University. His interests centre on the effects of law and policy on the economy, and he hopes to act on these interests in further study of both economics and law.*



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# EDUCATION: THE GREAT WASTE?

WILLIAM DUNSTAN

The world is replete with proof that you can, in fact, have too much of a good thing. One oft-overlooked domain where this principle applies is education, particularly post-secondary. In many countries, people are too “educated.” Efforts to make higher education more financially accessible often do little to improve future workers, and instead force students to spend time getting a degree just so they can demonstrate to potential employers that they have skills that were, in fact, pre-existing.

The recent story of education in the developed world is one of credential inflation. Credential inflation occurs when academic credentials become less valuable as more people earn them. For example, a high school diploma is more useful in a country where half the population doesn’t complete high school than in a country where most people have master’s degrees. Between 1950 and 2010, the percentage of the adult population in advanced economies with some sort of post-secondary credential increased from 2.8 percent to 17.9 percent (Barro and Lee, 2013). Currently, 23.3 percent of Canadian adults have a bachelor’s degree or higher; for those aged 25 to 34, the proportion rises to 35 percent (Statistics Canada, 2019).

The problem with credential inflation is that even though workers are becoming more educated, they often aren’t becoming that much more productive. Much of a degree’s financial benefit to each individual student—as much as 80 percent according to some estimates (Caplan, 2018)—comes from “signaling,” communicating to others that they have the qualities of a good employee, rather than from actually making them a better employee.

Many workers use only a limited amount of knowledge from their field of study on the job. In the United States, just 27 percent of undergraduate degree holders are working in a job that is directly related to their major (Abel and Deitz, 2012). Nor does post-secondary education seem to make students better thinkers. In a well-known psychological study, Perkin (1985) assessed students’ abilities to make reasoned arguments on both sides of an issue; there was virtually no difference between the quality of arguments offered by 1st and 4th

year undergraduates, or by 1st and 4th year graduate students. However, regardless of whether students learn anything at school that makes them better workers, getting a degree demonstrates some level of the intelligence, persistence, and social conformity that positively correlate with success in most

jobs. Employers have limited resources to assess job candidates. If they can ensure that their hire is at least partially competent by disregarding applicants without a bachelor’s degree, they will typically do so. A 2017 Harvard Business School study measured the difference between the share of job postings that request a university degree and the share of individuals holding similar jobs that actually have a degree. The study found that although 16 percent of production supervisors had a university degree, 67 percent of job postings for production supervisors requested one – a “degree gap” of 51

**EVEN THOUGH WORKERS ARE BECOMING MORE EDUCATED, THEY OFTEN AREN’T BECOMING THAT MUCH MORE PRODUCTIVE**



percent (Fuller and Raman, 2017). Degree gaps for executive assistants and paralegals are 47 percent and 30 percent, respectively (Fuller and Raman, 2017). Because so many workers now have degrees, employers can demand such credentials for jobs that can be done without them.

Governments, then, that encourage enrollment in higher education by lowering students' costs, raise employers' expectations and make job-seekers spend more time on unnecessary schooling. This government-sponsored credential inflation isn't just wasteful, it is harmful. Time spent getting a degree for the purpose of signaling could be spent creating wealth through working, or doing anything else that someone enjoys more than school. Credential inflation also limits job opportunities for workers who cannot keep up. Someone could be an excellent production supervisor, but 67 percent of those jobs are closed to them if they have only a high-school education.

What are the implications for government policy given that higher education often does more to help students showcase, rather than develop, their skills? Quite simply, governments should spend less on post-secondary education – or, at least be hesitant

to increase spending. If a degree helps someone find a job by making them a more productive worker, there is a strong case for subsidizing their tuition: society at large becomes more productive if this individual can access this training. But if a degree mostly serves to show-off skills that an individual already has, then there is little public benefit to subsidizing their education. If the primary impact of increased higher education is to reduce opportunities for the less-educated and eat up otherwise productive years of people's lives, governments should consider removing the incentives to pursue post-secondary schooling. Moreover, on a principled level, if your degree enriches you while providing little benefit to society, you should be the one who pays for it, not the taxpayer.

