Canadian
student review

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Summer 2014

Government Support for the Canadian Entertainment Industry

IN THIS ISSUE:

- Taxes and family income
- The economics of smoking
- Obesity rates in Canada

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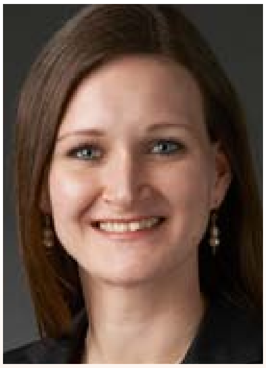
Canadian student review

Welcome!



Dear Readers,

The summer 2014 edition of *Canadian Student Review* is now available online to view or download, and features a variety of stimulating articles, including the real costs of bank fees, the economics of smoking, and Canadian content in the entertainment industry. We also look at the obesity "epidemic" and the benefits of globalization and trade.

This issue's interactive features include a video highlighting the high percentage of taxes that families pay on overall income, and one of our latest infographics on debt.

I hope you enjoy reading these articles and have a great summer.

Best,

Claire Jones

Editor, *Canadian Student Review*

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Bank Fees a Diversion from Real Consumer Interests

Mark Milke

As a publicity stunt, the recent New Democratic Party proposal to limit withdrawal fees at some automated teller machines (ATMs) at fifty cents worked well. But getting publicity for an idea, including a poor one, is one thing; getting attention to useful reforms that will greatly benefit consumers is quite another. The ATM idea is a good example of the former and not the latter.

For one thing, banks are federally regulated institutions. So any attempt to limit ATM charges would not apply to the many non-bank ATM machines at convenience stores, restaurants, bars and elsewhere. That's where one usually pays higher fees for the privilege of not planning ahead and withdrawing money from one's own bank or credit union.

Besides, banks are already subject to competition and thus they, along with other private sector institutions, can charge what they want—or not. I choose to bank where I pay no fees. I also avoid ATMs not owned by that financial institution. More competition in Canada's banking sector is welcome, but that's a different debate than micromanaging what banks, convenience stores, or the local pubs charge at ATMs.

The NDP proposal, and the Conservative government's own hint in its last Throne Speech to "expand no-cost basic banking services," are both political examples of the tendency to be "penny-wise and pound-foolish." The NDP-Tory fixation is akin to the guy who will drive five miles to save fifty cents on milk but spend a buck in gasoline and automotive wear-and-tear to do it.

It is easy to bash banks (the NDP obsession), or telecommunications and internet service providers (the Tory preoccupation) but some competition already exists in both those sectors, though more is preferable to less.

In contrast, both parties miss obvious policy areas that could save consumers a small fortune—but where prices are currently jacked up in favour of existing producers. That includes both

Poultry and dairy boards restrict foreign competition,which leads to price gouging

the private sector and the government sector where little competition exists or is in fact prohibited by governments.

If the NDP and Conservatives desire to help consumers in a substantive way, as opposed to this penny ante stuff, here are some useful and consequential ideas that would indeed save consumers money.

First, support the abolition of dairy and poultry marketing boards, legally allowed by the federal government to restrict competition and supply (no foreign cheese and milk or chickens except at very high duties). The power to restrict supply exists only due to federal legislation passed in 1966 to allow for such cartel-like powers. That creates conditions whereby producers can and do legally gouge consumers, this in an effort to preserve "price stability".

Such "price stability"—which in non-Orwellian language means price-fixing—means the poorest of Canadians get hurt the most given they spend the greatest proportion of their income on food. Former Liberal Member of Parliament Martha Hall Findlay noted a few years back that rigged price-fixing system costs families an extra $300 per year.

Restricted supply hurts the poorest Canadians the most

Second, the NDP and Conservatives could also, via their provincial wings, support the privatization of automobile insurance in provinces where the governments have a monopoly on basic automobile policies. Policyholders are best served in a system with competition and choice. Insurance premiums are generally cheaper in private sector provinces when apple-to-apple comparisons are made. The only exception has been in high-cost Ontario, high-cost because of a combination of no-fault coverage, fraud, and high claim costs that ratchet up Ontario premiums.

(For the record, I am aware of older studies from the so-called Consumers' Association of Canada that once claimed insurance costs were higher in private sector provinces. But as I have detailed in several studies and multiple columns, all available online, the Association's comparisons were based on misleading internet comparisons, not real paid premiums. Even a past

Ontario director with the Consumers' Association refused to use her own group's unsupportable numbers.)

Third, if the two parties care about consumers, they might (through their provincial wings), support abolishing the antiquated Prohibition-era government liquor stores that still exist in every province except Alberta. Such government-run stores, and the government-owned and run wholesale distribution system behind them, prevent competition and lower prices. Government liquor stores are not in the consumers' best interest.

When the NDP and Conservatives finish with the above, consumers will be much better off, and the parties will have proven to be pound-wise on matters where government policy currently and inevitably leads to higher prices for consumers. ■

