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Mining policy in Canada and the world

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From the editor

Canada is a leader in the mining industry, but I rarely think much about its impact on my day-to-day life. It's pretty easy to forget that without mining I wouldn't have my phone, laptop, car, daily vitamins … in fact, almost everything I rely on for a comfortable life.

The industry, however, faces a plethora of challenges worldwide. It must incorporate the latest technological advances in harsh conditions, respond to its many critics, and implement (or fight) onerous regulations, all under the watchful and often skeptical eye of the public. This issue of *Fraser Forum* tries to sift through some of the issues by focusing on mining and the policy challenges that the industry faces.

Gerry Angevine's article (p.10), gives an insider's look at the industry by summarizing the Fraser Institute's annual petroleum and mining surveys. Gerry lists the jurisdictions that promote mining and explains the variables that affect investment decisions. The issue also examines Quebec's mining environment in *The dangers of Quebec's resource nationalism* (p.18) and *Asbestos subsidies: Canadian taxpayers should not be required to subsidize uneconomic activities* (p.20). Both articles look at the ramifications of specific mining policies in Quebec.

Internationally, Alana Wilson explains Peruvian attitudes towards mining (p.15), and Fred McMahon discusses the 2012 Mining Business Risk Summit to be held later this Fall in Toronto at which industry leaders from around the globe will gather to discuss their many risks and challenges (p.22).

Apart from mining, this issue looks at two upcoming policies that will affect British Columbians in 2013: the implementation of Family Day (p.8) and the return of the PST (p.5). You might also wish to check out our September/October graph. Following a recent Fraser Institute Access to Information request to Industry Canada, Mark Milke has graphed the amount that the Federal Department of Industry has spent on business subsidies over the past three decades (p.7).

These and other articles make for an exciting Fall read. I hope you enjoy the issue.

— Emma Tarswell

Fraser Forum

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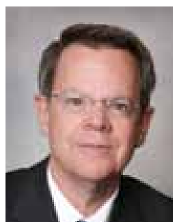

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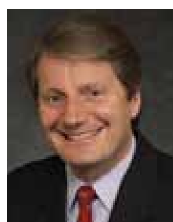

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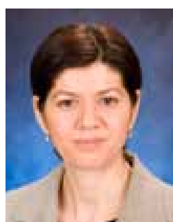

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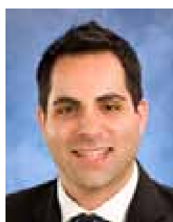

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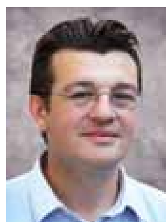

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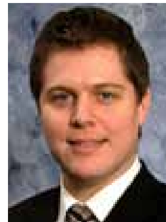

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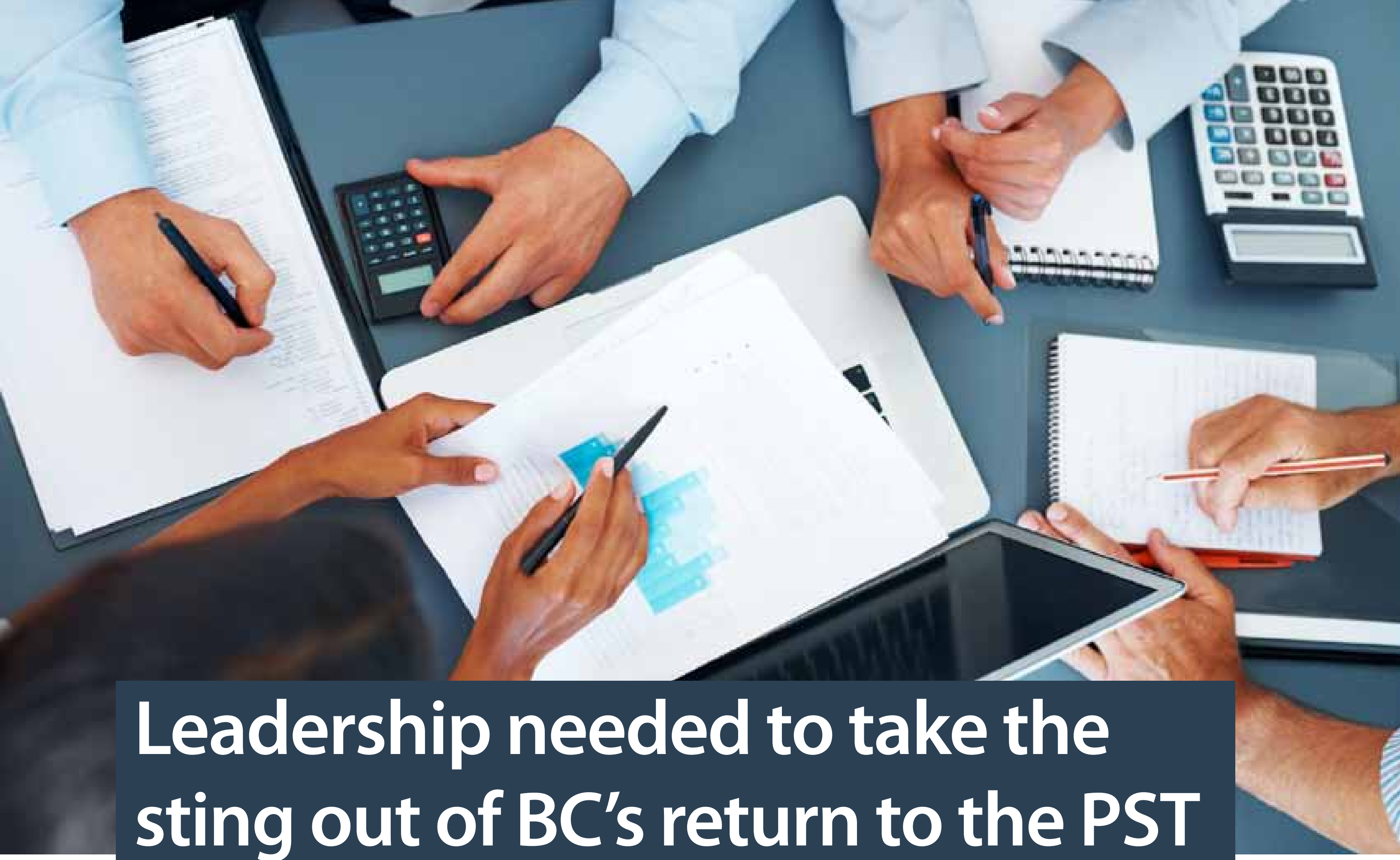

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Leadership needed to take the sting out of BC's return to the PST

Charles Lammam, Milagros Palacios, and Niels Veldhuis

When the provincial sales tax (PST) returns on April 1, 2013, British Columbia's tax competitiveness will be dealt a major blow as the cost of investing in the province will increase dramatically. Unfortunately, the well-being of BC families will be adversely affected in many ways; one of the severest impacts will be to the level of investment in machinery, equipment, and technology—the backbone of a healthy economy.[1]

Thankfully, the provincial government seems to understand the magnitude of the problem: earlier this year, it appointed an Expert Panel on Business Taxation to recommend ways that BC could improve its business tax competitiveness following the PST's rebirth.[2] While the Expert Panel is a good first step, only concrete tax changes will truly demonstrate the government's commitment to BC's economic competitiveness.

To understand the need for tax reform, it is important to explain why returning to the PST is so economically damaging. Currently under the HST, businesses and entrepreneurs do not pay sales tax on the inputs used in the production process. The exemption is especially important for capital inputs like machinery, equipment, and technology because these are investments that give BC workers the tools to produce goods and services more efficiently. When workers are more productive, they can command higher wages.

Once the PST is restored, business inputs will again be subject to sales tax and the cost of investing will increase significantly. BC will go from having an overall tax rate on investment that is in line with the Canadian average to one of the highest rates in Canada, putting us at a distinct disadvantage compared to key provincial competitors like Alberta, Saskatchewan, and even Ontario.[3]

Since BC is competing with these provinces and other jurisdictions for investment dollars, it falls on the provincial government to ease the damaging impact. Fortunately, several options are available.

Most importantly, the government should consider a sales tax exemption on capital inputs (machinery, equipment, and technology). The government attempted to do something similar in 2001, but limited the exemption by narrowly interpreting the types of machinery, equipment, and companies that qualified. In the end, the exemption was not available to most businesses, which resulted in an administrative disaster and eventually deterred many companies from seeking eligibility.

Most importantly, the government should consider a sales tax exemption on capital inputs (machinery, equipment, and technology).

Another option is to gradually reduce the general corporate income tax rate to 8% from its current 10% rate. This would provide BC with a marked advantage over other provinces, giving it the lowest rate within Canada.

To further improve BC's business tax regime, the government could also consider increasing the threshold of income eligible for the preferential small business tax rate of 2.5% from $500,000 to $1 million. Increasing the threshold would reduce the disincentive for small businesses to grow and develop, and thus allow British Columbians to reap the benefits of having an industrial landscape containing larger and more productive firms.

Property taxes are another factor that influence the province's competitiveness. Currently, many municipalities in BC subsidize low residential rates with relatively high rates on commercial property. To address discriminatory property taxation, the provincial government should consider equalizing property tax rates across different types of businesses and setting a range of fairness for the ratio of business to residential rates.

