

DISASTER ECONOMICS



The Canada Health Act

by Hugh MacIntyre

Reject unions and prosper

by Niels Veldhuis and Amela Karabegović

CBC's propaganda in schools

by Nevena Pencheva

...and much more

ECONOMIC COMIC CONTEST



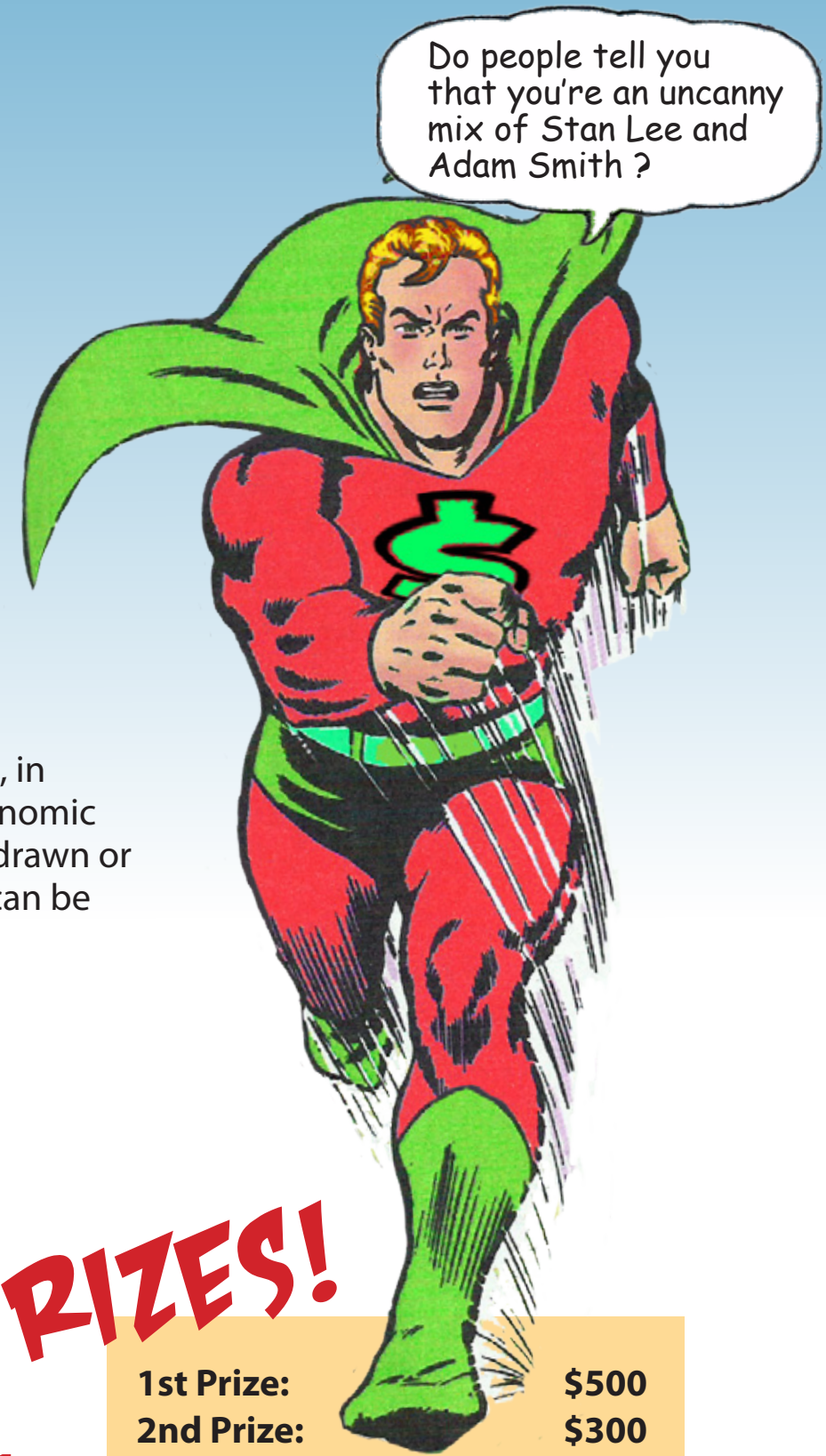
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Canadian student review

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Canadian student review

Welcome!

Our Winter 2011 issue features articles on health care reform, CBC's environmental propaganda in schools, and a look at how lessons from past classical economists can help developing countries. The commentary of Niels Veldhuis and Amela Karabegović discusses the slow progress made in reforming Canadian labour laws to attract business investment. Given the recent flooding and cyclone in Australia, and the earthquakes in Haiti and New Zealand, our timely piece on disaster economics is a must read as well.

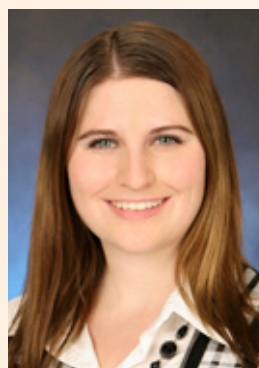
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CSR also contains other exciting opportunities for students, including contests totalling over \$13,000 in cash prizes! This issue presents our inaugural comic contest, as well as the new *Ask the Expert* feature—a live-streaming video and audio broadcast in which Fraser Institute staff address topical issues.

Cheers,

Lindsay Mitchell

Editor, *Canadian Student Review*



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What's new from the Institute



The Canada Health Act: Preventing much-needed health care reform

by Hugh MacIntyre

A speech given by former Industry Minister Maxime Bernier to the Albany Club on October 13th, 2010 has sparked a public debate about the *Canada Health Act* (CHA). In his speech Bernier pointed out that the CHA is preventing provinces from experimenting with various policy alternatives (Bernier, 2010). The CHA prohibits certain health care policies such as extra billing and user fees. This prohibition is enforced, despite health care being under provincial jurisdiction, by the federal government withholding financial transfers to the provinces that violate this restriction. Provincial governments have become dependent on CHA federal transfers, and therefore they continue to artificially limit what policies they will implement in their own jurisdictions. In this way the CHA has acted as a powerful obstacle to any health care reform. At the same time, the health care system in Canada has become financially unsustainable. Growth in provincial government health expenditures has been outpacing growth in provincial revenue on an annual basis for the last decade (Skinner & Rovere, 2009), and demographic changes are only going to make the situation worse. The solution is uncertain, but what is clear is that the status quo is not acceptable. Provinces should be allowed to experiment with policy alternatives to find a solution to Canada's

growing health care problem. It is only by allowing provincial policy experimentation that Canada will rescue its health care system from disaster.