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

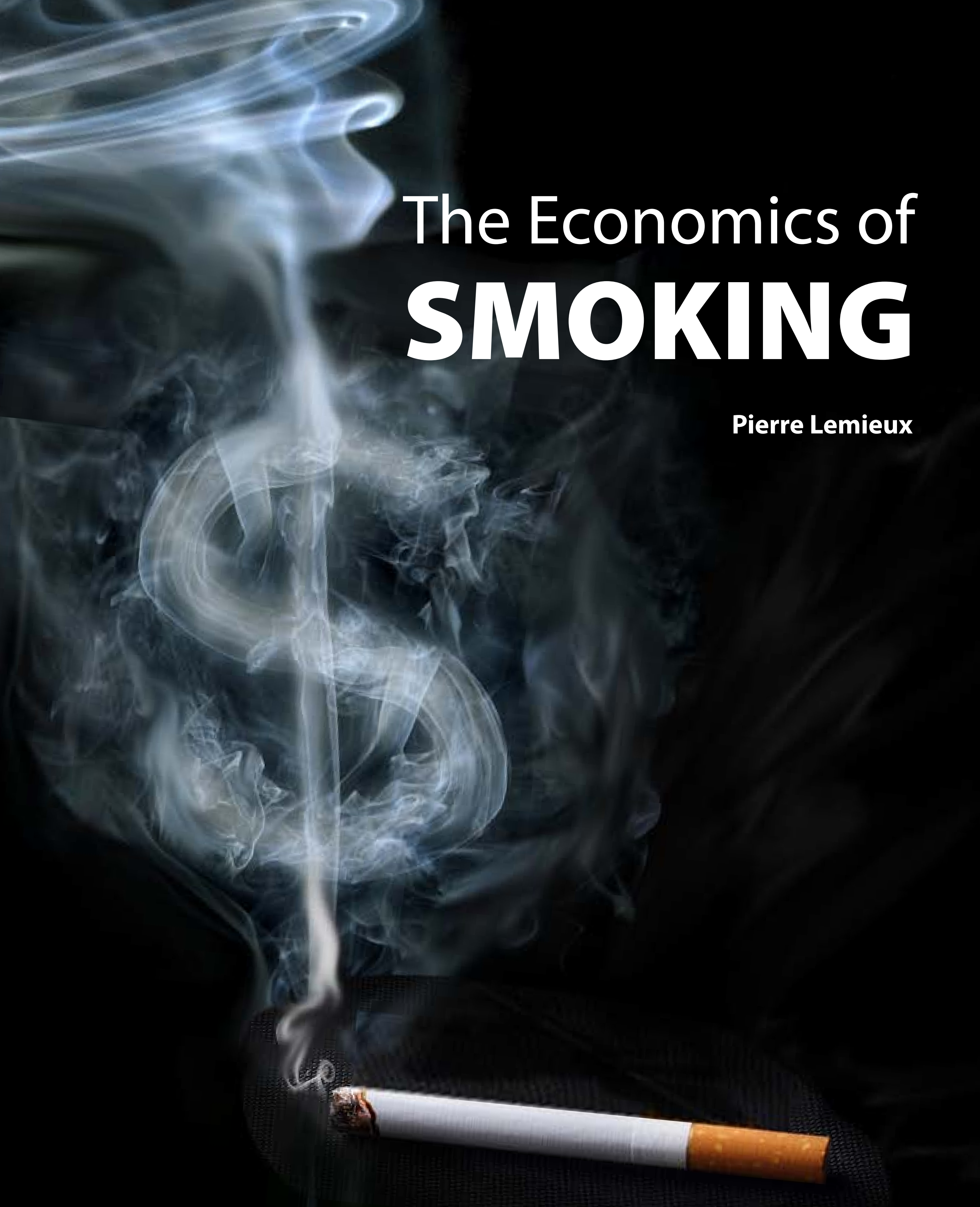
The VIDEO Gallery

Taxes:

A Canadian family's biggest expense

Watch a surprising and illuminating graphic representation of just how much you pay, and where all those tax dollars go.

See the video HERE



The Economics of SMOKING

Pierre Lemieux

Although the Greeks have one of the highest per capita tobacco consumption rates in the world, their country shows a relatively low incidence of lung cancer. In an obscure annex to its famous 1992 anti-smoking report, the Environmental Protection Agency explains this paradox by high fruit consumption in Greece. Why, asks British philosopher Antony Flew, did EPA bureaucrats not recommend that smokers eat fruit instead of foregoing tobacco? Yet, in general, the medical literature strongly supports the hypothesis that smoking is dangerous for the smoker's health. Let us take this conclusion for granted. Now, why does one fourth of the population continue to smoke?

All human activities carry costs that have to be weighed against their benefits. Risk to limb or life is merely a type of cost that will occur with a probability lower than one but higher than zero. Economist Kip Viscusi reports that, in the U.S., the annual death risk from motor vehicle accidents is 1/5,000. In France, 115,000 skiers are injured every year, and more than 50 killed. In a typical year, 390 Canadians drown, and 5 are killed by lightning. Individuals presumably take risks into account when they make choices. They believe that the pleasure of driving, skiing, swimming, or walking outweighs the risk; otherwise, they don't engage in such activities.

Why does the state try and persuade individuals to quit smoking, but not skiing? Why do we hear about the "social cost of smoking"—$130 billion per year in the U.S., according to a 1998 Treasury study—but not about the social cost of driving or swimming? What do we mean by "social cost"? We shall see that, on these issues, economists generally arrive at

In the US, the annual death risk from motor vehicle accidents is 1/5,000.

In France, 115,000 skiers are injured every year, and more than 50 killed.

conclusions opposite to those of the Public Health approach—i.e., the approach of the medical specialists and government organizations of which we hear so much in popular discourse and the media.

Economics versus **Public Health**

Before we look at the main Public Health arguments and the economic counter arguments, let's have a first look at how the two approaches differ on the basic concepts of benefits and costs.

Economics starts with subjective individual preferences. Individuals who smoke tobacco reveal that they gain net "utility" (or satisfaction) from this consumption. The risky character of many activities—whether smoking, driving cars, or skydiving—does not change this conclusion, as the demand that each consumer brings to the market includes his estimates of such non-price costs. Economic theory demonstrates that, given

In a typical year, 390 Canadians drown…

…and 5 are killed by lightning.

Why persuade individuals to quit smoking but not skiing?

certain conditions, free markets are efficient; i.e., they lead to the socially optimal allocation of resources.

The Public Health school adopts a radically different methodology. Starting from the observation that smoking is bad for the smoker's health, it goes on to conclude that individuals do not derive benefits from smoking. Anti-smoking activist Scott Ballin asserts that "There is no positive aspect to [smoking]. The product has no potential benefits."

Not only does the Public Health school neglect subjective benefits of smoking, as evaluated by each individual, but it often reveals a confused notion of cost. This was especially obvious in the Public Health literature of the 1970s and 1980s, which assumed that costs of smoking-related illnesses were of the nature of a "social cost," borne by "society as a whole." Typically, 75% of the so-called "social cost" of smoking was made of incomes lost by ill or deceased smokers.

Health care related expenses caused by smoking are not external "social costs" transferred to others. They are borne by individual smokers.

Bigstock

Now, if we consider, like economists, that "society" does not own individuals, such costs are private costs to smokers, not "external costs" transferred to others. Each individual deducts these costs from his subjective benefits before making his consumption choices. It would be double counting to add them again to social costs.

The **Transfer** Argument

Not all Public Health arguments were so simplistic. A more serious one was related to what economists call "transfers," i.e., subsidies between different groups in society. The transfer argument claimed that health care costs of treating smoking-related diseases was partly supported by non-smokers and, hence, amounted to a forced subsidy to smokers. This claim implicitly relied on the fact that health care has been more or less nationalized; otherwise, smokers would have to pay for their self-imposed diseases, possibly through higher private insurance premiums. Now, public health insurance regimes have been set up with the avowed objective of operating a redistribution from the healthy to the sick; in fact, the whole Welfare State is based on cross-subsidies between social groups. It would seem a perversion—if not a totalitarian slippage—of the system to single out certain groups who happen to be on the receiving side.

Consider, for a moment, the similar cases of alcohol and sedentary lifestyle (i.e., lack of physical exercise). Research has shown that alcohol consumption transfers net costs to the rest of society because it is often a causal factor in automobile accidents and violent crimes. Yet, forcing the drunk to bear responsibility for the costs they impose would seem to be a more appropriate response than prohibition for everybody. As for sedentary lifestyle and obesity-related diseases, economists Willard G. Manning, et al. write: "Surprisingly, the lifetime external costs of a sedentary life-style are actually higher than the external cost of smoking. ... We estimate that lack of exercise imposes external costs of 24 cents for every mile that sedentary people do not walk, jog, or run." The fact that not doing something might impose "costs" on others illuminates the troubling implications of this kind of transfer argument.