While the Expert Panel's focus is on business taxation, personal income taxes are an important component of BC's investment climate. More competitive personal income tax rates will help the province attract and retain highly-skilled professionals. In this regard, BC can ensure that its middle and top marginal income tax rates are closely aligned with those in Alberta, its closest provincial competitor.[4] Doing so would make the province a better place to work and would encourage productive economic behaviour like entrepreneurship and risk taking.

These tax reforms could be implemented without increasing government debt. Offsetting revenues can be garnered by broadening the consumption tax base of the PST and/or by eliminating or scaling back many of the special interest driven corporate and personal income tax credits currently offered by the provincial government.[5] However it proceeds, the provincial government should avoid increasing taxes that impose high economic costs on society, such as personal and capital-based taxes, in order to afford other tax reductions.[6]

With the pending return of the PST, BC risks losing much needed investment that will instead gravitate to jurisdictions with more competitive tax policies. While we eagerly await the Expert Panel's final report, it will ultimately fall on the BC government to show leadership and create a new tax plan that ensures a bright economic future for the province.

Notes

1 This article is based on our submission to British Columbia's Expert Panel on Business Taxation. All references can be found in Lammam et al. (2012).

2 See **http://www.fin.gov.bc.ca/experts_panel_tax.htm#tor**.

3 Specifically, we estimate that returning to the PST will increase the overall tax rate on investment in BC from 20.3% to 27.3% (see Lammam et al., 2012).

4 BC's three highest marginal tax rates (14.7%, 12.3%, and 10.5%) all exceed Alberta's top rate, which is 10% for all income beyond $17,282. Most concerning, however, is the large difference in top marginal rates between BC and Alberta. A highly skilled professional earning $150,000 will pay a provincial marginal tax rate of 14.7% working in BC, but only 10% working in Alberta. Indeed, BC's rate is nearly 50% higher than that levied in neighbouring Alberta.

5 The BC government currently offers a litany of tax credits that narrow the tax base, which means a higher tax rate is required to raise the same amount of revenue. Many of these tax credits have questionable economic value, while others provide special privileges to certain individuals or businesses at the expense of others. See Lammam et al. (2012) for a complete list of BC's corporate and personal income tax credits.

6 See Clemens et al. (2007) for a complete literature review on the economic cost of different types of taxes.

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$6.1 billion in “free money” at Industry Canada

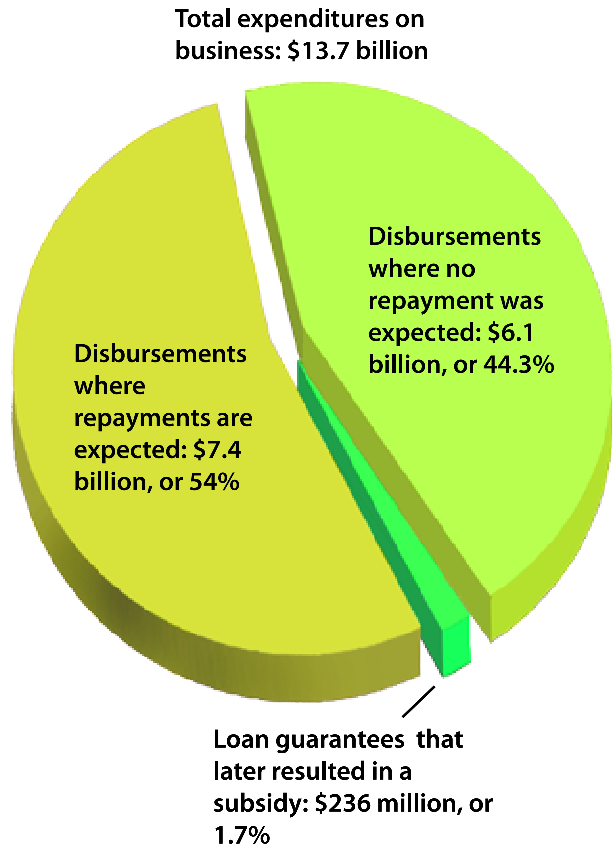
Mark Milke

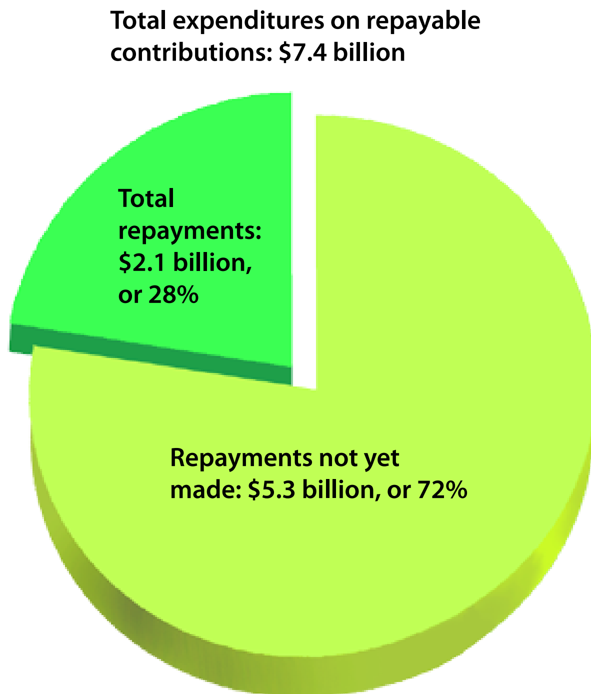
In a recent Access to Information request made to Industry Canada by the Fraser Institute, we found that between 1982 and 2012, the federal department of Industry spent $13.7 billion on business subsidies.

- $6.1 billion, or 44.3%, was disbursed with no repayment expected; these are akin to grants.

- $236 million, or 1.7%, was disbursed because of loans guaranteed by Industry Canada, on which the borrower later defaulted.

- $7.4 billion, or 54%, was disbursed with repayments expected (“repayable contributions”). These are akin to either loans and/or “angel investments” depending on the exact agreements signed.





- On repayments, of the $7.4 billion expended since 1982 in repayable contributions, just over $2.1 billion has been repaid to taxpayers, or 28% of all expenditures where repayments were expected.

- And one last point, since 1982, on all of the above, just $9 million has been collected in interest by the Department of Industry on all of its disbursements. ■

Source: Mark Milke (2012). *Corporate Welfare Bargains at Industry Canada*. Fraser Institute.

BC Family Day will cost BC families

Bigstock

Niels Veldhuis and Amela Karabegović

The recent 100th anniversary of the birth of Nobel Prize winning economist Milton Friedman has reminded us of his common sense thinking: "There is no such thing as a free lunch," he once famously remarked. BC Premier Christy Clark would do well to remember his words as she works on enacting Family Day, the statutory holiday that will come into effect just a few months before British Columbians go to the polls in 2013. Someone will have to foot the bill for this holiday. And unfortunately, it will be the very people the holiday is supposed to help: ordinary BC families.

British Columbians already enjoy nine statutory holidays each year (British Columbia, Ministry of Labour, 2012a). Only Saskatchewan has more with 10 (Government of Saskatchewan, 2012). At the other end of the scale, Nova Scotians receive just five statutory holidays (Government of Nova Scotia, 2012).

Add the minimum two week vacation entitlement outlined in BC's Employment Standards Act (British Columbia, Ministry of Labour, 2012b) and British Columbians enjoy at least 19 days off a year; many receive more (After five years, an employee is legally entitled to three weeks of vacation).

Adding another statutory holiday is not only unnecessary, but also costly.

Businesses that close on Family Day lose a full day of production, but their annual wage bill remains the same, since workers given the day off must be paid an average day's pay. With lower revenues and no offsetting reduction in costs, owners, consumers, and employees end up footing the bill.

Consumers will pay if the costs are passed along in the form of higher prices. This, however, is increasingly unlikely, given competitive markets for most goods and services.

Employees bear the burden if the businesses invest less in machinery, equipment, and new technologies that make workers more productive, or if they offer lower wage increases in the future.

Business owners, too, will be burdened by the new statutory holiday, added as it is to the recession and slow growing economy, the HST/PST fiasco, and significantly higher minimum wages that the Clark government recently imposed. The Canadian Federation of Independent Business (CFIB) estimates that BC Family Day will cost small and medium-sized businesses $42 million (CFIB, 2012). Add large businesses to the calculation and the costs increase significantly.

Finally, let's not forget average BC families, who as taxpayers will fork over tens of millions of dollars (CFIB, 2012) to provide the extra paid day off for 359,000 provincial and municipal public sector workers (Statistics Canada, 2012) (or who will earn two-and-a-half times their regular pay if they work on Family Day), who already receive significantly higher wages and benefits than comparable workers in the private sector (Gunderson et al. 2000; Lahey, 2011).

Of course there are those who say the new statutory holiday will improve the economy since families will spend

money on recreational activities and/or entertainment on their extra day off. To be sure, businesses that remain open on Family Day might see increased demand for their goods and services but their wage costs will also increase as they will be forced to pay workers two and a half times their regular pay (British Columbia, Ministry of Labour, 2012b).

More importantly, increased spending by families on their day off might mean less spending at other times throughout the year. Family Day might change the timing and location of spending but not the total amount families actually spend during the year.

The bottom line is that statutory holidays aren't free: taxpayers, workers, and business foot the bill.

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Investor concerns

common to mining and petroleum exploration and development

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Gerry Angevine

Since 1997, the Fraser Institute has been surveying miners about key issues that affect their investment decisions. Since 2007, the Institute has also undertaken a similar survey of petroleum explorers and developers. For jurisdictions (states, provinces, or countries) with which they are familiar, survey respondents are asked if factors encourage investment, do not deter investment, mildly deter investment, strongly deter investment, or would cause investment not to be pursued.