Canada's unsustainable health care system

The evidence that Canada's health care system is financially unsustainable is mounting, and voices from across the political spectrum are warning of the increasing danger of collapse (Drummond & Burleton, 2010; Dhalla et al., 2010; Mackinnon, 2004; Robson, 2001). A Fraser Institute study *Paying More, Getting Less: Measuring the Sustainability of Government Health Spending in Canada* published in 2009 shows that government health care costs, averaged across all provinces, have been rising at a rate of 7.4% per year between 1999/2000 and 2008/2009. During the same period, provincial government revenues increased by an average of 6.5% per year (Skinner & Rovere, 2009). As a result, government health expenditures are taking up a greater percentage of provincial revenues every year. This not only squeezes out other spending priorities, such as education and infrastructure, but it also makes it difficult for governments to balance their budgets. The increased health care spending has not led to increased quality of care. In fact, provincial governments have attempted to deal with expanding health care costs by restricting access to

treatment (Skinner & Rovere, 2009). As a result, wait times have grown significantly in every province (Esmail, 2009). This has failed to make the system more sustainable because health expenditures have continued to increase (Esmail, 2009). To achieve a more sustainable health care system, governments need to change their tactics and attempt more fundamental reforms. This would require the federal government to allow for more experimentation on the provincial level.

Experimentation and policy learning

Formulating public policy is always an uncertain exercise. There is never a guarantee that one particular policy will solve a problem. There is also the possibility that a policy solution might make the problem worse. Policy making is thus experimental by its very nature. The risks involved in experimenting can, however, be reduced by learning from other jurisdictions (Freeman, 2006). By seeing what does or does not work elsewhere, governments can make a

Canada's health care system is financially unsustainable



Provinces should learn from each other's experience when implementing policy reform



more educated decision on what will likely work within their own jurisdictions. By restricting the opportunity to experiment, the CHA is preventing provinces from learning from each other.

Cross-provincial policy learning is not just a theoretical idea. There is a history in Canada of provinces learning from each other's experiences when implementing major policy reform. The most recent example is the welfare reforms of the 1990s. At the time, provincial governments were burdened with heavy debt and crippling deficits.

They needed to rein in their welfare spending to balance the budget and save themselves from a fiscal disaster. The experiments that some provinces performed in the area of welfare helped to shape welfare reform throughout Canada (Crowley et al., 2010).

A few provinces experimenting with certain ideas allowed the rest of the country to learn and appreci-

ate the fact that specific reforms could work to rescue a province's budget. It is exactly this sort of innovation and learning that the CHA is preventing from taking place, and it cannot be denied that there is plenty of room for experimentation in Canada's health care system. Another recent Fraser Institute study, *Value for Money from Health Insurance Systems in Canada and the OECD*, shows that Canada is one of only four out of twenty-eight OECD countries that does not require some form of patient cost sharing for medically necessary services (Skinner & Rovere, 2010), and that Canada is the only country in the OECD that prohibits private comprehensive medical insurance (Skinner & Rovere, 2010). There are a great number of policy options being utilized in Europe and elsewhere that is being ignored in Canada because of the CHA. It is important to note a number of other countries share the same value system as Canadians in terms of universal coverage. For instance, both Switzerland and the Netherlands achieved universal coverage without a single-payer government insurance monopoly. Clearly there are plenty of ways that Canada can make changes to its system even without abandoning the principle of universal health care. The best route, however, can be discovered

only through experimentation at the provincial level.

Conclusion

Allowing provincial governments to experiment with policy options is the best approach to reforming Canada's health care system. The outpacing of expenditure compared to revenue has made Canada's health insurance system financially unsustainable. The status quo must be changed, but that change should not be dictated by Ottawa. Instead, provinces should take the mantle of reform, allowing them to experiment with policies that are currently practiced in other countries, and ultimately to teach each other what policies are the most effective. One of the advantages of being a federal state is the notion that separate jurisdictions can experiment with a variety of policies at the same time in order to determine what works and what does not. This is an advantage that Canada has capitalized on in the past and it is time that the CHA stops crippling policy innovation.

In his speech to the Albany Club, Maxime Bernier proposed that the solution is to stop health care transfers to the provinces and instead increase the level of income tax that goes to the provinces (Bernier, 2010). This plan would remove the power of the federal government to dictate health policy to the provinces, and would allow provincial governments to

take steps to create a more stable health care system. An alternative, and perhaps more sensible, plan was put forward by Brett Skinner and Mark Rovere (2010). They suggest a five-year moratorium on the CHA to see what provincial experimentation can accomplish. Either way, the goal of policy makers should be to remove the enforcement of CHA as it is currently an obstacle to meaningful health care reform.

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ASK THE EXPERT



Reject unions and prosper

Enacting a worker-choice law would give a province a competitive advantage

by **Niels Veldhuis and Amela Karabegović**

Over the past two decades, Canadian politicians, bureaucrats, and others have become increasingly aware of the importance of business investment to the overall health of our economy. Business investment in plants, machinery, and equipment drives economic growth, creates jobs, and increases productivity. When workers have more capital (machines, equipment, and technology) at their disposal, they can produce more and/or higher-valued goods and services per hour and they can, therefore, demand higher wages.

To attract business investment many provinces have focused on implementing policies to improve their investment climates. These have included more prudent management of government finances (pre-recession, of course), lower personal and corporate income taxes, the elimination of corporate capital taxes, invest-

Given a choice, workers choose unions less often

ments in infrastructure, and reductions in the burden of regulation. Unfortunately, one policy area that has seen no significant reform is labour law.

New research from the United States shows that if provinces are interested in attracting more business investment, a fundamental shift in labour law is in order. Specifically, provinces would do well to adopt worker-choice laws (called right-to-work laws in the United States), which would allow workers to choose whether they want to join and financially support a union.

Current labour relations laws in all Canadian provinces (and at the federal level) allow the inclusion of mandatory union membership and dues payment clauses in collective agreements. This means that workers who are joining unionized firms can be forced to become union members and financially support the representative union as a condition of employment.