In the case of smoking, anyway, the transfer argument is empirically false. Economists who looked at the figures in many countries (including Robert Leu and Thomas Schaub in Switzerland, Willard Manning in the U.S., Raynauld and Vidal in Canada, and Jean-Jacques Rosa in France) discovered that net transfers go the other way around if one factors in tobacco taxes paid by smokers plus the savings that their early deaths bring to public pension plans and other kinds of old-age care. Not only do smokers pay their way, but they actually subsidize non-smokers. Interestingly, Public Health activists have turned this defeat to their advantage: they now argue that this is simply "not the kind of calculation that a civilized society engages in," as MIT Prof. Jeffrey Harris puts it.

The **World Bank's** Arguments

After the economists' analytical assault, the case for smoking regulations seemed pretty thin in the early 1990s. Then, a new argument was proposed by World Bank economist Howard Barnum. It relied on welfare economics, a field of neoclassical economic theory designed to show that "market failures," created by external costs or other types of "externalities" (phenomena that bypass the market), prevent free markets from maximizing social welfare. The welfare-economics argument against smoking has since been refined by other economists working with the World Bank, and has provided the intellectual basis for the Bank's 1999 report on the smoking "epidemic."

The argument runs as follows. Smoking is not like other consumption choices, and the economic presumption of market efficiency does not apply. This is because, as the World Bank puts it, "many smokers are not fully aware of the high probability of disease and premature death," and because of the addictive nature of tobacco. Consequently, the demand that smokers bring to the market does not represent the true benefits of tobacco for them. Externalities transform what would be private risks and costs of the smoker himself into social costs. Reducing tobacco consumption (or eliminating it, in the original Barnum version) would increase net social benefits.

The first question is whether addiction really takes over the free will of its impotent victims. Statistics show that half of non-smokers are former smokers, which suggests that quitting is not infinitely costly. Many smokers claim that they would like to quit, but that they are unable to. Words are only words and, in the economist's eyes, an actual choice to smoke reveals that, all costs and advantages being considered, this is what the smoker prefers to do. Analogously, notes Kip Viscusi, half the residents of Los Angeles claim that they would like to move out, but never do. There is much everyday evidence that one is "addicted" to tobacco because one likes it, not the other way around: many former smokers start again months or even years after any withdrawal symptom has long gone away, and smokers prefer a cigarette to nicotine gum or patches.

Moreover, the theory of "rational addiction", developed mainly by Gary Becker, a Nobel Prize-winning economist, has brought addictive behaviour into the realm of rational choice. An

Evidence shows that people are **"addicted"** to tobacco because they like it, not the other way around

addictive good is defined as one whose utility is a function of previous consumption: the more you have consumed, the better you are likely to appreciate it—like for alcohol, drugs, music, television, or religion. Individuals become addicted to something because, given their own circumstances, they judge the benefits higher than the costs, including possible withdrawal costs. One can test the rational addiction theory by testing whether addicts take future prices into consideration in their current demand for the addictive good (as a rational individual would, because he can get hooked into paying higher future prices). Indeed, it has been found that smokers are more responsive to long-term price changes.

The second basis of the World Bank argument lies in the assumed imperfect information about smoking risks. This is contradicted by research showing that American smokers actually overestimate the risks of smoking, compared to the claims of Public Health specialists themselves. While the smoker's risk of getting lung cancer during his life is estimated at around 10% in the scientific literature (much higher than the nonsmoker's risk), opinion polls show that the public's assessment of this risk is at least three times higher. Moreover, if perfect information may be a convenient assumption in formal neoclassical models, it is not an economic ideal as long as information is costly; i.e., as long as producing or gathering information requires the use of real resources including time, the scarce resource *par excellence*. The rational consumer will obtain additional bits of information only as long as their advantages are higher than their costs. This is why the typical consumer doesn't get a degree in mechanics before choosing a car, or a Ph.D. in electronics before buying a computer.

Secondhand Smoke and Property Rights

So far, so good: smokers only "hurt" themselves. (This is only a way of talking since they obviously expect to derive more benefits than costs from smoking.) But what about secondhand smoke? Assuming that secondhand smoke imposes inescapable "external (health) costs" on third parties, most economists (a least in the neoclassical tradition) would consider this as a real case of market failure, which calls for government intervention.

There is a double catch here. First, the health hazards of secondhand smoke may well turn out to be the hoax of the twentieth century. Regarding the 1992 EPA report that classified secondhand tobacco smoke as a "Group A carcinogen," U.S. District Judge William Osteen wrote, in a recent decision: "The court is faced with the ugly possibility that EPA adopted a methodology for each chapter, without explanation, based on the outcome sought in that chapter. ... The record and EPA's

The health hazards of **secondhand smoke** may well turn out to be the hoax of the twentieth century

explanations to the court make it clear that using standard methodology, EPA could not produce statistically significant results with its selected studies" *(Flue-Cured Tobacco Cooperative v. EPA*, No. 6:93CV00370 at 60, 77, M.D.N.C. July 17, 1998).

The second point is that, even if secondhand smoke did cause a risk of disease to non-smokers, private property rights would solve the problem better than regulations or prohibitions. Take the example of restaurants. In order to maximize his profits, a restaurant owner must mediate between the demands of customers who want to smoke, and of those who do not wish to have smokers around. Depending on his clientele, on how much they are willing to pay to have their preferences catered to, and on the costs of satisfying them, the owner will decide to which extent he will segregate his customers. The market will show its usual diversity, with non-smoking, smoking-only, and dual-section restaurants. Non-smokers who do not wish to be exposed to secondhand smoke will give their patronage to non-smoking restaurants. Similarly, people who don't like to be punched don't climb on boxing rings, and people who want a zero risk of being hit by an avalanche or a fellow skier don't patronize Alpine ski resorts.

Is **Government** Perfect?

If what we have said is right, it appears that, even in the worst possible scenario—i.e., smoking harms smokers' and nonsmokers' health—economics cannot justify regulation of smoking, at least on private properties. Yet, an objection remains: in the real world, markets do not work perfectly. We have returned to the market-failure argument.

Suppose that there are, indeed, unredeemable market failures. It would still remain to be proven that government intervention would succeed in correcting them at an acceptable cost, including the loss of individual liberty. There is no point in comparing imperfect markets with perfect government. Yet welfare economists traditionally do just that.