But what if it doesn't matter whether higher education makes us better workers? From one perspective, subsidizing tuition is about ensuring equality of opportunity. Even if education is mostly signaling, degree-holders have greater opportunities than the degreeless; making school affordable ensures that one's socioeconomic background doesn't act as a barrier to potential signaling. A Statistics Canada study from 2007 cautions against this instinct; it found that financial constraints account for 12 percent of the



gap in university attendance between youth from top and bottom income quartiles, and that test scores and social influences have a greater impact. These findings suggest, at a minimum, that in addition to contributing little to national productivity, popular proposals for free tuition would do little to increase access to post-secondary education for the poor. Second, if young people with lower-income parents are less likely to attend university regardless of ability to pay, this means that they are disproportionately harmed by credential inflation when education subsidies encourage more middle-class youth to go to university.

This doesn't mean that all higher education is useless. Higher education is necessary for success in some fields like engineering or medicine because this learning is essential for developing competence. Government-sponsored credential inflation, however, has made higher education necessary for success in other fields by making a degree a prerequisite to getting a foot in the door, even if you never use the skills it attests to on the job – or gained them in the first place. Ultimately, policymakers should be more skeptical of the idea that a more educated society is necessarily more productive or equitable. ◆

*William Dunstan is a Public Affairs and Policy Management student at Carleton University. He has a passion for markets' power to improve people's lives and for developing policy that allows this to occur.*



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# INTERVIEW WITH *EXPLORE PUBLIC POLICY ISSUES* SPEAKER AND FRASER INSTITUTE SENIOR FELLOW, PROF. LYDIA MILJAN

Fraser Institute Student Ambassador Measar Musa sat down with Explore Public Policy Issues speaker and Fraser Institute Senior Fellow, Prof. Lydia Miljan. We've printed the full interview below.

**Tell us a little bit about your career path and how you got to the University of Windsor and the Fraser Institute.**

When I finished my Master's degree, I had been working on a paper called *Bias at the CBC*. Michael Walker (Founding Executive Director of the Fraser Institute) had heard about it and invited my supervisor and me to Vancouver to talk about it. Based on that session he gave us funding for 5 years to run our own department. He appointed me as the coordinator for the National Media Archive. Those 5 years eventually turned into 14 years!

I then moved back to Calgary to work on my PhD, at which time I was only working part time with the Fraser Institute. Once I completed my PhD, I opened up the Fraser Institute's Calgary office. I then moved to the University of Windsor and have been here since 2001. Since then, I have continued with the Fraser Institute and eventually became a senior fellow.

**You presented an excellent discussion on electoral reform recently at the Explore Public Policy Seminar in Windsor. What made you want to research electoral reform?**

Well, it was very timely. Justin Trudeau has just been elected and announced that 2015 would be the last election under the first-past-the-post [electoral system

we currently use]. So we decided that it would be worth doing some essays on that topic to see what options are available to the government.

We knew that there would be no referendum, but one of our papers discussed that there should be consent from the public. Just because you win [an election with] a 40 percent mandate, doesn't mean you have the mandate to change the electoral system.

We also looked at the different options; we looked at proportional representation and single transferable vote, because we knew that the prime minister preferred [one of those] options. We submitted those studies to the all-party committee on electoral reform and those studies were actually cited in their reports. One of the reasons the committee didn't recommend single transferrable vote is actually because of our studies.

**You have done a lot of research about media bias. What is one policy issue would you like to see be talked about more often in the media?**

Personally, I think that debts and deficits should be acknowledged as more of a problem; the consequences of spending. We don't really acknowledge that [deficits and debt become] an intergenerational tax. Essentially, the debts and deficits we are incurring today mean that your generation and subsequent generations are going to have to pay the interest on that. I think that there should be more discussion around the generational unfairness, the fact that people graduating university today have far greater

personal debts and then they will have a far greater tax burden than previous generations.