In the United States, federal legislation makes it illegal to require union membership as a condition of employment. Workers are also able to opt out of union dues that are not related to representation. In other words, if unions want to pursue social or political goals, workers are permitted to have their union dues reduced proportionately if they do not want their dues supporting such activities.

Twenty-two US states have also expanded on federal legislation in order to allow workers in these states to fully opt out of union dues through the adoption of worker-choice laws (these states are often called right-to-work states).

The economic impact of worker-choice laws comes primarily through a reduction in unionization rates. That is, when workers are given choice with respect to union membership and dues payment, they choose unions less often. In Canada, the unionization rate was 31.4% in 2009, whereas in states without worker-choice laws it was 16.5% compared to 8.0% in states with worker-choice laws. This means the unionization rate in states with worker-choice laws was half of that in states without such laws, and almost one quarter of that in Canada.

In a recently published Fraser Institute article, Richard Vedder, a professor of economics at Ohio University, summarized his research on the effects of worker-choice laws in the United States. He found an enormous migration into states with worker-choice laws from states without such laws. Specifically, from 2000 to 2009, approximately 5 million Americans moved from the 28 states without worker-choice laws to the 22 states with worker-choice laws. Prof. Vedder concludes that workers “flatly prefer a legal environment where the



Twenty-two US states have adopted worker-choice laws



Worker-choice laws raise living standards and provide greater freedoms

that implementing a worker-choice law would increase a jurisdiction's per person income by \$2,800.

Several other studies buttress Prof. Vedder's recent research. For example, Paul Kersey, in a study entitled *The Economic Effects of Right-to-Work Laws: 2007*, found that between 2001 and 2006, the economies of states that enacted

worker-choice laws grew by 3.4% on average, compared to 2.6% in non-worker-choice states. Moreover, jobs grew by 1.2% annually in worker-choice states, while jobs in non-worker choice states grew by only 0.6% over the same period.

While the evidence on worker-choice laws is clear, there has yet to be a Canadian province willing to implement such a law. This is likely because of the massive misunderstanding regarding such laws, largely the result of misinformation distributed by union officials.

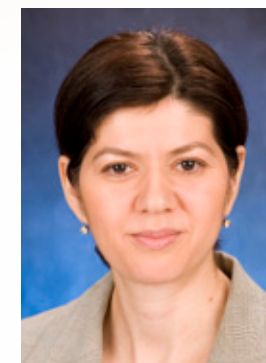
One only needs to recognize the massive power shift from unions to ordinary workers that

would occur upon the implementation of such laws to understand why union leaders have resorted to venomous attacks and misinformation campaigns against worker-choice laws. Worker-choice laws are entirely designed to benefit workers by providing them with more representation choice and simultaneously forcing union leaders to be more accountable and responsive to their membership.

Implementing a worker-choice law would do wonders for a province looking to gain a competitive advantage over other provinces. Jurisdictions that adopt these laws not only benefit from stronger economies, more investment and increased productivity; they also provide workers with greater freedoms. ■

Published in the Financial Post, December 10, 2010.

*Niels Veldhuis and Amela Karabegović are economists with the Fraser Institute. Read Richard Vedder's "Right-to work laws and economic growth" **article**.*



Amela Karabegović



Niels Veldhuis

sale of their labour services is not constrained by laws requiring union dues payment."

More importantly, Prof. Vedder finds that worker-choice states have higher rates of labour participation, lower unemployment rates, higher rates of economic growth, and greater investment, even after controlling for a number of other factors such as tax burden, the level of education, the amount of land area, and population growth.

His research also estimates the impact of worker-choice laws on living standards, and finds



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Is government regulation
threatening your
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A monopoly on lives
Ryan Quan and **Sam Kerr**

2nd place (\$1,000)
The nanny state and its origins
Lance Knight

3rd place (\$750)
Government guy: the ninny nanny
Al Donato and **Aakansha Pangler**

Viewer's Choice Award (\$750)
Is the nanny state good or bad?
Travis Knight

Post-secondary category:

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I have something to say
Aaron Lloyd

2nd place (\$1,500)
Because it's good for you
Matthew Guilherme

3rd place (\$1,000)
Loosely free
Catherine Polson and **Ryan McShane**

Viewer's Choice Award (\$750)
Vigilant governments vs. video games
Thomas Coiner

Details of the 2011 video contest will be released soon!

DISASTER ECONOMICS


Floods and the free market

by **Tim Mak**

In a flash, torrents of floodwater can sweep away homes, infrastructure, and even loved ones. What happens next matters quite a great deal: governments can either aid the recovery, or aggravate it. Looking at historical floods—the floods of the American Midwest in 1993, the 2005 levee breaches in New Orleans, and the floods in Pakistan in 2010—

we can learn lessons that will allow public policy makers and citizens to make better decisions, to advocate for better laws, and to minimize human suffering.

The chaos that is left in the wake of a flood can illustrate the importance of fundamental free-market concepts.



Disasters on this scale can bring about emotional responses when sober thought is needed most

Farm and homes isolated by floodwaters in the American Midwest, 1993.

Politicians and survivors stricken by tragedy react emotionally when clear-headedness is needed most; rule of law collapses as property rights are abandoned for wanton thievery; and scrambling governments often show dizzying incompetence (Brinkley, 2006).

In the aftermath of floods, survivors have to deal with property damage, lawlessness, the threat of disease, possible looting, and the likelihood of financial distress because of capital destruction. Shouldn't they at least be spared from poor government policy that compounds their misfortunes?

Price gouging

In 1993, the Mississippi and Missouri rivers flooded, inundating an astonishing 30,000 square miles of the American Midwest—an area about the size of New Brunswick. Unfortunately, disasters on this scale can bring about emotional responses when sober thought is needed most, and authorities in Iowa—one of the most affected states—reacted emotionally and without consideration to basic economic realities.

In the aftermath of the floods, some Iowans alleged that certain individuals had engaged in price gouging in the rental of porta-potties and water pumping equipment—both vital to post-flood management (Office of the Iowa Attorney General, 2008a). In response, the state

Entrepreneurs will find innovative ways to meet the needs of survivors

government of Iowa passed a law against price gouging, defined as “charg[ing]...excessive prices for merchandise needed by victims of disasters...[above] a reasonable profit” (Office of the Iowa Attorney General, 2008b).