The latest mining survey, undertaken from October to December 2011, contained 17 questions. The information received was used to compare and rank 93 jurisdictions according to their potential for development. The ranking was based on the positive "encourages investment" responses received from the 802 survey participants (McMahon and Cervantes, 2012).

The most recent survey of investors in petroleum exploration and investment—often referred to as the "upstream" petroleum industry (in contrast to oil and gas refining, processing, and marketing, which are considered downstream activities)—was administered from February to April 2012 (Angevine, Cervantes, and Oviedo, 2012). In this case the negative responses to the survey questions provided by the 623 participants were used to measure the extent of barriers to upstream investment in jurisdictions worldwide. Those posing the lowest obstacles were considered to be the most attractive to investors.

Because 16 of the 17 questions in the two surveys are the same, it is worthwhile to compare the results to see which issues are generally of most and least concern to miners and petroleum explorers and developers around the world. Table 1 shows the average percentages of negative responses for both surveys for the 16 common questions.[1] The six issues of most concern to upstream petroleum investors were the quality of infrastructure, labour regulations, labour availability, uncertainty concerning the administration of regulations, corruption of government officials, and legal system processes. Only two of those factors, quality of infrastructure and legal system processes, were also of most concern to the mining industry. For mining industry investors, the remaining issues of most concern included regulatory duplication and inconsistencies, uncertainty over environmental regulations, land claims disputes,

Table 1: Comparison of survey results by percentage of negative responses

	Survey Question	Petroleum Survey (%)	Mining Survey (%)
1	Quality of infrastructure	46.2	47.6
2	Labour regulations and employment agreements	46.0	37.9
3	Labour availability and skills	44.2	43.7
4	Uncertainty concerning administration of regulations	43.8	44.1
5	Corruption of government officials	43.3	42.6
6	Legal system processes	42.2	49.6
7	Regulatory duplication and inconsistencies	39.3	49.6
8	Taxation regime	38.6	44.0
9	Socio-economic agreements	38.0	40.0
10	Political stability	37.8	41.0
11	Quality of geological database	37.6	39.0
12	Uncertainty concerning environmental regulation	36.9	44.6
13	Disputed land claims	36.4	47.0
14	Uncertainty regarding protected areas	34.7	48.8
15	Trade barriers—including restrictions on profit repatriation	33.4	31.5
16	Security of personnel and assets	31.1	30.8

Indicates the 6 matters of most concern

Indicates the 6 matters of least concern

Sources: Angevine, Cervantes, and Oviedo (2012); McMahon and Cervantes (2012); calculations by authors.

and uncertainty with respect to protected areas. This contrasts sharply with the concerns of petroleum explorers and developers, for whom the last three of these issues were among the six (of sixteen) with which they were least concerned (ie., had the lowest percentages of negative responses on the survey).

Quality of geological data, trade barriers, and security of personnel and assets were generally of less concern than most other factors for both petroleum explorers and miners. Globally, trade barriers and security of personnel and equipment were of least concern to both groups.

Results from the two surveys are more similar for the most negative "would not pursue investment due to this factor" response. As table 2 shows, in this case all but one of the six matters of most concern to petroleum explorers are also of the greatest concern to miners. These five common factors include corruption, political stability, legal system processes, regulatory duplication and inconsistencies, and uncertainty concerning administration of regulations. Clearly, these issues, more than most others, cause miners and petroleum explorers grave concern, and make them less likely to pursue investment.

Infrastructure quality, socioeconomic agreements, and labour regulations and employment agreements, are among three of the six factors least likely to trigger

Table 2: Comparison of survey results by percentage of "Would Not Pursue Investment" responses

	Survey Question	Petroleum Survey (%)	Mining Survey (%)
1	Corruption of government officials	6.2	5.9
2	Political stability	5.3	5.9
3	Legal system processes	5.1	7.4
4	Regulatory duplication and inconsistency	4.6	5.8
5	Trade barriers—including restrictions on profit repatriation	3.9	3.5
6	Uncertainty concerning administration and regulations	3.8	8.2
7	Disputed land claims	3.8	5.1
8	Security of personnel and assets	3.7	3.0
9	Labour availability and skills	3.1	1.7
10	Quality of geological database	2.7	1.7
11	Quality of infrastructure	2.5	2.1
12	Socio-economic agreements	2.5	2.8
13	Uncertainty concerning environmental regulation	2.5	5.2
14	Taxation regime	2.3	4.2
15	Uncertainty regarding protected areas	2.1	4.0
16	Labour regulations and employment agreements	1.9	2.5

Indicates the 6 matters of most concern (orange: Petroleum rows 1–6; Mining rows 1, 2, 3, 4, 6, 13)

Indicates the 6 matters of least concern (grey: Petroleum rows 11–16; Mining rows 8, 9, 10, 11, 12, 16)

Sources: Angevine, Cervantes, and Oviedo (2012); McMahon and Cervantes (2012); calculations by authors.

the "would not invest" response for both mining and upstream petroleum investors. As a group, upstream petroleum investors were also least likely to cite uncertainty with regard to protected areas, taxation, and uncertainty regarding environmental regulation as reasons for not pursuing investment. Miners, on the other hand, seemed also relatively unconcerned about security of personnel and assets, labour availability and skills, and quality of the geological database.

Table 3 indicates that, among the two groups of investors, there was a remarkable degree of agreement about the factors that were most likely to "encourage investment." Five of the top six factors were identical. The two groups of investors also agreed on five of the six factors that were least likely to "encourage investment."

A comparison of the two surveys indicates that miners and petroleum explorers and developers all find that factors such as security of personnel and assets, political stability, and corruption of government officials are of less concern as they make their investment decisions than disputed land claims, duplication of regulations, and uncertainty regarding environmental regulation. Of course, this does not mean that security, political stability, and corruption are not of great concern and do not discourage investment in particular jurisdictions, or that

Table 3: Comparison of survey results by percentage of "Encourages Investment" responses

	Survey Question	Petroleum Survey (%)	Mining Survey (%)
1	Security of personnel and assets	33.4	38.6
2	Political stability	27.0	26.1
3	Corruption of government officials	23.4	29.7
4	Trade barriers—including restrictions on profit repatriation	22.6	20.3
5	Quality of geological database	22.3	24.5
6	Legal system processes	21.5	18.6
7	Quality of infrastructure	19.5	16.2
8	Uncertainty concerning administration of regulations	19.3	24.0
9	Taxation regime	16.7	10.7
10	Labour availability and skills	16.5	17.8
11	Socio-economic agreements	16.4	12.8
12	Uncertainty concerning environmental regulation	15.4	14.9
13	Uncertainty regarding protected areas	14.9	9.4
14	Regulatory duplication and inconsistencies	13.5	11.4
15	Disputed land claims	11.5	12.6
16	Labour regulations and employment agreements	9.5	15.4

Indicates the 6 most attractive factors (Petroleum: 33.4, 27.0, 23.4, 22.6, 22.3, 21.5; Mining: 38.6, 26.1, 29.7, 20.3, 24.5, 24.0)

Indicates the 6 least attractive factors (Petroleum: 16.4, 15.4, 14.9, 13.5, 11.5, 9.5; Mining: 10.7, 12.8, 14.9, 9.4, 11.4, 12.6)

Sources: Angevine, Cervantes, and Oviedo (2012); McMahon and Cervantes (2012); calculations by authors.

factors such as disputed land claims are a major detriment to investment in many others. Rather, it simply tells us that factors near the top of the list are generally less of a deterrent to investment than those near the bottom. Those near the bottom, it would appear, command greater attention from policy makers.

Note

1 These comprise the three responses that indicate that a factor is seen as: 1. A mild deterrent to investment; 2. A strong deterrent; or 3. "Would cause investment not to be pursued."

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Peru's social conflict is about more than mining

Isurusen

Jorge Ganoza Durant, a fourth generation Peruvian mine owner, surveys family property for expanded mining activity.

Alana Wilson

Since the mid-1990s, Peru's mining sector has had remarkable growth. This followed structural reforms, including the privatization of mines, which resulted in significant foreign investment. In 2010, Foreign Direct Investment (FDI) reached US$20.8 billion, with the mining sector receiving the largest share (US$4.8 billion or 23.1%) (Gurmendi, 2012). Between 1993 and 2011, US$29.5 billion was invested in the mining sector, with much of it (US$16.9 billion or 57%) invested since 2007 (SNMPE, 2012b).

Mining investment continues to increase and committed investments for 2011 to 2016 are US$42.5 billion, of which US$5.5 billion is from Canada (Gurmendi, 2012). Mining exports, which since 2003 have comprised more than half of Peru's export earnings, have also increased and in 2011 were 59% (US$27.4 billion) of Peru's export revenues (Tafur, et al., 2012). Governments at all levels have received revenues from this boom[1] and 15% of total government revenues came from this sector in 2011 (SNMPE, 2012a).

Social conflicts

Despite this investment, many people in Peru's rural areas do not feel that they are benefiting from mining and opposition to it has risen. Social conflicts in Peru have increased by 300% over the past five years, with 41.7% of conflicts related to social or environmental issues (República del Perú, 2012). These conflicts result in human suffering, with 2,312 civilians and police wounded and 195 killed between 2006 and 2011 (República del Perú, 2012).