The main thrust of the Public Choice school of economics has been to show that government failures are often worse than market failures. Incoherent policies are one manifestation of government failures—when, for example, government subsidizes tobacco farmers while trying to reduce tobacco consumption. Public policy is more an outcome of pressure group politics and bureaucratic incentives than a product of enlightened welfare economists.

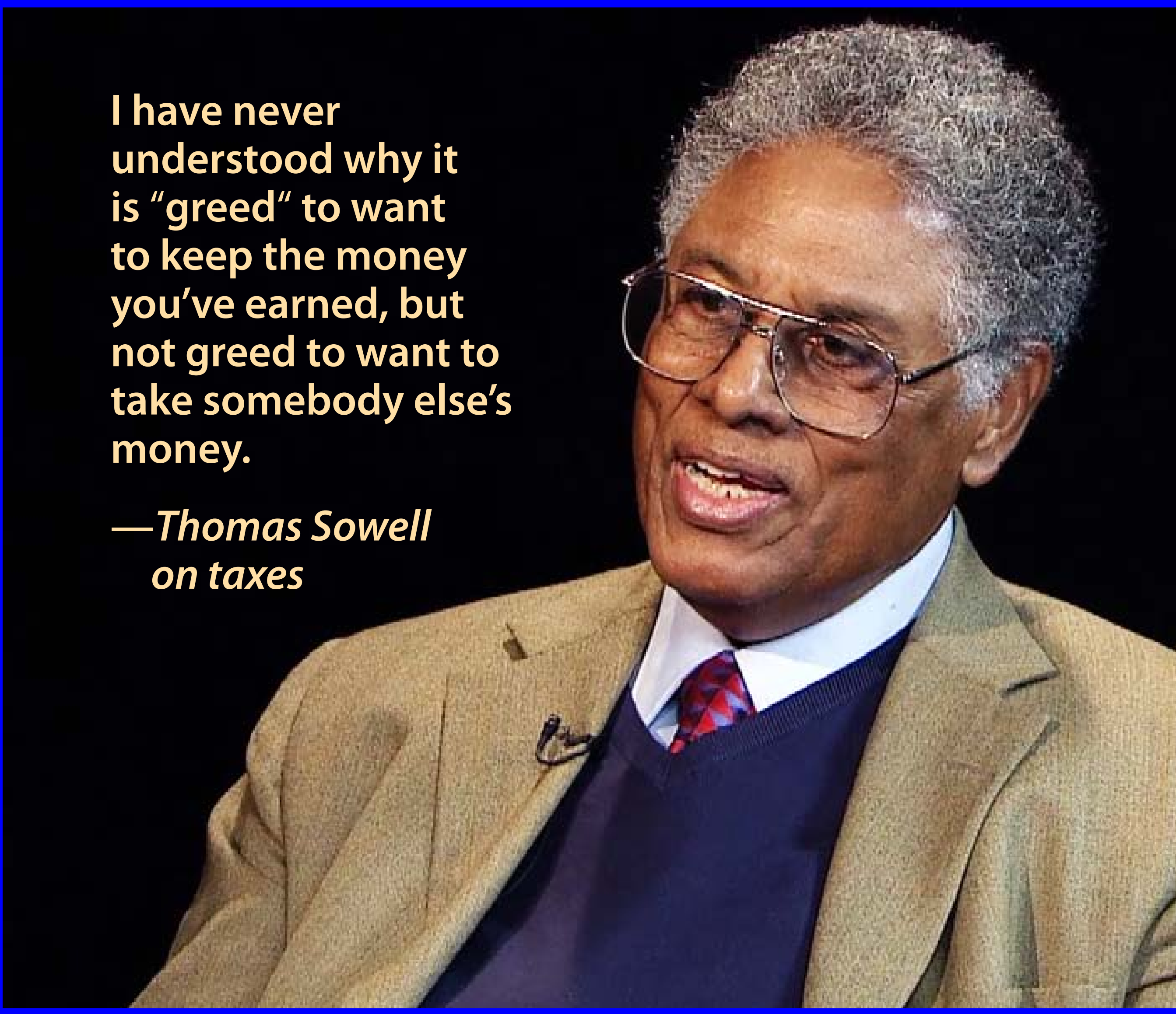
Regulation against smoking is not only a theoretical debate. In most Western countries, smoking is legally prohibited, or regulated, on private properties—not yet in people's private homes, but in many private places open to the public, like restaurants, shopping centers, or workplaces. Laws—and the armed people that ultimately enforce them—not only prohibit businesses from mixing smokers' and nonsmokers' accommodations, but also from offering smoking-only restaurants or smoking-only flights.

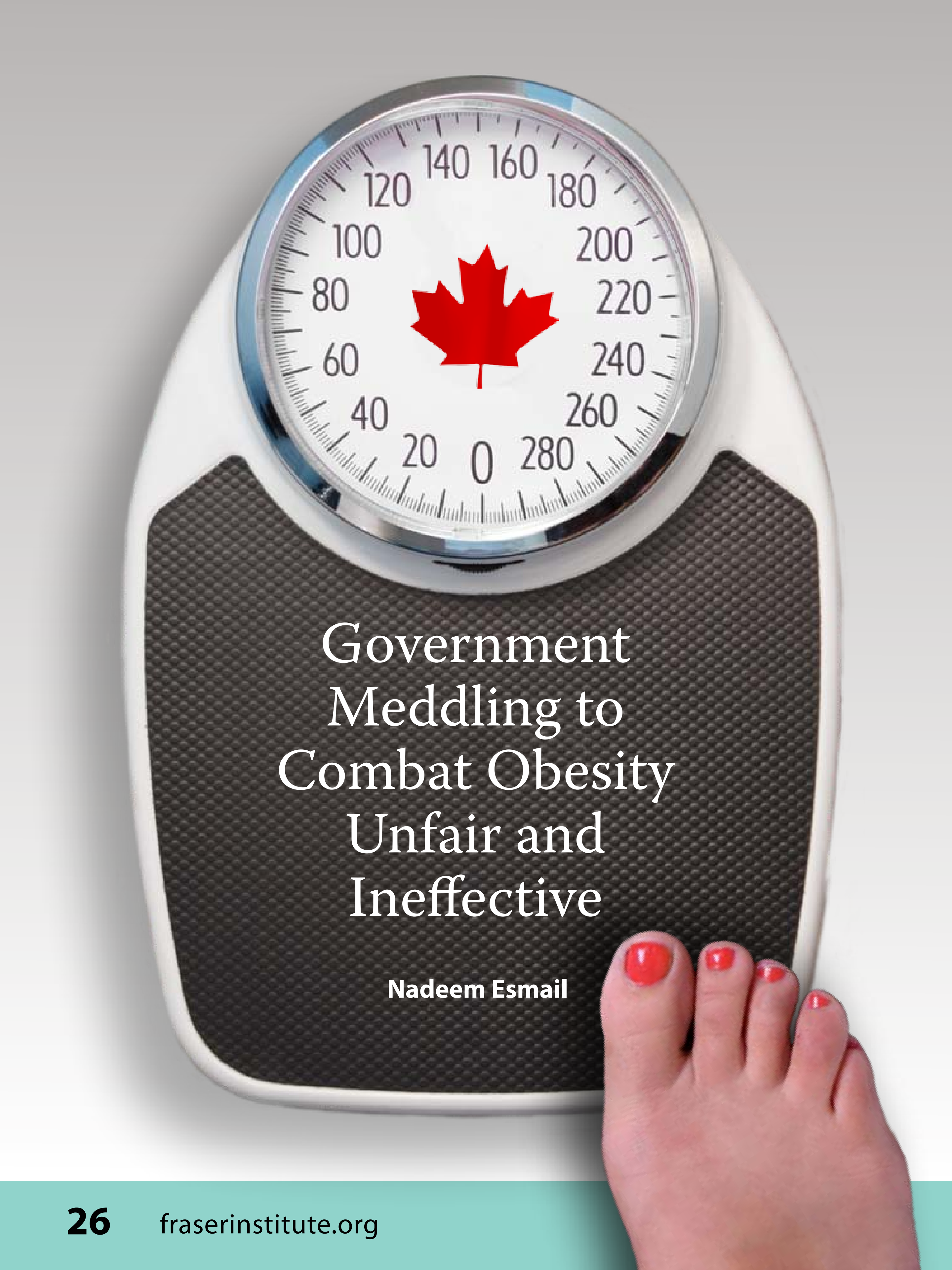
Most economists are opposed to regulating adult smoking because economics shows how markets are generally more efficient than political and bureaucratic processes. On the contrary, the Public Health school expresses a heavy prejudice in favor of coercive government intervention. There are some economic arguments for government regulation of smoking, but they resort to the most questionable aspects of welfare economics, and assume that bureaucrats and politicians are disinterested and omniscient. History suggests that, between imperfect markets and imperfect governments, liberty and prosperity side with the former. ■