But laws against price gouging serve mainly to prolong the catastrophe. Natural disasters like floods lead to a sudden collapse in the supply of necessary tools, equipment, food, and medical supplies. The laws of supply and demand suggest that prices for these necessities will go up. One of the key advantages of a free market system is that prices can be used as signals. When prices go up, the opportunity for profit provides an incentive and a signal for those outside the region to bring supplies in, and for entrepreneurs to find innovative new ways to meet the needs of survivors.

George Horwich, Nobel Prize winner and professor emeritus in economics from Purdue University writes:

Unusual price increases are not likely to prevail beyond the first few days of the disaster aftermath. If they do, they perform the valuable function of signaling to the outside world the enormous gain to be made in breaking through the wreckage with additional—and inevitably more normally priced—supplies...suppressing



Flooding in New Orleans, 2005.

the prices is a form of denial that prolongs the problem and increases the likelihood of centrally determined allocations, with all the delays, mismatches, and de facto higher social costs that denial entails (Horwich, 1990: 550).

After a disaster, a free market beckons for help. Laws against price gauging end up muting these signals, increasing hardship for survivors.

Property rights and looting

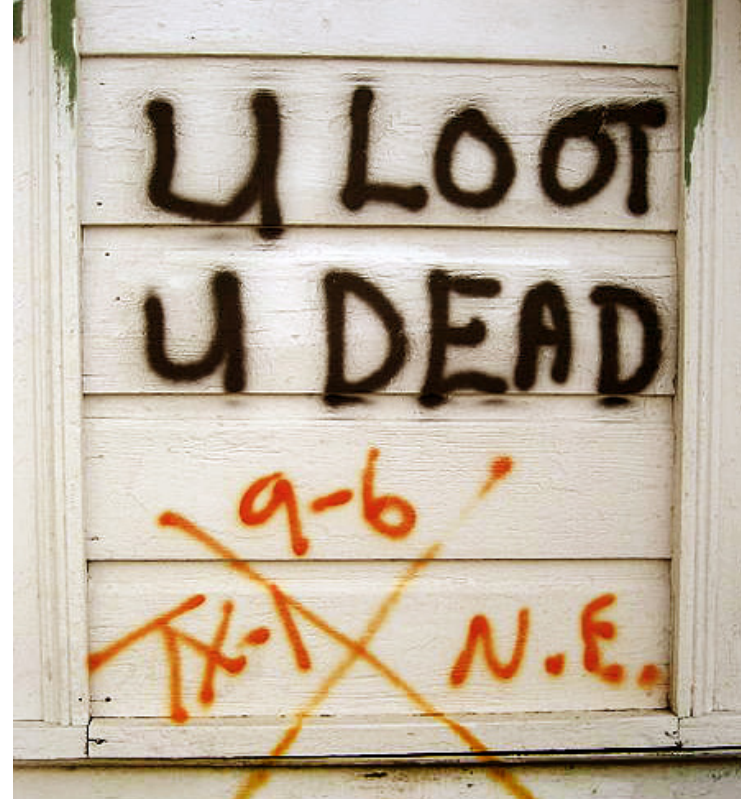
In 2005, Hurricane Katrina savaged New Orleans, a city built largely under sea level and protected only by levees. On August 29th, these levees suffered catastrophic failures, and the water was as deep as twenty feet in some parts of the city (Treaster and Kleinfield, 2005). By August 30th, looting had become widespread as some individuals took advantage of the desperate situation.

The looting is out of control. The French Quarter has been attacked," New Orleans Councilwoman Jackie Clarkson pleaded at the time. "We're using exhausted, scarce police to control looting when they should be used for search and rescue while we still have people on rooftops (Lagorio, 2005).

Looters besieged a Walmart, carting off stolen basketball hoops, jewelry and wide-screen TVs (Thevenot, Spera, & MacCash, 2006) and it was even alleged that some police officers joined in on the looting (Stix, 2006). Break-ins and robberies continued across the city unabated until the police and the National Guard could restore order days later. The breakdown of order in New Orleans illustrates that a key tenet of a functioning, prosperous economy is the right to keep what you have earned.

With the case of post-Katrina New Orleans, it would have been foolish for a supermarket chain to continue shipping goods to its New Orleans locations if looting was pervasive. Yes, suppliers would have faced logistical challenges in delivering goods, but in the absence of a deterrence to stealing, the delivery of these goods would have been an invitation for financial losses regardless. It says much about the importance of property rights that the absence of its enforcement will lead to an abrupt halt in the supply of critical goods.

In the aftermath of a natural disaster, lawless-



During the hurricane Katrina disaster warnings were posted to would-be looters in an attempt to protect private property.

ness can lead to the collapse of property rights. For any sort of recovery effort to begin, law enforcement officials need to quickly re-establish the rule of law and defend property from damage and theft. In chaos, there are lessons learned: for markets to function, property needs to be protected.

Capital destruction, inflation, and the road to recovery

In 2010, heavy rains during the monsoon season led to extensive flooding along the Indus River basin in Pakistan. The flood put approximately one-fifth of Pakistan underwater

(Goodwin, 2010), killing nearly 1,800 people, and affecting an additional 20 million (Singapore Red Cross, 2010).

One of the immediate effects of a disaster of this magnitude is inflation, a rise in the price of goods and services. In Pakistan, 17 million acres of agricultural land was submerged, and approximately 200,000 animals perished, sending the price of food and other basic needs soaring (Waraich, 2010). This sudden spike in food prices exacerbated an already tragic situation. It is in cases like this that even fiscal conservatives should give government action a second look.

According to the *Global Study on Participation by Affected Populations in Humanitarian Action*, in times of acute calamity, governments both foreign and local could be the only institutions able to mobilize food and medical aid in time to save lives (2002). Although private charities can and should play the leading role in providing medium- and long-term aid, they often lack the means to respond quickly enough to the immediate priorities after a disaster, especially search-and-rescue and emergency trauma care (Disease Control Priorities Project, 2006).

But after the initial shock of a natural disaster, a free-market environment, is crucial to the long task of rebuilding basic infrastructure, attracting investment, and restoring and creating jobs. Indeed, it has been shown that economic



Economic freedom and growth can decrease the negative impacts of natural disasters

freedom and the economic growth it brings (Gwartney et al., 2010) can decrease the negative impacts of natural disasters (Skidmore and Toya, 2007).