**What do you think is a major policy issue that if young Canadians started addressing it now, would help divert a major problem in the future?**

We do have to deal with the national unity issue. It is going to be a big issue. Looking at current events, I think that equalization could be an issue. Even though people in Ontario and Quebec are typically dismissive of western alienation, these are legitimate complaints from Alberta and Saskatchewan and ignoring them or minimizing them is not going to serve the electorate very well. These will be major issues.

This is especially so if the push is about declaring climate emergencies and moving away from a carbon-based economy. It is easy and fashionable to talk about climate change, but there are no reasonable

discussions about what needs to change, or if it is reasonable to make those changes based on world demand for oil.

**What are some pieces of advice you would offer to students interested in pursuing research in political science?**

Get your Masters! The thing about education, even for my generation, is that you typically need a Master's to get the job you want. If you want a job in public policy with think tanks or the public sector, you need a Master's. That's how I started with the Fraser Institute. The Master's level opens up a lot of doors. It shows not only that you can learn and regurgitate, but that you can do independent research and be a more critical thinker. ♦





# ESSENTIAL FRIEDMAN VIDEO: THE PERMANENT INCOME HYPOTHESIS



# HOW CANADIAN COMPETITION LAWS HURT CANADIANS: FLIGHT TICKETS AND CELLPHONE FEES COULD ALL BE CHEAPER IF MORE COMPETITION WERE ALLOWED

## TRAVELLING FROM COAST TO COAST SHOULDN'T BREAK THE BANK

**MEASAR MUSA**

*Please note that this article was written and peer reviewed prior to the current pandemic.*

Canada is very attractive to domestic and international tourists. In fact, tourism in Canada is so attractive that it generates nearly \$100 billion in spending from those tourists every year (Statistics Canada, 2020a), and the tourism industry employs nearly 750,000 people (Statistics Canada, 2020b).

Our country offers breathtaking natural landscapes and dramatic scenery from the coasts to the Rockies and there is something to see and do in every part of the country. Canada's vibrant cities are always ranked among the most livable in the world and they attract a large number of international visitors every year (Economist Intelligence Unit, 2020).

But what about domestic visitors? Are there barriers preventing Canadians from discovering the wonders of their own country?

One of the biggest barriers to Canadians seeing more of their own country is domestic transportation prices, specifically, the cost of airline tickets. This is such a barrier, in fact, that younger Canadians (in their 20s and 30s) are eight times more likely to vacation outside

of the country than inside it—eight times! (Blackwell, 2018, May 16).

If you have ever wondered why it is often cheaper to fly outside of Canada than within it, you have the prohibition of cabotage to thank. In Canada, all flights originating from and ending at a Canadian airport must be operated by a Canadian-owned airline (CTA, 2014, December 19). With cabotage, a foreign-owned airline can transport passengers, but it is strictly prohibited in Canada.

The intentions of the no-cabotage policy are to protect and promote Canadian businesses, but it does consumers a huge disservice by leaving them fewer choices for domestic travel. The lack of competition naturally leads to increases in the fees and rates that airlines can charge. In fact, the Canadian airline scene has been until recently described as a “duopoly,” where the two largest carriers (WestJet and Air

**YOUNGER CANADIANS (IN THEIR 20S AND 30S) ARE EIGHT TIMES MORE LIKELY TO VACATION OUTSIDE OF THE COUNTRY THAN INSIDE IT**



Canada) control almost 80 percent of the market for domestic flights (Petsikas, 1990).

The clearest example of where cabotage has been successful is in the European Union, where all member states have agreed to allow all airlines within the EU near complete access to operate in any member state. This has resulted in significantly increased competition

and lower fares for domestic and international flights in the EU (Milke, 2012, July 9).

Apart from the ban on cabotage, in Canada there is an additional restriction on foreign ownership of Canadian airlines. Specifically, Canadian firms with more than a certain percentage of foreign shareholders are prohibited from operating certain



routes. This restriction limits the interest and ability of international partners to invest in Canadian airline capacity and services.