Social conflict is also threatening mining investment. In July 2011, the outgoing president of Peru, Alan Garcia, revoked the mining concession of Vancouver-based Bear Creek Corp. for its Santa Ana project following weeks of protests and the deaths of five protestors near Puno, in southeastern Peru (George, 2011). Current protests are also threatening a US$4.8 billion investment at the Conga gold mine project near Cajamarca, in the northern highlands, and there are signs that mining investment is beginning to fall as investors are scaling back or delaying projects (*Economist*, 2012).

While the causes of social conflict in Peru are complex, current protests have focused on two key issues: concerns for environmental degradation and lack of benefits to local communities affected by mining.

Environmental concerns: Water or gold?

Environmental concerns are one of the key causes for mining opposition. Water, in particular, has been highlighted, with those opposing mining framing the choice for communities as a choice between water and gold (Cabitza, 2011). While communities may have legitimate concerns over water quality and usage, allegations of pollution have also become politicized (World Economic Forum, 2011).

The current President of Peru, Ollanta Humala, was elected on a populist platform and previously sided with

Meneboeuf

Signs like this one warn residents of the potential hazards of artisanal mining.

mining opposition (*Economist*, 2012). However, since being elected in July 2011, Humala has disappointed mining opponents by promising that mining could occur without compromising water quality or availability (Reuters, 2012). Other politicians appear to be using concerns over water pollution and are criticizing the mining industry to gain political support (World Economic Forum, 2011). Recently, a mayor protesting against Xstrata's mining in the southern highlands initially demanded an increase in social fund contributions from 3% to 30% of pre-tax profits (*Economist*, 2012). However when that failed to gain support, the mayor began to complain of pollution despite studies finding the presence of heavy metals in local waters to be within legal limits (*Economist*, 2012).

Research by the World Bank (2002) failed to find evidence of substantial environmental damage, and the practices employed by large-scale mining companies were often more stringent than those demanded by local regulations. Mining companies may also be unfairly blamed for problems such as water availability or damage from artisanal mining (World Economic Forum, 2011). Unlike the formal mining sector, artisanal mining operates without environmental or worker protection and uses mercury to process ore, often resulting in significant environmental damage (Kuramoto, 2001). Artisanal mining can also lead to social conflict as it can cause an influx of migrants from poorer areas, revenues may support illegal activities, and it can increase tensions between miners and existing title holders and local communities (Kuramoto, 2001). Stakeholder surveys in Peru also found that opposition to mining based on environmental concerns often masks the real concern of communities—whether resource wealth is contributing to local development (World Economic Forum, 2011).

Benefiting from Peru's mining revenues

Peru's national economy and government certainly benefit from the country's mining wealth. The mining sector contributed 14% of government tax revenues and 5.75% of its GDP between 2005 and 2011 (Banco Central de Reserva Perú, 2012; SNMPE, 2012a). Although taxes paid by the mining sector have grown in absolute terms, their proportion of total government tax receipts has decreased from a peak of 20.6% in 2007 to 14.9% in 2011 (SNMPE, 2012a). Furthermore, mineral profits as a percentage of GDP as well as ores and metals exports (as a percent of merchandise exports) both peaked in 2007 and have since decreased, suggesting that Peru's economy is diversifying economically (World Bank, 2012). Foreign investment in the mining sector, which reached US$4.8 billion in 2010, also brought new technology, management expertise, and spillover benefits for local suppliers to the mining industry (Gurmendi, 2012). Since its market reforms in the 1990s, Peru has reduced poverty and infant mortality, and increased life expectancy (World Bank, 2012).[2]

Mining regions within Peru have also benefited, although the pace and distribution of the benefits appear to underlie much of the social conflict surrounding mining. Peru established a transfer mechanism, the Canon Minero, to transfer 50% of corporate income tax collected from mining companies to subnational governments. The corporate tax rate is 30% and these transfers are the largest source of revenue for regional and local governments, contributing over CAD$9.2 billion to subnational governments between 1996 and 2011 (SNMPE, 2011; Revenue Watch, 2012). Other transfer mechanisms were also introduced including an extraordinary tax on mining and changes to the royalty system[3] put in place by President Humala immediately following his election (Tafur et al., 2012).

Despite these transfers, local and regional governments have a limited capacity to manage such windfall revenue, and governance challenges appear to be limiting mining's benefits at the regional and local level (World Economic Forum, 2011). Much of the funding remains unspent; as of December 2011, regional and local governments had 9.5 billion soles (US$3.5 billion) lying dormant in the bank (Velez, 2012). On average, less than half of the money available to spend in 2011 was actually spent, contributing to anti-mining protests and depriving poor communities of necessary water treatment, roads, education, and health care spending (Velez, 2012). The absence of government services also increases unrealistic demands—and dependency—on the mining companies (ICMM, 2007).

Reducing social conflict

In order to address the underlying causes of social conflict in mining regions, improvements are needed in government capacity and management so that mining revenues can be used to reduce poverty and meet development needs in rural communities. Greater transparency is also needed so that governments are held accountable for the way mining revenues are used at the subnational level. Civic participation mechanisms must also be improved so

that communities in rural areas can voice their concerns without escalating to conflicts.

The mining industry must also help with these discussions and talk with communities about concerns such as water quality. However, until governments at all levels work together to address the underlying causes of the social conflict in mining areas, ongoing conflicts will continue to threaten the very investment that could help these communities reduce poverty and improve their well-being.

Notes

1 Mining revenues are shared between the national government, 25 regions where mining takes place, and local governments within these regions.

2 Between 1994 and 2010 the percent of the population living on $2/day decreased from 28.4% to 12.7%; the percent of the population living on $1.25/day decreased from 12.9% to 4.9%; the infant mortality rate decreased from 46 to 14.9 per 1,000 live births; and life expectancy at birth increased from 68 to 74 years.

3 The new tax framework for mining went into effect October 1, 2011 and includes a windfall tax levied on the operating profits of companies (Laws No. 29789 & No. 29790); and modifications to base royalties on profits instead of mineral extraction (Law No. 29788).

Protests have focused on concerns for environmental degradation and lack of benefits to local communities affected by mining

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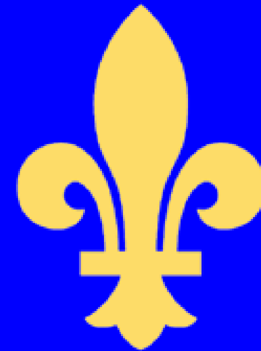
The dangers of Quebec's resource nationalism



Jean-François Minardi

With the launch of the Plan Nord[1] in May 2011, the Quebec government, provincial political parties, and society in general appear to consider mining as a financial windfall, and the public debate is now about how to allocate the spoils. Yet the combination of a surge in resource nationalism and a slowing Chinese demand that could put an end to the commodity boom would fatally damage the global competitiveness of the province, lead to lower mining investment, and destroy the windfall. That's why Quebec politicians should rethink the assumptions contained within their mining policy.

The industrialization and urbanization of China and other emerging countries are the source of soaring demand for commodities, which suppliers are struggling to meet (*Economist*, 2011). This has caused prices of non-oil commodities to triple in the past decade (Blas, 2012) and reinforced the view that a commodity "super-cycle"[2] has replaced the volatile market of old.

Higher profits accruing to miners have spurred governments around the world to try to increase their share of the revenue through higher taxes, royalties, or even nationalization (Ernst & Young, 2011).

Quebec is no stranger to this evolution. Plan Nord, which will be carried out over a period of 25 years (Quebec, 2011) is based on the assumption of rising metal prices and revenues, and politicians are busy looking for ways to take advantage of the "mining bonanza."

Following on the suggestions of mining activists and Jacques Parizeau, the former premier of Quebec, the Parti Québécois and the Liberal government have given in to the lure of resource nationalism. The official opposition is calling for higher royalties and wants to replace the current profit-based mining rights with a royalty based on the gross value produced plus a tax on "excess profits" (Journet, 2012). The PQ also advocates direct equity investments by the government in strategic mining projects (Parti Québécois, 2012). In the same vein, the Charest government's latest budget contained ill-advised plans to take equity interests in mining projects (Bachand, 2012).

Investments in mining are very risky; it takes decades for mining investments to pay for the process of exploring, developing, and bringing a deposit to market. That is why investments have usually been made by the private sector. This new policy of public investment in private projects is definitely not in the interest of Quebecers, especially if metal prices start to drop.

This wave of resource nationalism is based on the premise that the consumption of industrial metals in China and other emerging economies will remain high for a long time. Virtually all who favour higher royalties in Quebec point to the rising price of minerals as a reason for increasing the government's share of mining revenue (Parti Québécois, 2012).

But is the premise correct, and will the mining boom be sustained? Unfortunately, there is no guarantee that this is the case.

Mining has traditionally been subject to wide swings in commodity prices, and experience tells us that the current boom could fade. A recent study by Credit Suisse (2012) even wonders if the commodity super-cycle is over. Why?

Bigstock

The super-cycle is based almost entirely on Chinese demand, with that country being the largest consumer of almost every metal. China's share of global consumption in 2011 was 38.6 percent for copper, 36.7 percent for nickel, 41.4 percent for zinc, and 43.7 percent for aluminum (Mohr, 2011). China is now beginning a transition from a resource-intensive economic growth based on investment in infrastructure and exports to a model based on domestic consumption driven by efficient, value-added industries and services. In this latter model, the Chinese economy will slow and metal consumption will decline (Credit Suisse, 2012: 6). The future of the Chinese economy is very uncertain, but if it unfolds as anticipated, such a development could affect the global price of metals and, in the long run, could end the commodity super-cycle by reducing the structural pace of commodity consumption in the Chinese market (Credit Suisse, 2012: 6).