Horwich uses the example of post-war recovery in Japan and West Germany as an example of the power of how less government action can lead to an astonishing economic rebound. He writes:

Their extensive loss of capital, infrastructure, and life is...analogous to that of natural disasters—although much more vast in all dimensions...In both countries, reconstruction and sustainable independent recovery began only with the removal of price ceilings imposed during the war-time inflations. Centralized government played no significant role in directing [microeconomic] postwar economic activity (540).

For policy makers and survivors wishing to maximize growth and minimize recovery time,



Pakistan's flood victims being relocated to safer ground.

the long-term approach for rehabilitation must be the one that all countries should use to increase their general standard of living: attracting investment and innovation through a free market.

Unfortunately, Pakistan has not been doing well on these metrics. The government “operates with limited transparency and accountability” (Freedom House, 2010), and its economy ranks poorly in terms of economic freedom (Economic Freedom Network, 2010). A government that would be more accountable and less hostile to a free market, marked by lower taxes and less onerous regulations, could hasten Pakistan’s economic recovery.

A political wake-up call?

Thankfully, tragedy can galvanize citizens into action. Disasters expose government failures that citizens might have been more apathetic about before the incident. In democratic countries, a natural disaster can be a wake-up call; in fact, this can have an effect far beyond the scope of the original disaster.

“In the case of Katrina, the shared response was *shame*. The word was blasted across the headlines of magazines and newspapers. It was...a confession of culpability and a rejec-



US President Obama visiting the Martin Luther King Jr. Charter School in New Orleans in 2009. Support for school choice increased dramatically in Louisiana after the Katrina disaster.

tion of the seeming indifference and incompetence” writes Douglas Brinkley of the government response in his powerful 2006 overview of the Hurricane. He continues “the shame felt by voters over the government response to Katrina extended to shame over the state of government-run schools, which were in terrible shape even before the disaster (Brinkley, 2006). In 2002, “only 12 of 103 schools in New Orleans showed reasonably good levels of performance” (Bankston & Caldas, 2002).

After Katrina, the shocked citizens of New Orleans turned local school boards upside down, replacing incumbent board members with fresh faces. And after the local school boards declared that public schools would remain closed indefinitely after the hurricane, the state legislature intervened and allowed the estab-

lishment of an unprecedented number of charter schools.

School choice was a priority: students could go to any school in the district that had space for them. Before Katrina, 66% of schools in New Orleans were failing as defined by state law. This number has now since dropped to 26% (Educate Now, 2010). When New Orleans residents were asked an open-ended question as to what was better after Katrina than before it, the most frequent response was “education”; and 74% of locals now support school choice

(Council for a Better Louisiana, 2009). As this example shows, an appropriate response to a disaster can push societies towards greater freedom, and better results.

Conclusion

The 1993 floods in the American Midwest demonstrated how bad policy can occur when emotion is substituted for dispassionate analysis, and also communicated the importance of prices as a signal for help. The chaos of the looting in New Orleans showed the importance of property rights and the rule of law to a functioning economy.

Disasters wreak havoc, but with smart thinking and belief in the free market, recovery in places like Pakistan can be less painful. And maybe, as

the voters in New Orleans showed, some good can come out of profound tragedy.

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CBC's propaganda in schools



by **Nevena Pencheva**

The Canadian Broadcasting Corporation (CBC) is Canada's national public radio and television broadcaster, and also the oldest existing broadcasting network in Canada. It is a Crown corporation¹ largely funded by the federal government. On average, the federal government contributes to 73% of the CBC's budget, the rest coming from subscription fees and advertising revenue (Barmak, 2009). CBC has been involved not only in public broadcasting, but also indirectly in the Canadian educational system, by preparing education materials widely used by teachers across Canada. This article aims to address CBC's educational series and documents, and

its attempt to spread environmentalist propaganda in schools at taxpayers' expense.

The primary focus of media should be to disseminate information in a balanced fashion. However, CBC has considerable political bias in its allegiances. For example, in 1994, political scientist Dr. Barry Cooper wrote *Sins of Omission*, in which he evaluates 250 CBC broadcasts between June 1988 and June 1989, covering topics such as the Reagan-Gorbachev summit talks, and the Soviet occupation of Afghanistan. Dr. Cooper finds that the CBC has attempted to portray left-wing values in a favourable light to Canadians (Cooper, 1994). A second study of

Dr. Cooper's entitled, *Bias on the CBC? A Study of Network AM Radio*, concludes that there is "leftish orthodoxy" among CBC staff, hosts and producers. On many other occasions, the CBC has been criticized for political bias and broadcasting information in an unbalanced manner (McMahon, 2003).

CBC's *News in Review* is a series of educational programs put together by CBC correspondents and hosted by Carla Robinson. The series is designed for use in grade seven through post-secondary education, and purports to teach Canadians about current events in Canada and around the world. Topics include: Is the

CBC should disseminate more scientific facts and less bias

recession really over?, Afghanistan and the rights of women, Canada and the stranded Canadians, and many others. An examination of some of the material compiled by CBC's *News in Review* exposes a troubling bias that conflicts with the network's status as a Crown corporation. Examples of CBC's propaganda are particularly evident in the network's *News in Review* materials related to global warming.

The information presented is primarily derived from commentators who are strong proponents that man-made greenhouse gas emissions cause global warming, denying that science is not settled on this topic. For example, Bryan Walsh of *Time* magazine encourages people to visit an environmentalist website because this is their last chance to see the "polar world" due to melting sea ice (Walsh, 2008). However, the extent of sea ice in the Arctic fluctuates naturally, and has both increased and decreased in recent years (Asher, 2008).

The article *Making Money by Going Green* relies heavily on the claim that human activity is causing the vast majority of global warming despite recent research showing that this may not be the case (Scafetta, 2010; Svensmark et al., 2007). The author praises cap-and-trade as a viable regulatory strategy citing estimates by the US Environmental Protection Agency that the cost to the economy will not exceed 1% of

GDP growth between 2010 and 2030 (*News in Review*, 2008a). But the economic impact of the cap-and-trade bill is highly controversial. The Heritage Foundation, for example, has estimated the cost to be \$393 billion annually between 2012 and 2035 (approximately 3% of GDP according to IMF figures), and totalling \$9.4 trillion with a net loss of 1,145,000 jobs (Campbell and Kreutzer, 2009). Furthermore, the article states that the European cap-and-trade system has been very successful in increasing energy efficiency. This point is unsubstantiated. Most of the large sources of emissions in the European Union were either exempted or granted free emissions allowances, and there is no evidence to show how this led to increases in energy efficiency (Johansson, n.d.).