#### *What could be done?*

Canadian lawmakers should allow more competition in the airline industry, particularly for domestic flights. Competition would give Canadian consumers more choice, which would force airlines to offer more competitive prices.

More domestic travel would benefit the Canadian economy. More money spent within Canada would generate additional revenue for the government which could be used to further encourage domestic travel.

Ultimately, more competitive flight travel prices would enable Canadians, especially younger Canadians, to see more of the country and so better understand and appreciate Canada's unique beauty.

#### *Connecting the nation shouldn't break the bank*

The reason that Canadians pay some of the least competitive prices for domestic flights, interestingly enough, is the same for cell phone plans. In fact, depending on your phone usage and charges, a Canadian cell phone bill could be significantly more expensive than in other similarly sized markets (Hopper, 2017, September 18).

Not all regions of Canada have the same problem with expensive cell phone plans; regional differences do exist. The biggest regional difference is whether or not carriers have competition. The Competition Bureau of Canada found that the main reason for consumers' access to cheaper cellphone plans in Saskatchewan, Manitoba, and Québec is the existence of regional service providers other than the "Big 3" (Rogers, Bell and Telus) (Competition Bureau Canada, 2017, February 15).

Additionally, the Bureau found that there were no real differences in quality or service between the services provided in the areas that had regional providers and in areas where there was no competition, which essentially means that the Big 3 hiked prices in areas

where there was no competition simply because they could.

In a bizarre situation in January 2016, Bell increased its monthly rates by \$5. The following week Rogers and Telus did the same. Rather than keep their prices lower to try and attract a larger market share, they chose to follow Bell's lead and raise their prices, too (Dobby, 2016, January 18). They could do so because they had no real fear of a competitor offering lower prices (mainly because there wasn't any competition).

Similar to airlines, wireless carriers in Canada not only cannot be foreign owned, but no telecommunications firm with more than a 10 percent market share can have more than 20 percent of its voting shares owned by non-Canadians (Geloso, 2019a). These rules severely limit competition and encourage the Big 3 to maintain their current (high) pricing practices and continue taking advantage of the Canadian consumer's lack of choice.

#### *What could be done?*

Once again, government policy must change to allow foreign competitors to enter the Canadian market. This change would encourage increasingly more competitive pricing for similar services.

Finally, Canada should follow the lead of other developed countries, such as the UK and France, which have promoted further competition by allowing at least a fourth wireless carrier to enter the market. Research by Carleton professor Dwayne Winseck suggests that telecommunications competitiveness begins to be more effective and produce better prices for consumers when there are at least 4 carriers (Winseck, 2014).

Canadian competition laws do not serve the Canadian consumer well. Instead, they favour producers, often at the expense of consumers. Telecommunications laws were first established in the 1890s to protect growing Canadian businesses (Geloso, 2019b). But it is well past time that nineteenth century protectionist thinking was updated to allow the free market to operate in sectors such as domestic air travel and wireless communication, where these businesses have



developed a complete monopoly, giving consumers very little choice (but higher prices).

Consumer choice and the powers of the free market should be what determines the success of an enterprise, not government protectionism. Lack of competition provides a sense of security and produces complacency in providing services, giving

the enterprise the power to determine prices, knowing that consumers have nowhere else to go.

Competitiveness in a free market drives innovation and a desire for businesses to continue to provide great services at competitive prices. In such a scenario, consumers can choose which businesses succeed and which fail—and rightly so. ♦

*Measar Musa is a recent Political Science graduate from the University of Windsor. He is actively involved in community leadership. His area of interests include fiscal policy, international trade policy, diplomacy and international relations.*



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# A CASE FOR PRIVATIZING RETAIL ALCOHOL SALES

JAIRO YUNIS

Monopolies are usually bad for consumers. This is a basic economic concept taught to Econ 101 students all over the world. Monopolies are built on barriers to competition, yet competition is one of the cornerstones of a free market economy. Competition yields lower costs and prices for goods and services, better product quality, increased choices and variety, more innovation, and leads to economic growth and development (Stucke, 2013). Although natural monopolies can lead to efficient outcomes when “the entire demand within a relevant market can be satisfied at lowest cost by one firm rather than by two or more” (Posner, 1968), government-imposed monopolies on goods and services that can be provided by several private sellers create inefficiencies and deadweight losses to the economy.