The imbalance between demand and supply has played into miners' interests so far, but what will happen if demand decreases and global mining capacity is much higher in 20 years than it is today?

Metals are not necessarily an ever-rising source of income. Quebec politicians should realize that metals are not like oil; their prices are not influenced by a cartel[3] but reflect global supply and demand. Non-oil commodity prices have traditionally fluctuated greatly and, assuming that the recent super-cycle won't last forever, the old normal may eventually return.

In this context of high uncertainty, demands to increase the Quebec government's slice of the profit pie may prove to be dangerous policy for the future of the province's mining industry.

Notes

1 The Plan Nord is an economic development strategy to develop the natural resources extraction, mainly mining, in the huge territory (72% of Quebec's geographic area) north of the 49th parallel where less than 2% of Quebec's population lives.

2 A super-cycle is a prolonged trend of high level commodity prices.

3 OPEC's ability to control the price of oil is less than it used to be but the organization still has some influence over the global market.

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Asbestos subsidies:
Canadian taxpayers should not be required to subsidize uneconomic activities

Alana Wilson

Canada's mining industry is globally competitive, and has long succeeded without much in the way of government subsidies. It even thrived in the last recession by responding to market demand. Yet, instead of letting markets drive mining investment in Quebec, the Charest government is bailing out the asbestos industry using taxpayer money and this for a product that is losing its market due to human health concern.[1]

In recent years, market demand for chrysotile asbestos[2] shrunk dramatically which lead to a halt of chrysotile mining in Canada. But instead of letting mines stay closed, taxpayer funds are now being used to gamble against markets on an unprofitable chrysotile mine.

Quebec Premier Jean Charest recently approved a $58 million dollar loan to allow the closed Jeffrey asbestos mine to reopen (Quebec, 2012a). This follows months of negotiation and several extensions of the government loan offer to give private partners more time to raise funds (Quebec, 2012b). The Quebec government—and taxpayers across Canada whose federal transfer dollars end up in Quebec's budget—will now provide financing for two-thirds of the cost to renovate the mine.

Even before this bailout was announced, the mine struggled and operated infrequently (Topf, 2011). All other Canadian asbestos mines have closed; the last shuttered in November 2011 (Jamasmie, 2012). In January, LAB Chrysotile Inc., the other remaining asbestos miner in Quebec, filed for bankruptcy (Jamasmie, 2012).

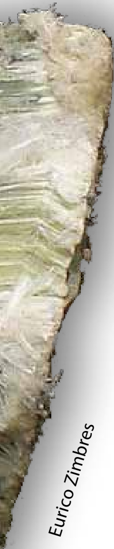
The demise of Canada's asbestos industry reflects a declining global demand for asbestos driven by health concerns. The World Health Organization (WHO) estimates that 107,000 people die each year from asbestos-related lung cancer, mesothelioma, and asbestosis from exposure to asbestos in their workplace. Chrysotile—the type of asbestos mined in Quebec—is relatively less harmful than other types and its health risks can be reduced by limiting exposure and by controlling its use (Health Canada, 2008; Auditor General of Canada, 2006).

Even if chrysotile can be safely mined and handled in Canada, the European Union and more than 40 countries have deemed it too dangerous and have banned its use (WHO, 2006). Whether or not the health concerns are real, the global market has shrunk. Taxpayers should not be required to subsidize uneconomic activities with declining demand.

Yet governments refuse to stop spending our money. Between 1984 and 1997, Ottawa provided nearly $20 million dollars to the Chrysotile Institute, a not-for-profit organization that provides training and promotes the use of chrysotile internationally (Auditor General of Canada, 2006). The Institute received $250,000 per year from the government and collected an additional $10,000 per year for representatives to attend workshops and conferences in support of the chrysotile industry (Auditor General of Canada, 2006). The federal government also spent an estimated $575,000 in an unsuccessful case to have the World Trade Organization overturn France's ban on asbestos (Auditor General of Canada, 2006).

Aside from this federal support, Quebec provided $200,000 per year to the Chrysotile Institute from 2006 to 2011 (Quebec, 2012c). However, both levels of government have since cut off funding for the Institute and, like asbestos mining itself, the Institute appears unable to continue without government support. In April it announced its intention to dissolve (Canada Gazette, 2012).

Those who support the bailout of the Jeffrey mine claim up to 500 full-time jobs will be created (Topf, 2011). This works out to an average of more than $115,000 per job. However, the notion that jobs are created is a myth. For one


Eurico Zimbres

thing, the subsidy comes from other taxpaying businesses and individuals. Such corporate welfare merely recycles tax dollars from other sectors and thus weakens job creation in those same sectors.

The subsidy is even more absurd in light of the labour shortage faced by the global mining industry (Deloitte, 2010; Ernst & Young, 2011). Canadian mining companies need tens of thousands of workers to fill vacancies and meet new demand (MiHR, 2011). By subsidizing mine workers to remain at the Jeffrey mine, public money is being used to distort the labour market and provide incentives for workers to remain in an uncompetitive mine while positions are vacant elsewhere.

Canada has been blessed with many natural resources. It competes globally and does so by responding to market opportunities. In doing so, it prompts innovations and new technologies for more economical, safe, and environmentally sound mining. While governments clearly have a role to play in creating the regulatory framework and stable policies to attract mining investment, its role should not be to use public funds to prop up a failing product.

Notes

1 The inhalation of asbestos fibres can cause asbestosis, lung cancer, and mesothelioma. Exposure to health risks is primarily occupational and relates to inhalation during mining, manufacturing, construction, and renovation activities.

2 There are two broad mineralogical groups for commercial asbestos fibres: serpentine (chrysotile) and amphibole (tremolite, actinolyte and others). Chrysotile is different from amphiboles chemically and structurally, and it is generally accepted that chrysotile asbestos is less damaging to the lungs than the amphiboles (Health Canada, 2008).

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Fred McMahon

For roughly 40,000 years, human beings have been digging minerals out of the ground (Swaziland National Trust Commission). These miners have dealt with innumerable geological and physical risks—the minerals might not be there or not there in sufficient quantity or quality, or the mine may have any number of safety and health risks.

Miners have also faced human, above ground risks, but these have become even more important in recent times: resource nationalism, politically motivated and uncertain regulations, ideological anti-mining NGOs, violence, expropriation, confiscatory taxes, wildly fluctuating commodity prices, and nervous investors.

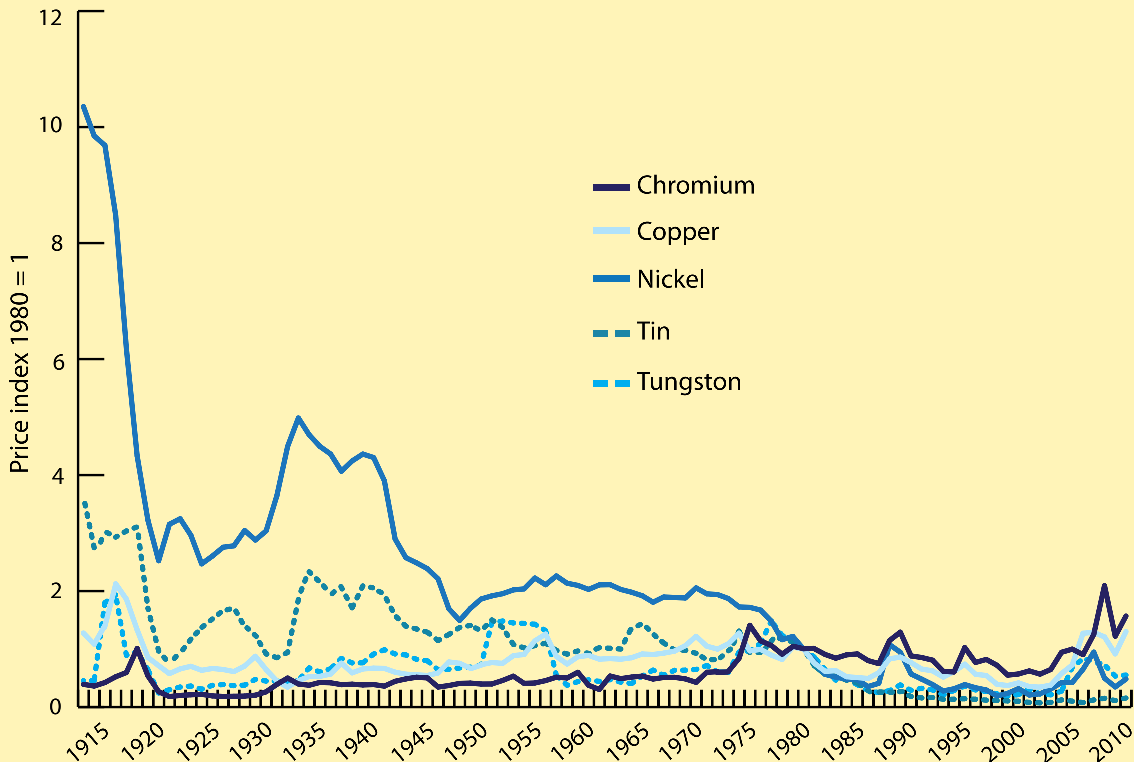
The Fraser Institute has joined with CRU, a London-based business analysis and consultancy group, to organize a conference on political risk—in other words, above-ground human-generated risk—in mining. The conference, The Mining Business Risks Summit: Valuing Your Options, will be held in Toronto on November 1 and 2 at the Intercontinental Hotel. (For more information, visit: **http://www.fraserinstitute.org/events-multimedia/event-display.aspx?id=18238**).