Pierre Lemieux is an economist in the Department of Management Sciences at the Université du Québec en Outaouais.

This article appeared on **www.econlib.org** *on June 28, 2000.*

THE QUOTE WALL





Government Meddling to Combat Obesity Unfair and Ineffective

Nadeem Esmail

There is no obesity epidemic in Canada, and even if there was, government intervention aimed at overweight Canadians is costly, poorly targeted and likely ineffective, finds a new study recently released.

It is a myth to say there's an obesity epidemic in Canada leading to widespread illness and death, despite claims from public health advocates, politicians and the media. Further, it is wrong to believe that only government intervention can save us from ourselves. The recent study, *Obesity in Canada: Overstated Problems, Misguided Policy Solutions*, which recognizes a difference between obesity and overweightness, spotlights three main topics: obesity rates in Canada, the connection between obesity/overweightness and poor health/early death, and government response. The study includes data and analysis from Canada, the United States and the United Kingdom.

How fat are we?

From 2003 to 2012, notes the study, the rate of overweightness among the Canadian population has been stable. And while the rate of obesity climbed from 15.3 per cent to 18.4 per cent, it has also stabilized since 2009. In fact, the rate of obesity among adult males may be dropping, though it continues to increase among adult females. For young people aged 12 to 17, rates of overweightness and obesity have been stable since 2005.

Claims of an obesity epidemic aren't supported by the available data, so policy-makers in Canada should perhaps exercise caution, rather than aggressive intervention, when considering policy proposals.

Studies show that overweight people (different from obese) may have a significantly lower all-cause mortality rate compared to people in the normal weight category

What are the public (and private) consequences of being fat?

While there is a clear relationship between premature death and obesity, the study finds that people at the low end of the obesity spectrum (according to the Body Mass Index or BMI, which uses a weight-to-height ratio) may be at no greater risk than so-called normal weight individuals. In fact, a number of studies show that overweight people (different from obese) may have a significantly lower all-cause mortality rate compared to people in the normal weight category, while the underweight face a significant increased risk of mortality.

Considering the health consequences across the weight spectrum, from underweight to obese, the impact of medical innovations and advances over time, and taking a broader view of the economic costs and impacts of obesity, the negative health consequences associated with obesity, and the subsequent strain on Canada's health care system, may be wildly overstated.

Can government trim our fat?

Most government attempts to tackle obesity and overweightness include a familiar menu of policy proposals aimed at private businesses and individuals, which include tax hikes on sugary and fatty foods, food bans, vending machine bans, and menu and food labelling initiatives.

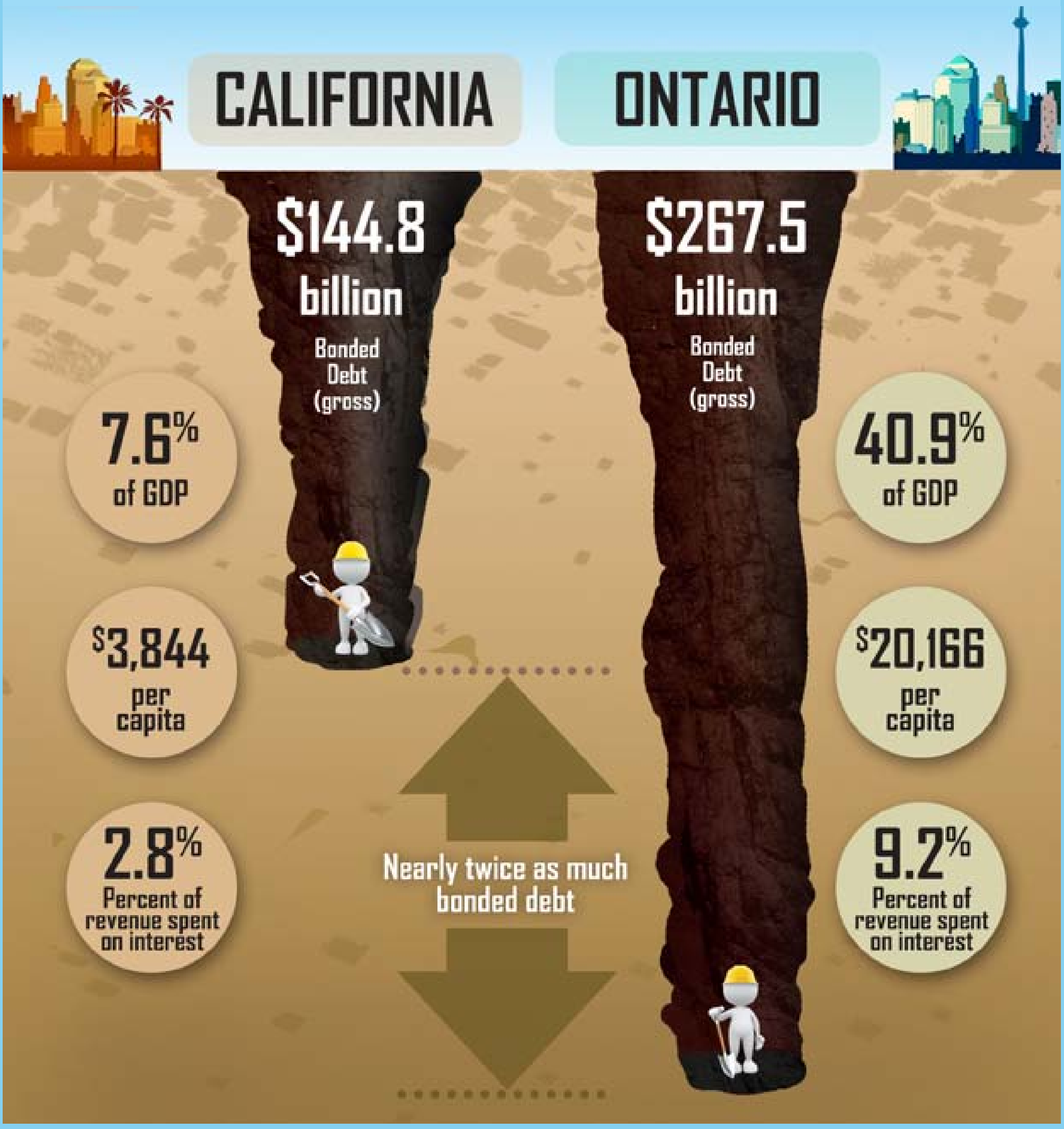
However, these policies often ignore the many complex causes of obesity or overweightness, which include physiological, psychological and socioeconomic factors such as culture, family life and structure, genetics and income. They also impose costs on all Canadians, regardless of individual lifestyle choices, and crucially, disregard the cost to taxpayers, private business and the economy overall.