A study conducted by Geloso (2019) found that at least 22 percent of the Canadian economy is protected from competition. This number can go as high as 35 percent, considering all restrictions. This protectionist approach results in higher prices and less product choice for consumers. Retail sales of alcohol are one example of how governments in Canada have created state-owned monopolies preventing consumer goods being sold by private companies in a competitive environment. It is worth mentioning that alcohol, a sector almost entirely shielded from competition, accounts for roughly 0.7 to 0.8 percent of the country’s GDP (Geloso, 2019). A couple of months ago, Prime Minister Justin Trudeau said that his government “removed the only remaining federal barrier to trade of Canadian wine, beer and spirits within Canada” (Connolly, 2019). Additionally,



Alberta's Premier Jason Kenney removed 13 out of 27 trade barriers that currently exist between Alberta and the rest of the provinces (Snyder, 2019). These are steps in the right direction. However, there is still much to be done.

While it is true that alcohol abuse is a major health and safety concern all over the world (World Health Organization, 2018), "it is not clear that the ownership structure and regulations related to the production and distribution of alcohol are important determinants of the level of abuse" (West, 2003). Then, why does Canada create state-owned monopolies and impose highly stringent regulations on the production, selling, and consumption of alcohol? Do publicly-owned alcohol stores make economic sense? Are they beneficial to consumers?

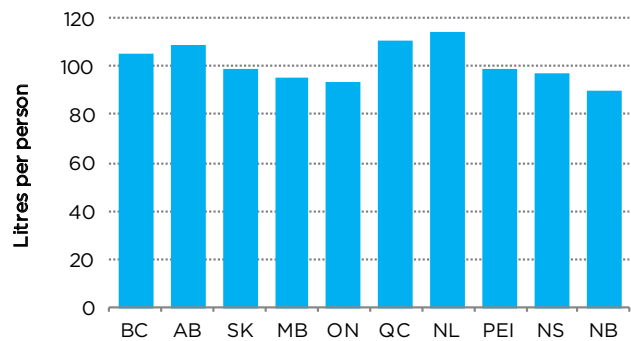
Every province has different ways of regulating the retail sales of alcohol. Alberta, for example, privatized liquor retailing in the 1990s and closed down its last government-owned liquor store in 1994. On the other hand, provinces like Saskatchewan, New Brunswick, PEI, Newfoundland and Labrador, Manitoba, Nova Scotia, and Ontario have government-controlled monopolies on the retail sales of liquor. Quebec's retail sales of liquor, although controlled by a Crown corporation, allows the sale of alcohol in convenience stores. British Columbia is another province with a hybrid private-public model mostly controlled by the Liquor Distribution Branch (LDB), a Crown corporation.

### Arguments

One of the most used arguments against the privatization of retail sales of alcohol is that it will lead to an increase in alcohol consumption and should, therefore, be in the hands of state-controlled monopolies (Community Preventive Services Task Force, 2011). However, after using econometric models to estimate the consumption effects of state monopolies using cross-sectional alcoholic beverage demand functions, Nelson (1990) found that "a beverage's real own-price, consumer's real disposable income, and state tourism activity are determinants of per capita consumption."