Now in its third year, this highly successful conference aims to discuss important global policy issues, the current threats and opportunities that miners face around the world, and possible future developments in political risk in mining. The goal is to inform policy makers, the industry, the media, and, through the media, the public about mining policy, its evolution, and other important factors affecting this resource industry.

Miners have been on a roller coaster ride these past few years. First came the commodity price boom, which lasted until the financial crisis of 2008. During this period of soaring commodity prices, many believed that the long-term, off and on decline in commodity prices was over (see figures 1 and 2).

According to many commentators, strong commodity prices also spurred the rise of resource nationalism, resulting in attempts by governments, labour unions, and other interested parties to increase their take from mining projects, leading to fears that mining profits would be dramatically reduced (Roubini, 2009).

Then came the Great Recession, the retreat of commodity prices and, many thought, the reversal of resource nationalism, with governments, unions, and other interested parties, worried about driving away mining investment in a time of weaker com-



modity prices. But it was not to last. Commodity prices quickly recovered and so did resource nationalism (Roubini, 2009; Esterhuizen, 2012).[1]

Now commodity prices are softening again, the future prices are uncertain, and investors are increasingly worried about commodity price risks. For this reason, a gap has opened up between the prices of mining stocks and what one would expect them to be given current commodity prices and the price/earnings ratio of these companies. This gap reflects investors' concerns about risks facing miners from both resource nationalism and uncertainty over future commodity prices, with many investors worried commodity prices will fall in the current uncertain global economy (Seeking Alpha, 2012; Elder, 2012).

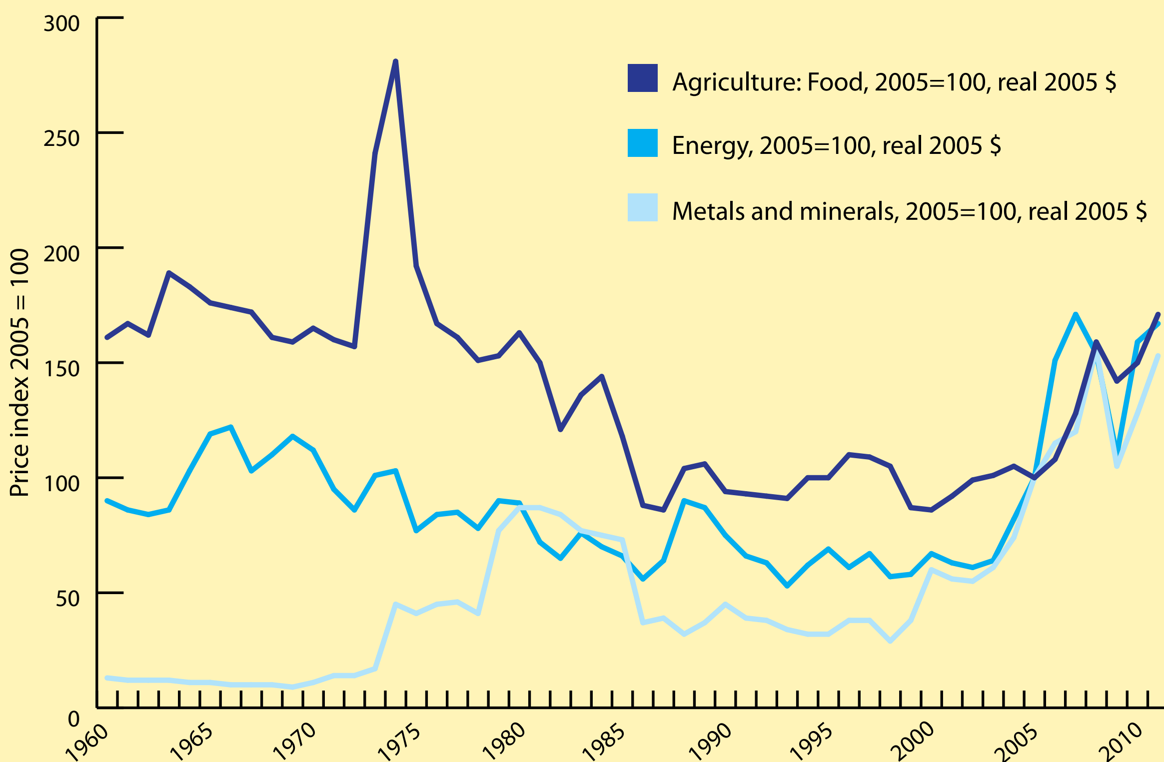
With this background, the Fraser Institute/CRU mining conference addresses the key policy questions facing the industry, government, and other stakeholders. They include:

- Taxation and royalties: Case studies from around the world help explain how the landscape is changing, what is happening to tax rates and royalties around the world, whether governments are transparent about tax and royalty policy making and implementation, and the impact of resource nationalism.

- Mine development risks: Is the boom over and are high mining costs now structural? Where are commodity prices going, and what will be the costs of extracting of minerals from increasingly difficult geological formations? Two worlds in mining and what it means for you: Examining the aggressive entry of Chinese mining companies into the global market place.

- Corruption and the shadow economy: Resource companies face corruption and the demand for pay-offs in many jurisdictions, yet many mining companies have internal codes of conduct against pay-offs, backed by anti-corruption legislation in their home nations, so the question of dealing with corruption often becomes a central problem.

- Focus on Latin America—Winning and maintaining social and environmental license: Mining companies worldwide, but especially those in Latin America, face the challenge of implementing environmental procedures



Source: World Bank, World databank.

that convince local governments and populations that proper environmental safeguards are in place.

- Risk assessment in strategic decision making: Evaluating and mitigating risk.

- Focus on Quebec: Uncertainty is rising in Quebec, once the world's top rated mining jurisdiction (McMahon and Cervantes, 2011), as the province is troubled by demonstrations, political confusion, a rewrite of the mining act, Plan Nord, and calls to remove much territory from mineral exploration.

Registration can be made through the Fraser Institute website at: **http://www.fraserinstitute.org/events-multimedia/eventdisplay.aspx?id=18238.**

Note

1 McMahon and Cervantes, 2011, also tracks, through a survey, miners' views of the policy situation in the world's most important mining jurisdictions.

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Opportunity for health reform: Lessons from the Netherlands

Antoine

Mark Rovere and Bacchus Barua

Despite billions of dollars in federal transfers used to finance provincial health care services (Esmail et al., 2012), government health care expenditures are growing at unsustainable rates across the provinces (Skinner and Rovere, 2011; TD Economics, 2010). Furthermore, even with the significant infusion of government spending, wait times have not improved overall in recent years (Barua et al, 2011); and in 2011, 4.4 million (15.5%) of Canadians aged 12 and older did not have access to a regular family doctor (Statistics Canada, 2012). It is clear that the status quo in Canada is not working and, importantly, public opinion polls indicate that Canadians are agreeable to change. For instance, a 2010 opinion poll found that 59 percent of Canadians agree that the Canadian health care system is not sustainable because of costs, and nearly 65 percent agree that raising taxes to pay for future health care costs is not the solution (Ipsos Reid, 2010). A more recent poll found that 91 percent of Canadians agree that Canada's health care system is in need of transformation to better meet their needs (Ipsos Reid, 2011). Nevertheless, 9 out of 10 Canadians support a single-payer (government-run) universal health care system (Nanos, 2009). Importantly, Canadians must recognize that universal health care does not imply a single-payer insurance scheme or the prohibition of patient cost-sharing for medically necessary services.

This article (the second of a series) explores how the Netherlands achieves universal health care by promoting patient choice, provider competition, and market incentives.

Spending and health care financing

Canada and the Netherlands spend relatively the same share of their gross domestic product (GDP) on health care. In 2010, health care expenditures in the Netherlands accounted for 12 percent of GDP compared to 11.4 percent in Canada. However, when the age of the population[1] is taken into account, health care spending accounted for 11.8 percent of GDP in the Netherlands compared to 12 percent in Canada (OECD, 2012a; calculations by authors).

Similar to Canada, the Netherlands has a universal health care system. However, in contrast to Canada where health insurance for medically necessary services is provided by the provincial governments, the role of the Dutch government is to simply ensure a properly functioning health care insurance market.

Since the implementation of the 2006 Health Insurance Act, everyone living in the Netherlands must[2]

purchase a standard insurance package from one of a number of private insurers (who may choose to operate on a for-profit basis) in a regulated, but competitive, market. Importantly, the government provides subsidies (referred to as a "care allowance") for low income individuals and families to help pay the cost of insurance premiums. All children under the age of 18 are also covered by this tax-financed fund. Finally, the government also has a universal safety net, the Exceptional Medical Expense Scheme—covering the entire population—which protects residents against catastrophic bills, long-term care, and certain chronic conditions (Maarse, 2009; CVZ, 2012a).