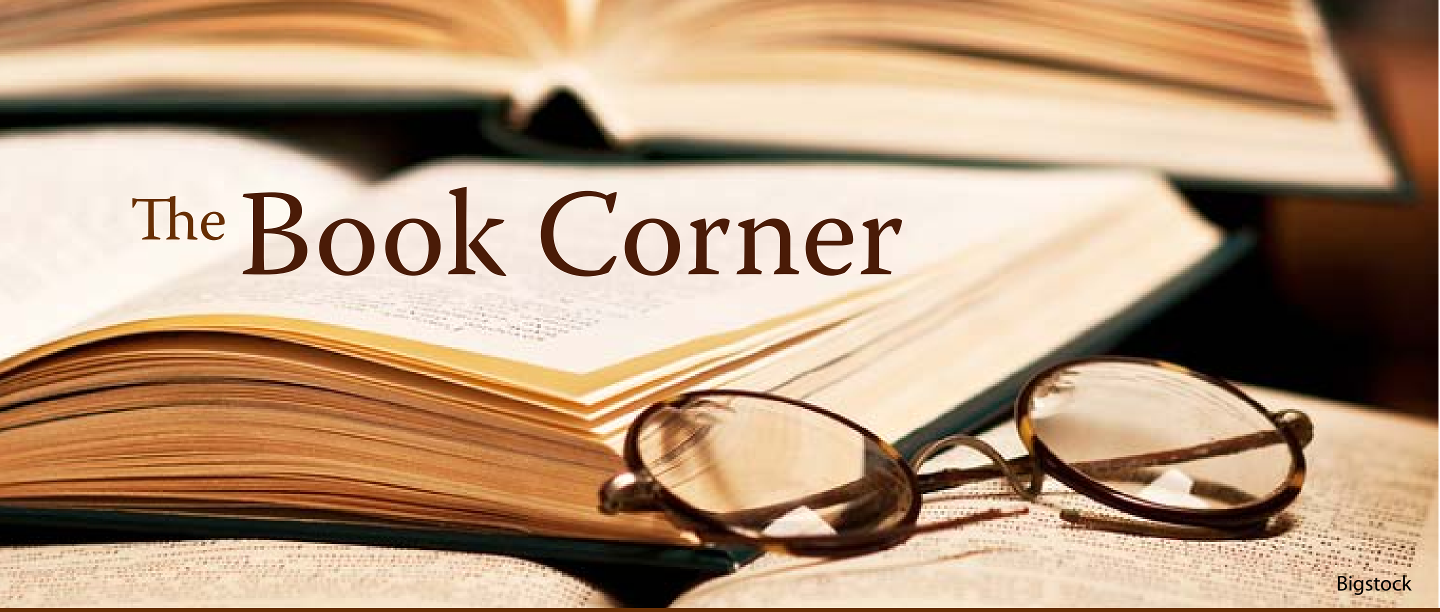
For example, many of these policies require new or larger government bureaucracies (an agency to determine which foods and beverages should be taxed or banned, for example), stunt small business growth and generate higher business costs, which are likely to be passed on to consumers.

Government interventions impose costs indiscriminately, inappropriately vilifying particular foods, food manufacturers and distributors. If the interventions fail to shrink waistlines across Canada, we'll likely see advocates arguing that the policies weren't strong or intrusive enough. But in reality, governments have little ability to change the behaviours that lead to overweightness and obesity, and the case for government intervention is neither as strong nor as clear as advocates claim. ■

Nadeem Esmail is a Senior Fellow at the Fraser Institute.

Meaures of Indebtedness, California vs. Ontario, 2011/12





The Book Corner

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

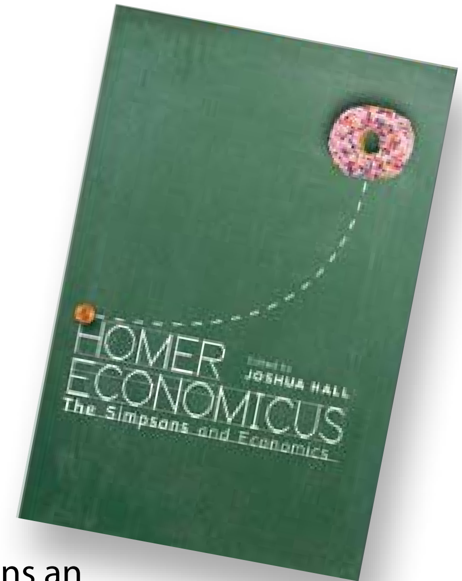
Homer Economicus

The Simpsons and Economics

Joshua Hall (Editor)

The Simpsons is a well-known television cartoon show depicting the lives of a dysfunctional middle-class American family. It is the longest-running sitcom in American history—currently finishing its 25th season. A group of eminent economists noticed as the show's episodes unfolded that its characters sometimes face situations that illustrate basic economic concepts. The economists have used these examples in their book, *Homer Economicus*, to demonstrate how this popular television series provides a window into the world of economics.