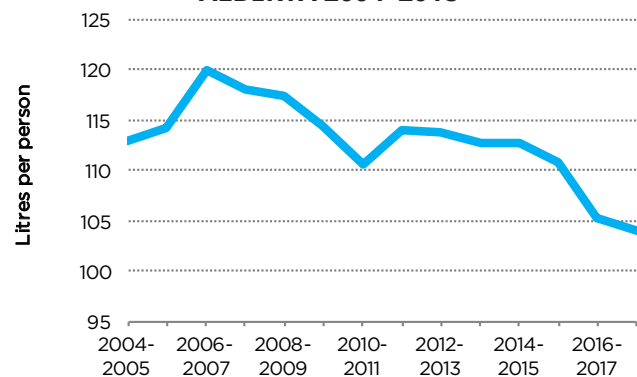
Figure 1 shows the volume for total per-capita sales by province between 2010 and 2019. Newfoundland and Labrador, a province that has a government monopoly on alcohol retail sales, has the highest alcohol consumption rate in Canada at 114 litres per person (Statistics Canada, 2019), followed by Quebec, in which alcohol sales are controlled by the Société des Alcools du Québec, a Crown corporation. These data reinforce the argument that "there is no evidence that monopoly control has a direct effect on consumption" (Nelson, 1990). How alcohol is sold, whether through a government store or through a private liquor store, is not a determinant of the level of alcohol consumption.

**FIGURE 1**  
**VOLUME OF TOTAL PER CAPITA ALCOHOL SALES**  
**2010-2018**



As mentioned earlier, Alberta is the only province in Canada with a fully privatized alcohol retail model. Despite prohibitionist concerns, Figure 2 shows how the volume of total per-capita sales decreased by 8 percent, dropping from almost 115 litres per person in 2004 to almost 105 litres per person in 2018 (Statistics Canada, 2019). Once again, this data illustrates how

**FIGURE 2**  
**VOLUME OF TOTAL PER CAPITA SALES IN**  
**ALBERTA 2004-2018**

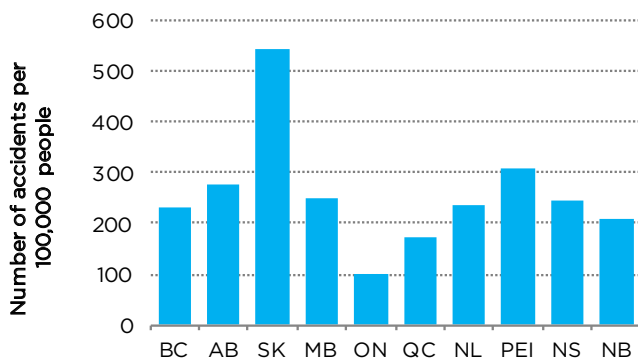




the ownership structure of retail sales of alcohol is not a determinant of alcohol abuse.

Another measure of alcohol abuse and its negative effects on society is the number of alcohol-impaired driving accidents. Some organizations have claimed that privatizing the sale of alcohol will result in increased accidents (Mothers Against Drunk Driving, 2014). On this metric, Saskatchewan, a province with a government monopoly on retail sales of liquor,

**FIGURE 3**  
**ALCOHOL-IMPAIRED DRIVING ACCIDENTS**



had over 500 alcohol-impaired driving accidents per 100,000 people, followed by PEI with a little over 300 accidents (Clermont, 2018).

If the provinces are really concerned about alcohol-related car accidents, they should open up the alcohol market and increase the fines and penalties for drunk driving. As shown by the data, the ownership structure of liquor stores does not determine the level of alcohol abuse and its social costs. Provinces should implement evidence-based policies and align incentives in a way that would benefit consumers through more competition and choice, and correct the negative externalities of alcohol abuse at the same time with increased penalties in the form of a Pigouvian tax.

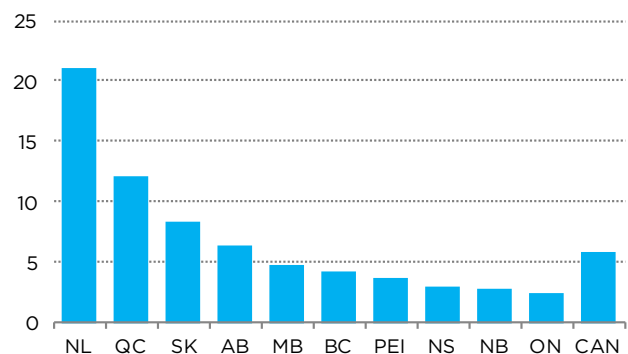
Another argument against the privatization of retail sales of alcohol is that it will result in constant price increases for consumers (Enoch, 2014). However, “the price of beverage alcohol is heavily dependent upon government markups and taxes at the wholesale level” (Snow, 2009). Once again, the ownership structure and source of capital are not the main determinants of the

price of alcohol for consumers. Nonetheless, and after comparing the price of a 24 pack of 355mL cans of Molson Canadian across all provinces, Ontario, Nova Scotia, and Saskatchewan are the provinces where you can find the most expensive pack of this traditional Canadian beer. None of these three provinces has a private model for retail sales of liquor.