Importantly, insurers are required to accept all applicants, and must provide a standard benefits package which entitles patient access to most medical services provided by general practitioners, specialists, and obstetricians. Dental care (up to the age of 18) and allied health care like physiotherapy, exercise therapy, speech therapy, occupational therapy, and dietary advice are partially included (Kiesbeter, 2012a). Further, "although all mental health care is in principle covered by the [Health Insurance Act], the amount of care provided may be subject to statutory limitation" after which the Exceptional Medical Expenses Scheme takes over (CVZ, 2012b). Finally, pharmaceutical care is also provided for prescription drugs.[3] However, insurers are free to set stipulations concerning the designation of "drugs of first-choice" and the contracting of preferred pharmacies (CVZ, 2012c).[4]

Insurers typically offer benefits through in-kind plans (Natura Policy), reimbursement plans (Refund Policy), as well as a mixture of the two (Combination Policy). For in-kind plans, health insurers contract medical services directly with preferred health care providers, allowing them to negotiate prices. Patients enrolled in these types of insurance schemes can only seek treatment, within the network established by the insurer, but are covered at the point of service. On the other hand, reimbursement plans allow individuals to receive treatment from providers of their own choice. However, under such plans, insured individuals will first have to pay the full fee for the services out of pocket before being reimbursed by their insurer. Notably, it is common for insurers to offer a mixture of these plans in the form of a "combination policy." A typical scenario would involve letting the individual choose their own provider, but, if the provider is out of the insurer's network, the individual will have to cover some of the costs on their own (Rijksoverheid, 2012).

Premiums and cost-sharing

There are three primary ways in which insured adults contribute to the financing of the Dutch health care system (CVZ, 2012a; Government of the Netherlands, 2012a; Maarse, 2009).

Individuals are required to pay health care premiums to the insurers from whom they purchase the standard benefits package. While this premium can vary between insurers, they must determine a flat-rate premium using "community rating," which cannot be adjusted for individual factors like age, gender, or illness. The average annual premium in 2012 is around €1,284 (CDN$1475[5]) (Kiesbeter, 2012b).

Individuals must also pay an additional income-dependent contribution either through their employer, or directly to the relevant tax authority. The required rate of contribution for employed individuals in 2012 is around 7.1%.[6] The government, however, also sets a "maximum contribution income" limit. Individuals are not required to contribute further payment on income earned above this limit. In 2012, the maximum contribution income limit is €50,064 (CDN$57,524)—thus, effectively making the maximum contribution €3,554 (CDN$4,084) for high earning individuals. These contributions may be used to equalize the risk insurers bear, finance care for children under 18, as well as assist low income earners (Belastingdienst, 2012).

Individuals are also responsible for paying an excess deductible. This means that, in 2012 for example, individuals must pay the first €220 (CDN$253) for received care after which their health insurance kicks-in. Services provided by GPs, obstetric, and prenatal care, certain screening procedures and immunization programs, and dental care for under 18-year-olds are, however, exempt. Health insurers are also allowed to offer lower premium rates to their clients if the latter chose to be subject to a higher deductible (Government of the Netherlands, 2012a; Kiesbeter, 2012c).

Choice and performance

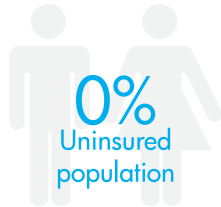
As mentioned previously, the health insurance market is competitive in the Netherlands as the insured have the ability to shop around for a policy that best suits their personal needs. Individuals and families are also allowed to terminate the plan with their current insurer by the end of each year in order to switch insurers (Government of the Netherlands, 2012b).

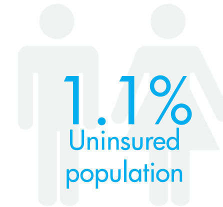
Due to continual reforms directed towards increasing patient choice, individuals can now not only freely choose their GP (who is also given the freedom to refuse registration based on certain criteria) but do not necessarily have to be registered with one. Patients are still, however, by and large, subject to a gatekeeping system and require a referral in order to see a specialist (Government of the Netherlands, 2012b).[7]

Because everyone must be insured in the private sector and because individuals and families can switch insurers without a financial penalty, private insurers are forced to compete on price. At the same time, insurers

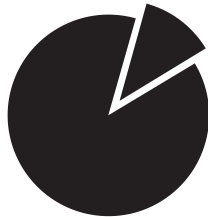
Table1: Health system comparison between CANADA & NETHERLANDS

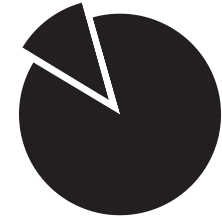
	CANADA	NETHERLANDS
Type of Insurance:	Universal (Public)	Universal (Mandatory Private)





	CANADA	NETHERLANDS
Financing	Mostly general taxation	Premiums and taxes (general and payroll)
Premium regulation	Not applicable	Community rated
Registration with GP required	No	No
Health spending as a % of GDP, age-adjusted (2010)	12.0%	11.8%

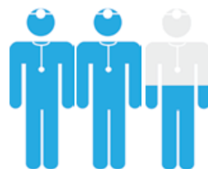




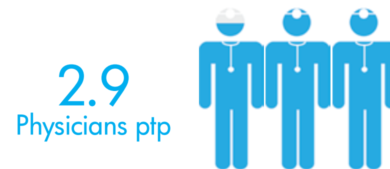
Cost sharing

CANADA	NETHERLANDS
• Drugs	• Deductible • Non-contract physicians • Non-listed drugs • Nursing home

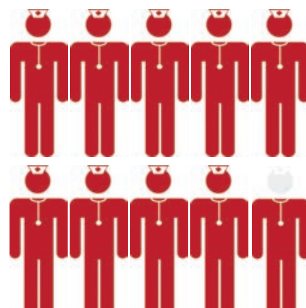
	CANADA	NETHERLANDS
Gatekeeping*	Yes	Yes
Acute-care beds ptp**	1.8	3.0
CT scanners pmp**	14.9	12.1
MRI scanners pmp**	8.6	12.0
PET scanners pmp**	1.3	4.7
Lithotriptors pmp**	0.4	2.4
Two months or more for specialist appointment	41%	16%
Four months or more for elective surgery	25%	5%



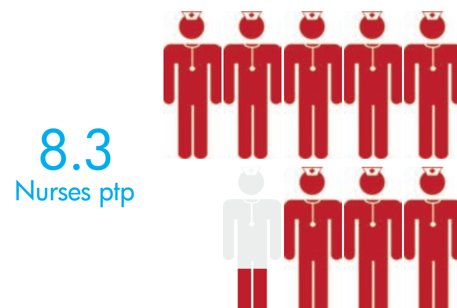
2.5
Physicians ptp



2.9
Physicians ptp



9.8
Nurses ptp



8.3
Nurses ptp

Notes: OECD data is from 2010, or most recently available, and is age-adjusted by the authors.
*Gatekeeping refers to the practice of requiring a referral from a general practitioner in order to see a specialist physician.
**ptp: per thousand population; pmp: per million population.
Sources: OECD, 2012; OECD, 2011; Paris et al., 2010; Commonwealth Fund, 2011; WHO, 2007; Government of Netherlands, 2012b.

negotiate prices with health care providers for preferred services. Consequently, providers compete on both prices and quality. That both benefits patients and creates a system of accountability.

The Dutch not only enjoy a wide variety of choice among insurers, but also have a slightly higher concentration (availability) of important health care resources (see table 1). For instance, after adjusting for population age, in 2010 the Netherlands had 2.9 physicians per thousand people compared to 2.5 in Canada; 3.0 acute-care beds per thousand people compared to 1.8 in Canada; 12.0 MRI scanners per million compared to 8.6 in Canada; 4.7 PET scanners per million compared to 1.3 in Canada; and 2.4 Lithotriptors per million compared to 0.4 in Canada. While Canada had slightly more nurses per thousand people (9.8 versus 8.3 in the Netherlands) and more CT scanners per million (14.9 versus 12.1 in the Netherlands), generally speaking, the Dutch have a higher concentration (availability) for the majority of important medical services.

Critically, in contrast to Canada, relatively few patients in the Netherlands are expected to endure lengthy wait times for appointments with specialists or to receive elective surgery (see table 1). According to the Commonwealth Fund survey on wait times, in 2010, a full 41% of respondents waited "two months or more for a specialist appointment" in Canada compared to just 16% in the Netherlands. Similarly, in that same year, 25% of Canadian respondents waited "four months or more for elective surgery" compared to a mere 5% in the Netherlands (Commonwealth Fund, 2011).

Lessons for Canada

The Netherlands offer an example of a practical, working system that provides universal health care without relying on a government-run health insurance monopoly. While the Netherlands spends roughly the same on health care (as a percent of GDP) as Canada, it does so by incorporating provider competition and consumer choice. Canada does have a slightly higher concentration of some medical services such as nurses and CT scanners, but in general, the majority of important medical services are more available to the Dutch.

The findings of this article are similar to those in a previous article on Switzerland in an earlier issue of *Fraser Forum* (Rovere and Barua, 2012). Both demonstrate how Canada can maintain its social goal of universal health care while relinquishing its government-run insurance monopolies. Importantly, by encouraging individuals and families to shop around for the insurance plan that best suits their personal needs, insurance companies are forced to compete on both price and services. Likewise, due to the competitive nature of the insurance

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market and because patients and insurers have the ability to choose their preferred providers, the appropriate economic incentives are in place to encourage a highly efficient health care market centered on the patient.

Notes

1 Adjusting for age makes aggregate health spending data more comparable between countries with different age distribution profiles. Health care data suggests that health expenditures on seniors are significantly higher than per capita spending in general, due to their need for higher utilization of resources (Esmail and Walker, 2008).

2 Conscientious objectors and soldiers on active service may be exempt from compulsory coverage. All other uninsured individuals are required to pay a fine, as well as the cost for all medical services consumed during the period of non-insurance (CVZ, 2012a).