The book's first three chapters look at individual behaviour and decision-making, what is known as "the economic way of thinking." Homer's wants are limitless (donuts, beer…), but his



resources are not, so he is forced to make choices and trade-offs among the things he wants. The next six chapters guide readers through questions of money and entrepreneurship/profit, markets, and government failure. For example, when Bart wins an elephant in a radio contest, he charges his neighbours to ride it, making $58 in profit, which Homer is excited about until Marge points out that the elephant's food bill for that day alone is $300. The book's final chapters focus on more theoretical economics (applied microeconomics), including immigration ("Coming to Homerica"), a study of gambling using Mr. Burns' casino as an example, and health care.

Joshua Hall

An entertaining, humorous, and culturally relevant book, *Homer Economicus* uses the interactions of the residents of Springfield to highlight key economic concepts including unintended consequences, supply and demand, and specialization.

Joshua C. Hall is Associate Professor of Economics at West Virginia University. Formerly an Economist for the Joint Economic Committee of the U.S. Congress, he is a co-author of the widely-cited Economic Freedom of the World reports. *Visit* ***www.freetheworld.com*** **HERE**

Homer Economicus was published in May 2014. ■

False Arguments Fuel Government Assistance to Canada's Entertainment Industry

The government has recently cracked down on Canadian content in the entertainment sector, and Steven Globerman, Fraser Institute senior fellow and Kaiser Professor of International Business at Western Washington University, shows in his study, *The Entertainment Industries, Government Policies and Canada's National Identity,* how government policies supporting Canada's entertainment industry are costly and inefficient. The CRTC's recent crackdown on a trio of adult channels for not showing enough Canadian content is a classic example.

"Why is the government concerned that subscribers to adult channels are not receiving a certain quota of Canadian-made adult entertainment? The only reason is to protect Canadian adult movie producers from international competition," said Globerman.

The study focuses on the production of Canadian films and television (shows and commercials), music, books and periodicals, and the distribution of entertainment (mainly television and radio). It concludes there's little evidence that government support of the entertainment industry provides a substantial benefit to the country.

And the Canadian governments support the entertainment industry in two main ways—financially and through regulation, at a cost to taxpayers.

> ***In 2012-2013, the federal government spent more than $1.6 billion on Canada's entertainment industry***

Regulation

The main focus of government regulation (mainly rules imposed on broadcasters) is to protect Canadian producers of entertainment programming from foreign competition. For example, private television licensees must devote at least 60 per cent of the broadcast year, and at least 50 per cent of the evening broadcast period, to Canadian programs. And 35 per cent of music on commercial radio stations must be Canadian.

Moreover, according to CRTC regulations, all Canadian broadcasters must provide a majority of Canadian-owned channels to viewers. For example, if you subscribe to a 28-channel cable package from Rogers, 15 channels must be Canadian-owned.

Restrictions on foreign ownership apply, to varying degrees, across the industry because policymakers assume that Canadian-owned entertainment businesses are more willing to acquire and distribute Canadian programming, despite financial risks, and are better able to identify talented Canadians and popular Canadian programming.

However, as Globerman states, there's no reason to believe that Canadian-owned entertainment businesses are less profit-oriented than foreign owners. And if Canadian businesses have

an advantage in finding Canadian talent, they shouldn't need protection from foreign competition.

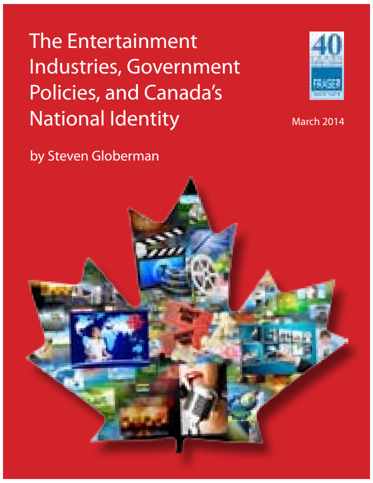
Financial Support

Both the federal and provincial governments provide grants to the entertainment industry, in addition to indirect funding in the form of tax credits. For example, Telefilm Canada, a Crown corporation headquartered in Montreal, provides up to 49 per cent of production costs (to a maximum of $4 million per project) for Canadian films.

"These grants are deemed appropriate, in part, to promote Canadian identity, but Canadian identity is influenced by numerous factors, and popular entertainment is far from the most influential factor," Globerman said.

In 2012-2013, the federal government spent more than $1.6 billion on entertainment industry grants and subsidies (although a large portion went to the CBC, which also produces news and public affairs programs). Government funding, say proponents, also helps strengthen the entertainment industry's role in the Canadian economy.

"However, the arts, entertainment and recreation industries combined for about one per cent of the GDP produced by all service industries in 2012, so it's a great exaggeration to say that the entertainment industry makes a major contribution to Canada's economy," Globerman said.



Read the study **HERE**

Finally, proponents argue that many talented Canadian entertainers and artists have difficulty selling their services in foreign markets, most notably the United States, and that Canadian content rules and related measures help Canadians succeed globally. However, in a world where entertainers are increasingly discovered on the Internet, this argument falls short.

Globerman counters that fundamentally, it's unfair to expect the Canadian public to bear the costs of launching the careers of Canadian entertainers, especially considering the large financial rewards realized by successful entertainers. ■

Dr. Steven Globerman is the Kaiser Professor of International Business and Director of the Center for International Business at Western Washington University, and Senior Fellow at the Fraser Institute.

Trade

The Benefits of Free Markets

Donald Boudreaux

Globalization is the spread of human cooperation across the globe. If not hindered by government restraints, this cooperation spreads naturally and without much attention to political boundaries. Geographic and cultural differences, along with differences in currencies and other social institutions, sometimes slow the spread of cross-border economic cooperation. But the single largest obstacle to the spread of human cooperation across political borders is politics—in particular, the difficult-to-resist pressure on each government to protect local producers from the competition of external producers.

We typically think of cooperation as something done consciously, face-to-face, by people who know each other. In this sense, describing globalization as the cross-border spread of human cooperation might sound odd. But what else could we call the coordinated actions of millions of persons from around the globe, each of whom contributes a piece of the knowledge

and some of the effort required to bring to market an ordinary shirt, for example? Assembled in Malaysia using machines made in Germany, cotton grown in India, collar linings from Brazil, and thread from Portugal, and then retailed in Sydney, Montreal, or any other city, today's typical shirt is the product of the efforts of many people worldwide. And remarkably, the cost of a typical shirt is equivalent to the wages earned by an ordinary person in the industrialized world for just a few hours of work. Of course, what is true for a shirt is true for countless products available for sale in modern capitalist countries.