Some studies claim that privatization of the retail sale of alcohol will lead to more availability and more alcohol outlets, making it easier for people to drink liquor (Enoch, 2014). However, this is a matter of quality over quantity. Figure 4 shows that Newfoundland and Labrador, Quebec, and Saskatchewan, provinces with a government monopoly on the sale of liquor, are the provinces with more outlets per 10,000 people over the age of 18 in Canada (Ontario, 2019). Alberta, a province with a little more than 5 outlets per 10,000 people over the age of 18, has the widest variety of product selection of all Canadian provinces with close to 27,000 unique product listings (Canadian Association of Liquor Jurisdictions, 2019). When a private market operates under a competitive environment with multiple sellers and buyers, “product selection becomes a vehicle for non-price competition between stores” (West, 2003) therefore promoting innovation and benefitting consumers.

A 2014 study conducted by CD Howe found that “increasing competition in the alcohol retail sector can reduce prices for consumers without necessarily decreasing revenues for the provincial government” (Masson and Sen, 2014). The Beverage Alcohol System Review Panel (2005) recommended that Ontario eliminate the provincial monopoly on the

**FIGURE 4**  
**ALCOHOL RETAIL OUTLETS PER 10,000 PEOPLE IN CANADA AND THE PROVINCES**



wholesale and retail operations of alcohol in order to “create an open and competitive system, maximize government revenue and protect social responsibility and other public interests.” La Commission de Révision Permanente des Programmes (2015) recommended that Quebec open up the market for wine and spirits, arguing that this liberalization would benefit consumers directly and would result in lower prices for consumers.

Debunking some of the myths around the relationship between the high social costs of alcohol consumption and the ownership structure and regulations around retail sales of alcohol would help start a meaningful debate. There is no evidence that indicates that a competitive and open retail sales market of liquor would result in high social costs. But even assuming that it did, that still does not justify a government monopoly.

There are a number of policies that would address the negative externalities of alcohol consumption. For example, a study conducted by Kenkel (1993) found that “taxation and public education could be effective in reducing heavy drinking” while monopoly control of sales would have no effect on reducing the rate of heavy drinking. Out of all the drunk-driving deterrence policies, monopoly control of the sale of alcoholic beverages is the least effective in reducing alcohol abuse. The author suggests alternative policies such as mandatory jail terms, license suspension, anti-plea bargaining, and health knowledge.

Even if all the negative social costs that come with alcohol consumption are accurate, these analyses forget to account for the potential benefits. Moderate social drinking can lead to an increase in social capital, that is, a “person’s social characteristics, including



social skills, and charisma, which enable him to reap market and nonmarket returns from interaction with others” (Glaeser, Laibson, and Sacerdote, 2000). Social-networking drinking events can lead to valuable information exchanges about jobs, contracts, and business opportunities. Thus, moderate alcohol consumption can increase earnings. Using an empirical model, Bray (2005) found that “moderate alcohol use has a positive effect on the returns to education or experience, and therefore on human capital accumulation.” This positive relationship between moderate alcohol consumption and increased human capital was also demonstrated by a study conducted

by Peters and Stringham (2006) in which they found that “self-reported drinkers earn 10–14 percent more than abstainers (...) and that males who frequent bars at least once per month earn an additional 7 percent on top of the 10 percent drinkers’ premium.” What we know for sure is that “anti-competitive regulations can drive up prices, limit product choices, and restrict economic growth and opportunity” (Mysicka and McKendry, 2013). In short, it is time to open up the alcohol market. ♦

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