Moreover, some of the data in the CBC curriculum materials is erroneous. According to *Making Money by Going Green*, Sweden successfully reduced emissions with the help of its carbon tax and its per capita GDP is still three times that of the United States. As a result, Sweden is held up as an example of successful implementation of a carbon tax without affecting economic growth (NiR, 2008). However, there is currently disagreement on how much emissions in Sweden have changed and the actual contribution of the carbon tax (Sumner et al., 2009). Furthermore, according to the CIA World Fact





Book, the United States' per capita GDP in 2008 was \$48,100 in nominal terms (adjusted for purchasing power parity), while Sweden's was \$38,600 (CIA, 2010).

Another article *Putting a Tax on Carbon* claims that Germany decreased carbon dioxide emissions by 20 million tonnes in 2003 as a result of high taxes on electricity, gasoline, fossil fuel, and natural gas (NiR, 2008b). However, according to the United Nations Framework Convention on Climate Change (UNFCCC), greenhouse gas emissions in Germany actually increased by 5.7 million tonnes (UNFCCC, 2006). Furthermore, the CBC also asserts that the introduction of carbon taxes in certain European countries has been very successful in reducing their CO₂ emissions. This claim is incorrect as well. Finland was the first country to introduce a carbon tax in 1990, but its GHG emissions slightly increased between 1990 and 2000, and in 2007 they are

16.8% higher than in 1990 (UNFCCC, 2009). The Netherlands and Norway, the next European countries to follow with a carbon tax, shared a similar fate. The greenhouse gas emissions of the Netherlands and Norway are 8.7% and 29.2% higher than 1990 levels, respectively (UNFCCC, 2009).

The article *The Copenhagen Climate Change Summit* places outright blame on the United States and China for the failure of conference delegates to reach an agreement on binding emissions reduction targets (NiR, 2009). But, given the enormous emission reductions recommended by the UN, and the huge economic cost associated with them, no major country was willing to sacrifice its citizens' well-being—particularly in light of recent revelations of fraud and deceit on the part of the researchers whose work is most often cited by proponents of the alarmist view (Katz, 2010).

The CBC's "green" bias is further evident in its treatment of Canada's oil sands. The same article claims that producing a single barrel of oil from the oil sands requires between two to five barrels of water. However, the Canadian Association of Petroleum Producers (CAPP) reports that the water use has declined to half a barrel for each recovered barrel of bitumen,²

which is a significant efficiency improvement (CAPP, 2009).

The educational materials that the CBC correspondents have prepared show a strong bias in favour of the liberal view on climate change. The material is presented such that it shapes the students' opinions in a way favourable to the political agenda endorsed by the CBC. The CBC correspondents should try to present accurate information and rely on scientific facts.

Notes

1 A Crown corporation is a fully or partially funded corporation established by the federal government in Canada..

2 According to Alberta's Department of Energy, to produce a barrel of synthetic crude oil, 1.17 barrels of bitumen are required. Therefore, to be precise, a barrel of oil requires 0.58 barrels of water (Government of Alberta, 2010).

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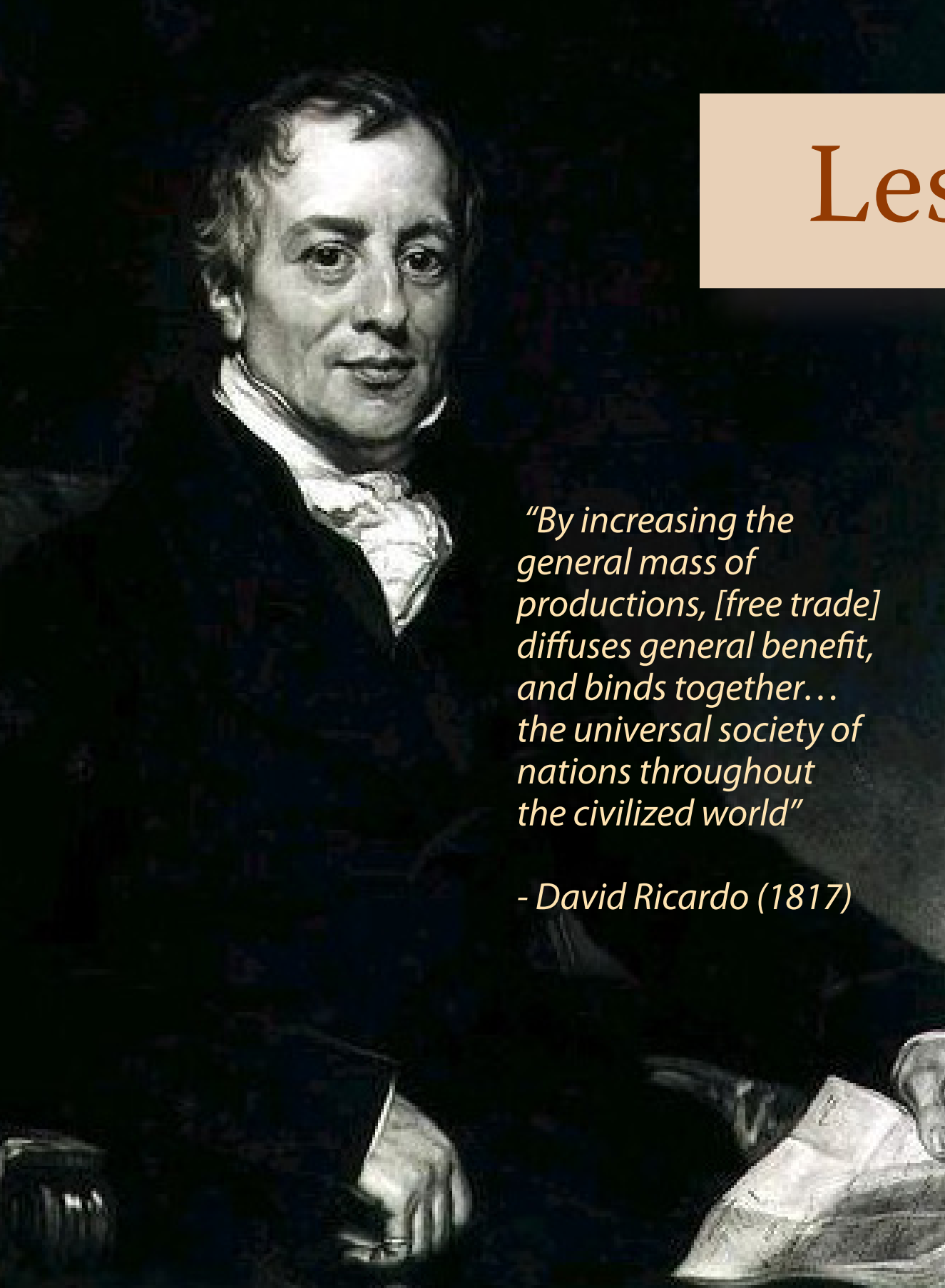
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Lessons from the past:

an economic history of the gains from trade

by **Alecsandra Dragne**

For centuries, trade has been one of the most intense topics in public policy. In particular, the debate between free trade and protectionism is almost always accompanied by extremely polarized views, drawing in economists, politicians, activists, and unions alike. Free trade has indeed increased substantially over the past few decades, largely due to great efforts to coordinate action on an international scale through agreements such as the *General Agreement on Tariffs and Trade* (GATT), and institutions such as the World Trade Organization (WTO) (Stiglitz and Charlton, 2005). However, free trade improvements are still needed—for the least-developed countries in particular—since they have disproportionately less economic and political power than developed countries to achieve trade policy goals. The interests of small subsets of the developed world, in particular in the agricultural sector, has hindered the progress towards increasing free trade, as demonstrated by the failure of the WTO to make great advances in negotiations at the Doha Rounds (Stiglitz and Charlton, 2005). We cannot afford to ignore important lessons learned long ago regarding gains from trade. The classical economists, writing in the eighteenth and

A black and white portrait of David Ricardo, an English economist, showing him from the chest up, wearing a dark coat and a white cravat.

“By increasing the general mass of productions, [free trade] diffuses general benefit, and binds together... the universal society of nations throughout the civilized world”

- David Ricardo (1817)

nineteenth centuries, provided us with some of the most powerful theories on trade benefits—theories, which have since then proven to be correct. The following paragraphs outline such theories advanced by leading classical economists Adam Smith, David Ricardo, and John Stuart Mill.

Douglas Irwin, a highly regarded economist who has written extensively on trade policy, points out that trade gains—as noted by John Stuart Mill—can be categorized as direct, indirect, and moral and intellectual advantages (Irwin, 2009). The arguments in favour of trade, first developed by Adam Smith and then expanded by David Ricardo, can be identified as direct advantages of trade. Smith, heralded as the father of modern economics, argued that foreign trade plays an important role in the economy, as it creates a market for goods exceeding domestic demand. Smith strongly emphasized the principle of absolute advantage in his free trade theory. He explained that trade allows for resources in production to be used more efficiently through specialization according to each country's absolute advantage, thus creating a higher national income than would have been observed with trade restrictions (Spiegel, 1991). More importantly, Smith's view adamantly states that government regulation of imports is undesirable, as such actions

shield the domestic market from competition. Such public policies are essentially attempting “to direct private people in what manner they ought to employ their capitals, and must, in almost all cases, be either a useless or a hurtful regulation” (Smith, 1776: 366).

David Ricardo, born in London at the end of the eighteenth century, has made enduring contributions to economic thought that have influenced economists to this day, particularly in the realm of trade theory (Spiegel, 1991). His explanation of trade moves beyond absolute advantage, to comparative advantage—a theory that has become one of the most powerful and long-lasting arguments in favour of free trade. Comparative advantage was explained by Ricardo using a simplified model of the world that contained two countries (England and Portugal), producing and consuming two goods (wine and cloth). Let us assume that England could produce one unit of cloth for one year with 100 labourers and one unit of wine with 120 labourers, while Portugal needs 90 labourers to produce one unit of cloth and only 80 labourers to produce one unit of wine (Ricardo, 2004). Although Portugal has an absolute advantage in *both* goods,



Adam Smith, the father of modern economics

Ricardo showed us that the two countries can still find it advantageous to trade. The question here is “how?” Specialization according to *comparative advantage* is the answer. Portugal has a more pronounced advantage in the production of wine, and England has less of a disadvantage in the production of cloth. Therefore, by specializing in their comparative advantages, the two countries can benefit greatly from trading. By emphasizing the benefits of specialization and exchange, Ricardo demonstrates that international trade improves efficiency, promoting increased profits and a higher standard of living, as more commodities are made available (Spiegel, 1991). The theory of comparative advantage remains today as one of Ricardo’s greatest legacies as an economist—and rightly so, as it explains how even developing countries stand the chance to gain from trade on the international market.

Another direct advantage of free trade is access to a greater variety of goods. Having the ability to choose from more goods increases a society’s well-being. In addition, greater variety is crucial for producers as well, in the form of specialized intermediate goods necessary for a more varied and affordable production process (Irwin, 2009).

Conversely, John Stuart Mill, an intimate friend of Ricardo and seminal figure in philosophy, politics, and economics, made important



John Stuart Mill

contributions in outlining the indirect advantages of trade. (Spiegel, 1991). Mill suggests that trade essentially augments the size of the market and broadens its scope, thus increasing productivity (Irwin, 2009). With higher productivity, the standard of living of

a country implicitly increases—this process, therefore, underlines the indirect advantages of trade. Irwin emphasizes two important ways in which international trade spurs productivity growth: by enabling the transfer of technologies that promote productivity, and by raising the level of competition. Technological progress can come through the import of capital goods that embody the fruits of research and development efforts (Irwin, 2009). It is crucial to note here that certain knowledge is a public good.¹ Being more open to international trade will provide a country with more opportunities to increase productivity through knowledge spillovers. In terms of competition promoting productivity, international trade works by decreasing the market power of companies in the economy. With competition arising from the country’s trading partners, in addition to the domestic market, firms are pushed to become more efficient in their productive processes.