How is it that a typical worker today can easily afford a wide variety of goods and services, the production of which requires the coordinated efforts of millions of workers? The answer is that each of these workers is part of a market so vast that it is worthwhile for many entrepreneurs and investors to organize highly specialized production operations that are profitable only

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because the market for their outputs is large. This specialization of labour and production across different industries around the world is the phenomenon of globalization.

Suppose, for example, that shirts can be made in one of two ways. The first is by hand. It costs a shirt maker using this method—regardless of how many shirts he produces—$250 to produce each shirt. Working full-time producing shirts by hand, the shirt-maker can produce 10 shirts each month. The second way to produce shirts is in a highly mechanized factory. If the factory runs at a peak capacity of a million shirts monthly, each shirt costs $5 to make. But because building and equipping the factory requires a huge initial investment, operating the factory at less-than-full capacity causes the cost of each shirt to rise. The reason for this increase is that producing fewer shirts denies the shirt-maker the opportunity to spread the investment cost over maximum output. The smaller the factory's output, the higher the cost of each shirt.

…and the French enjoy financial expertise from the City of London while Londoners enjoy wines from Burgundy and Bordeaux.

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Which method of production would a shirt-maker use? The answer depends on the size of his market. If a shirt-maker expected to serve a market of millions of people, he would use the factory method. But if he expected to serve a market of only a few dozen potential customers, he would produce shirts by hand. If each shirt-maker had access only to small markets, the price of shirts would be higher than it would if shirt-makers had access to larger markets. This example provides one important justification for free trade: by expanding markets beyond political boundaries, firms can take better advantage of what economists call "economies of scale" and allow consumers to enjoy lower prices.

Another advantage of specialization is that it allows consumers to enjoy the fruits of resources and talents located far away. Canadians can enjoy pineapple grown in Hawaii while Hawaiians can enjoy maple syrup produced in Canada; the French enjoy financial expertise concentrated in the City of London while Londoners enjoy wines from Burgundy and Bordeaux. Although other factors are always in play, a region's geographical characteristics—for example, its weather, topology, and mineral deposits—and the special talents of its work force determine which goods and services can be produced in that region at the lowest cost—or, as economists say, "at a comparative advantage." The freer the trade, the more likely it is that regions will specialize in producing the goods and services they can produce most efficiently, and then import those things that are produced most efficiently elsewhere.

Free trade gives consumers the opportunity to buy goods and services from the best producers in the world. If shirts could be best produced domestically, then free trade would help to keep those producers profitably in business. Alternatively, if shirts could be best produced abroad, domestic consumers would only have ready access to those shirts through trade. Thus, free trade would encourage inefficient domestic shirt makers to use their talents for the maximum benefit of consumers by switching out of shirt-making and into other productive activities. By directing resources around the world into those tasks that each resource does best,

free trade arranges the world's resources so that they produce the greatest possible output while giving consumers maximum access to this output.

A more fundamental justification for free, globalized markets is that they reduce the number of workers required to produce most types of output and thus make possible the production of goods and services that would otherwise be too costly to produce. Globalized markets also contribute to rising living standards by freeing factory workers to seek higher value jobs and by making labour-saving products and services more affordable.

If every government blocked the importation of foreign-made shirts, each country would require more of its citizens to produce shirts than would be the case under freer trade. Able to serve only the domestic market (which in every case is smaller than the international market), no shirt maker could take advantage of the maximum possible economy of scale in shirt production. Without free trade, shirts would be more expensive and consumers would be denied the opportunity to buy the goods and services that would be available if some domestic shirt-makers were employed in other pursuits.

Free trade also keeps producers disciplined by creating maximum competition for their products. If governments protect domestic firms from the need to match foreign rivals' lower prices or improved quality, consumers suffer as domestic firms lose an important incentive to remain efficient, innovative, and responsive to consumer desires.

It is evident that free trade benefits all those involved, but what if some countries do not want to lower their trade barriers? Would it make sense for Canada, for example, to keep its trade with the world free even if some other governments protected or subsidized their domestic firms? The answer is yes. It always pays for a country to keep its trade free, regardless of other countries' policies. "Retaliating" against non-free trading countries with protectionism and subsidies would only make Canadians poorer, even if other countries did not respond by restricting their own trade even further.

It's evident that free trade benefits all those involved

Unquestionably, the people hurt most by trade barriers are the citizens of countries where such policies exist. Forced to prop up their countries' inefficient producers, citizens of these countries end up paying higher taxes and consumer prices, while enduring reduced access to goods for sale on world markets. That's why restricting trade just because other countries restrict trade is bad policy.

Those who doubt the strength of the theoretical case for free trade should also consider that the empirical evidence in its favour is overwhelming. There is simply no credible evidence to support the belief that restricting trade increases the prosperity of ordinary citizens. All of the evidence points towards the benefits of free trade.

Suggestions for further reading

Boudreaux, Donald (2007). *Globalization*. Greenwood Press.

Irwin, Douglas (2005). *Free Trade Under Fire*. Princeton University Press.

Norberg, Johan (2003). *In Defense of Global Capitalism*. Cato Institute.

Wolf, Martin (2005). *Why Globalisation Works*. Yale University Press.

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HOT TOPICS!

First Nations but Second Tier Democracy

There has been a great deal of discussion around the federal government's proposed Fair Elections Act, which looks to reform Canada's existing election laws. These proposed reforms have resulted in public outcry from some elected officials, leading to town halls, countless media panels, extensive debates in the House of Commons, and even a public letter writing campaign from a group of international scholars. And rightfully so; election laws are the cornerstone of a democracy and any proposed reforms should be the subject of analysis and rigorous debate.

With so much debate over federal election reforms, how would you expect our elected officials to react when democratic rights are being stifled in First Nations communities in Canada? Unfortunately, in recent weeks, they've responded with neglect and evasion.

Read the article HERE

Economic Freedom and Air Quality

It is well established that economic freedom is one of the main drivers of economic prosperity. Economic freedom is the extent to which you can pursue economic activity without government interference as long as your actions don't violate the rights of others. Pollution is generally given as an example of a situation where the economic actions of one person violate the rights of others, thus justifying government intervention. However, the same economic institutions that contribute to economic freedom may actually lead to a cleaner environment at the same time.

Property rights, open markets, and a vibrant private economy are critically important economic institutions that affect environmental outcomes. Openness to trade is key to ensuring that new, cleaner technologies can be adopted across borders. This paper examines a multicountry data set for over a hundred countries spanning a period from 2000 to 2010 to identify the relationship between economic freedom and two environmental indicators (concentrations of fine particulate matter and carbon dioxide emissions).

Read the study HERE