3 The government "determines which registered medicines are paid for in the basic insurance, and under what conditions." Only medicines listed in Appendix 1 are fully reimbursed (with or without co-payment), while those in Appendix 2 are only reimbursed under certain conditions (Kiesbeter, 2012a).

4 For example, insurers can stipulate which drugs are eligible for full or partial reimbursement and can require their insured recipients to fill their prescription at specific pharmacies. Similar to a managed-care model, this allows insurers to negotiate lower prescription drug prices with particular pharmacies. In fact, research shows that insurance companies actually offer positive incentives such as gift certificates, bonuses, and additional services to clients who used the preferred pharmacy (Boonen et al., 2008).

5 Conversion performed using Purchasing Power Parity (PPP) monthly comparative price levels for June 2012 (OECD, 2012b).

6 Certain individuals like entrepreneurs and freelancers, alimony receivers, pensioners, etc. are required to contribute at a lower rate of 5%.

7 No referral is required for physical and exercise therapists, dental hygienists, dermatologists, dietitians, speech therapists, and podiatrists. Some insurance companies may, however, still require a valid referral for reimbursement (Government of the Netherlands, 2012b).

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Obamacare for Canadians:

The short, unhappy life of a failed US health reform

Office of the President

John R. Graham

In March 2010, President Obama signed the Patient Protection and Affordable Care Act (PPACA), also known as Obamacare, to reduce the number of uninsured Americans and bring the nation within a whisper of "universal" coverage.

According to the original estimates produced by the Congressional Budget Office (CBO), 32 million Americans would become newly insured by 2019, a one-eighth increase to the 282 million already covered (CBO, 2010). And yet, Obamacare has always faced opposition amongst politicians and the American public.

The president and the democratic majorities in both the House of Representatives and Senate were utterly uninterested in achieving bipartisan support as they moved their health reform plan through the legislative process in 2009. However, after the death of Massachusetts Senator Edward Kennedy, the state held a special election to choose his replacement and elected a Republican, Scott Brown (Cooper, 2010). This cost the Democrats their 60th vote in the Senate, which meant that they could no longer block a Republican filibuster of the health reform bill.

The surprising election of the Republican Brown by liberal Massachusetts was a signal that voters were disappointed by the hyper-partisan nature of the legislation. Despite this, the Democrats decided to send a bloated and confusing reconciliation bill to the president's desk for signature.[1] This preference to avoid any negotiation with Republicans on the most significant domestic legislation in half a century was unprecedented.[2] The hyper-partisan PPACA was an important reason for the Republican landslide in the 2010 mid-term elections, which restored the GOP to the majority in the House of Representatives. Popular resistance continues despite (or perhaps because of) the US Supreme Court's ruling, in National Federation of Independent Business v. Sebelius, at the end of June that most of Obamacare is constitutional.[3]

A July poll by Rasmussen, a national polling firm, shows that the American people continue to oppose Obamacare. Fifty-two percent of likely voters favour repealing Obamacare, of which 41 percent strongly favour repeal. Only 43 percent oppose repeal, of which 35 percent are strongly opposed. This was the 102nd consecutive poll showing a majority of voters favouring repeal, and the 40th consecutive time, dating back to the spring of 2011, showing a double-digit margin in favour of repeal (Rasmussen Reports, 2012).

For Canadian readers to understand why Obamacare is so unpopular, it is useful to divide the US health care system into three big pieces: Medicare, Medicaid, and private (usually employer-based) health insurance. Medicare is a single-payer federal health plan for seniors who have paid payroll taxes into the system. Obviously, those seniors are intensely interested in the future of the program. Medicaid is a joint state-federal program for low-income Americans, and is now the largest item in most state budgets. Any growth in Medicaid increases the financial burden on the states and provokes their concern. Employer-based health benefits are valued by workers, who believe that their employers pay for most of their health benefits (not understanding that, in fact, they pay for them in the form of lower wages). Obamacare managed to draw the wrath of all three of these constituencies.

In round numbers, the CBO's original cost estimate for Obamacare was a little over one trillion dollars over ten years

(CBO, 2010). Most of the spending goes to expand Medicaid and subsidize the expansion of private insurance to people above the income cut-off for Medicaid and about half the revenue was estimated to come from tax hikes. However, the other half of the revenue will come from cuts to Medicare. These will come through "efficiencies" generated by new government bureaucracies, especially the Independent Payment Advisory Board (Graham, 2011a).

Popular resistance to Obamacare continues, despite the recent US Supreme Court ruling

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Unlike Canada, where the federal government finances health care through easily calculated transfers to the provinces, the US government's contribution to Medicaid automatically spirals up: For every dollar a state spends on Medicaid, the federal government chips in $1.14 (on average). This gives states an incentive to ratchet up their own Medicaid spending (Graham, 2010). Obamacare makes this worse by increasing eligibility (about half of the newly insured will be on Medicaid) and dramatically increasing the matching formula. States are terrified that this will lead them into a death spiral of overspending (Haislmaier & Blase, 2010). Although states are still debating whether to collaborate with Obamacare, the Congressional Budget Office now estimates that only one third of the newly eligible Medicaid population will reside in states that will fully expand the program along Obamacare's lines (CBO, 2012b).

States also have a big role to play in regulating private insurance, which is significantly transformed by Obamacare. During the 2008 presidential campaign, then Senator Obama frequently reiterated a promise that health insurance premiums for the average family would drop by $2,500 annually by the end of his first term; a claim that will not be achieved (Sack, 2008). Indeed, the CBO projects that premiums for private health insurance will increase by an average of 5.7 percent annually (CBO, 2012a). However, this is surely an underestimate because the CBO is extrapolating from the pre-Obamacare trend, which was unusually low due to the recession.

Since 2008, US spending on health goods and services has been growing at less than five percent annually. Pre-Obamacare, health insurers reacted to this by restraining their premium increases in a more competitive environment. Obamacare, with its massively increased regulation, caused a reduction in competition and allowed insurers to raise their rates at a faster pace than the underlying medical claims, likely because insurers began to withdraw from certain states. In 2010, growth in private premiums exceeded growth in total benefits for the first time in seven years (Graham, 2012a). In 2011 alone, premiums for a family increased by 9.5 percent, despite slow growth in medical claims (Graham, 2012a). Small businesses and working people have already been harmed by Obamacare. In response, most states are declining to establish Obamacare's so-called Health Benefit Exchanges. These exchanges are new state bureaucracies which will choose a limited number of health plans for people whose incomes are too high for Medicaid eligibility, but who do not have employer-based health benefits. Billions of dollars of subsidies are supposed to flow through these to private health plans—governors and state legislatures are stopping these exchanges from occurring (Graham, 2011b, 2011c).

The American health system has resulted in stupefying complexity and bureaucracy. In the decade before 2009—a period of mostly Republican rule—the federal regulatory burden on US health care increased by over half (as measured by the number of pages in the Code of Federal Regulations) (Graham, 2009). Americans control a smaller share of their health care dollars directly than do residents of most other developed nations—about the same as Canadians, who live under a single-payer, government monopoly (Graham, 2012b).

Obamacare, with its countless new government agencies and excessive government spending, doubles down on these failed policies of the past (Coopeland, 2010). The US election this November will determine whether the American people will be able to repeal Obamacare and replace it with reform that puts patients, not politicians, in charge of US health care.

Notes

1 The US Senate comprises one hundred members. In order to allow maximum debate, one Senator can hold the floor for as long as he wishes—the so-called filibuster. To override a filibuster requires sixty votes. Because the Democrats had sixty votes before the death of Senator Kennedy, they believed that they could quash a Republican filibuster of the bill passed by the House of Representatives and debate their own amendments at leisure, eventually sending a revised bill back to the House (which also had a Democratic majority) for final approval, or negotiating differences via a "conference" of both chambers. The election of a Republican to replace Senator Kennedy meant that the Republicans could filibuster and, therefore, eternally block, this process. The arcane rules of the Senate permit a process called "reconciliation" to deal with purely budgetary matters. Budget reconciliation cannot be filibustered. Although PPACA dealt with a host of non-budgetary issues, the Senate majority was no longer able to amend these parts of the bill. So, the Senate majority awkwardly "stapled" a reconciliation bill onto the House's legislation, which the House quickly approved and sent to President Obama for signature. The result was a clumsy and confusing bill.

2 Most Republicans in Congress supported the 1935 Social Security Act, which imposed a payroll tax to fund a pay-as-you-go national retirement scheme. The 1965 Social Security amendments that instituted Medicare (the single-payer health plan for most Americans over age 65) and Medicaid (the joint federal-state health plan for low-income Americans) also enjoyed Republican support, resulting in over 70 percent majorities in both chambers.

3 The most politically controversial part of the bill was the "individual mandate" that every American acquire health insurance or pay a penalty. The National Federation of Independent Business and others asserted that it was unconstitutional for Congress to force an individual to purchase a good or service. However, the majority of the Supreme Court found that the mandate was constitutional under Congress' power to tax. However, Obamacare also expanded Medicaid, a health program for the poor that is funded by both federal and state governments. Obamacare asserted that the federal government could withhold federal funds from states which declined to expand the population eligible for Medicaid—even funds that were authorized under the original 1965 Medicaid law. The Supreme Court found that this was coercive and beyond Congress' powers.

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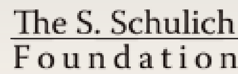

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