In addition, firms planning on entering the economy are more exposed to risks with the new international competition; therefore, often companies that are highly productive will venture to enter. As opposed to direct advantages of trade, productivity gains are harder to measure. However, these indirect gains are highly important, since they show

that free trade contributes immensely to economic growth and standard of living increases.

On the third category of gains from trade, intellectual and moral advantages, Mill was not quite as clear as to what they constituted. However, Irwin elaborates on a variety of viable proponents, including the idea that international trade promotes peace through interdependence, as well as better understanding and cooperation. Most importantly for the developing world perhaps, is that international trade seems to promote democratic regimes and institutions. Although these advantages are the most difficult to quantify, more and more creative studies are shedding light on these invaluable nonmaterial gains from trade (Irwin, 2009).

Some of the most revered economists of our time, men of vision such as Adam Smith, David Ricardo, and John Stuart Mill, advanced powerful arguments supporting free trade that still hold true today. I do not propose that free trade is the only answer to economic growth; however, it is a crucial part of our economies and an indispensable tool in the effort to help impoverished countries develop. As Joseph Stiglitz, Economic Nobel Prize winner, and co-author Andrew Charlton (2005) argue, international trade is not sufficient, but it is necessary for the economic growth of developing countries. The fight between trade

and protectionism should have been settled long ago—the facts are all there. The benefits of international trade are immense, and our current era characterized by globalization, cooperation and interdependence between the leading countries of the globe should not fall prey to short-sighted policies of trade regulation. Opponents of free trade should start listening to reason, so that constructive debate can be carried forward to other crucial public policy and development issues.

Note

1 A public good is defined as a good that is non-rivalrous (one person's consumption of the good does not impede another person's consumption of it), and non-excludable (a person cannot be excluded from using the good). See Veldhuis and Mackenzie, 2010.

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With little tradition of civil society, prospect of real reform in Egypt is dim

As the West watches the unfolding events in Egypt, fingers crossed and hopeful for an outcome that will bring true reform and liberal democracy to the country, few realize just how much the deck is stacked against the Egyptian people.

Most revolutions end in tears with power captured by freedom-hating ideologies: think Russia (millions killed by Lenin and Stalin), China (tens of millions killed by Mao), Cuba (Castro's betrayal of his pre-revolution rejection of communist dictatorship), France (the Jacobean takeover and terror), Iran (a largely secular revolution hijacked by religious extremists) and the leftist, anti-imperialist revolutions that swept across Africa and the Arab world in the 1950s and 60s, and left not one liberal democracy in their wake.

Two conditions, neither of which hold in Egypt, may help create a favourable outcome for a revolution: 1) when the revolutionary society has a living rule-of-law and civil society tradition and 2) where a foreign power, typically indirect, is thrown off, so that at least some domestic institutions and leaders have popular support.

[Read the complete article.](#)



Study shows Canadians waiting too long for surgery

The Fraser Institute's 20th annual edition of *Waiting Your Turn: Wait Times for Health Care in Canada* concluded that Canadians seeking surgical or other therapeutic treatment faced a median wait time of 18.2 weeks in 2010, the first increase since 2007 and the second-longest wait time recorded.

"The wait times recorded in 2010 were exceeded only by the 18.3-week wait time recorded in 2007. After two years of decreasing wait times, the country has done an about-face," said Mark Rovere, Fraser Institute associate director of health policy research and co-author of the study. "The fact that Canadians are now waiting more than 127 days for medically necessary treatment is alarming. Unfortunately, too many politicians continue to cling to the fundamentally broken system while dismissing critical policy reforms that could help ease patients' physical and emotional suffering as they wait for treatment."

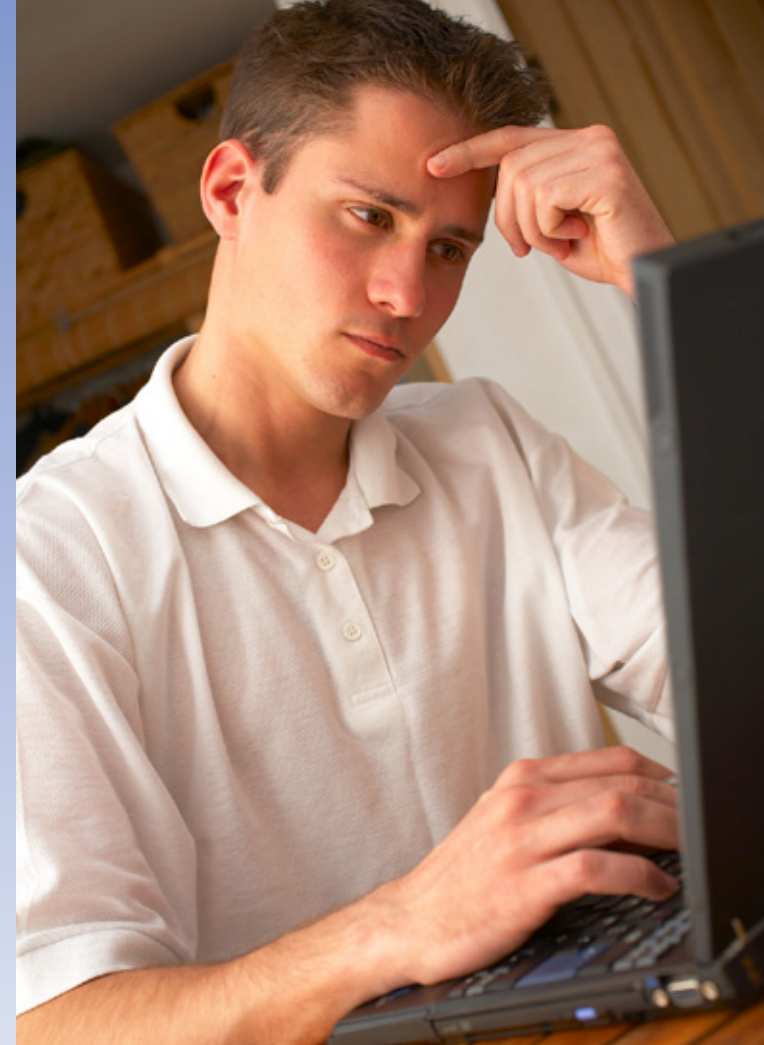
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