

# Canadian student review

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## NAFTA

### *Yields Incremental Gains*

By Matthew Day

*"Much of what was promised from NAFTA could never be achieved solely through a free trade deal; much of what has occurred since NAFTA was ratified cannot be attributed to policy changes that the trade pact mandated."—Gary Clyde Hufbauer and Jeffrey J. Schott, NAFTA Revisited.*

The polemic expectations of NAFTA have contributed to the sustained debate over its successes and shortcomings. *(continued page 3)*

# Canadian student review

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## Welcome!

This issue of CSR features provocative articles on the effects of NAFTA, health care, and generosity in Canada. Congratulations to Tim Mak, winner of the CSR Op-ed contest, whose article on liquor retail privatization garnered him a \$100 cash prize.

Do you have what it takes to be published in CSR? We are looking for well-written articles on economics and public policy topics. Send them to me no later than March 14th for consideration in the next issue.

We would like to acknowledge the Lotte & John Hecht Memorial Foundation for their sponsorship of this magazine, which allows us to distribute CSR free of charge on campuses across Canada.

Best wishes  
Vanessa

**Vanessa Schneider**  
Director of Student Programs

# NAFTA

## *Yields Incremental Gains*

*(continued from cover)*

A proper evaluation of the impact of NAFTA on Canada must separate such expectations from the actual outcome. The mixed results of NAFTA on trade and employment have made conclusive assessment of NAFTA difficult. However, in the ideological debate over free trade, the arguments of NAFTA's proponents clearly prevail over those of the critics, within the current political and economic landscape. Based on these assessments, it can be demonstrated that NAFTA has marginally benefited Canada.

Evaluation of NAFTA should be measured against the two primary goals of the agreement; namely, increased trade and employment. Most economists agree that "[much] of what is happening is not easily measured or modeled" when assessing NAFTA's impact on trade and investment (Hart: 611). Nonetheless, available evidence concludes that NAFTA has had a positive impact on Canada (Hufbauer and Schott 19). Increasing levels of market integration have led to "increased trade in goods, services, knowledge, and investment", as well as fostering trilateral cultural and lingual exchanges (Hart: 610 -11). NAFTA has contributed to an "increase in the variety of products available to Canadians by 60 percent per year" (Curtis and Sydor 2). US imports from Canada have risen 190 percent, while the 140 percent increase in exports to Canada has translated into a proportionately greater increase of product variety in Canada than in the US (Hufbauer and Schott:18). Of the primary goals of NAFTA, increased regional trade has been the most conclusively achieved.

Positive conclusions about other goals are harder to draw amidst NAFTA's mixed results. The effects of NAFTA on employment are difficult to quantify because of the relatively short life of the agreement. However, "the available evidence suggests that the net impact of [increased regional] trade on employment has been positive" (Harris: 23), although it has been "less than promised by politicians and more than promised by pundits" (Hufbauer and Schott: 38). Trade agreements generally "have no impact on employment levels in the long run" (Curtis and Sydor: 1), although employment rose from 12.7 to 15.7 million between 1993 and 2003 (Hufbauer and Schott: 38). However, some economists argue that the

increase in employment has not yielded an overall increase in the standard of living of Canadians because of the widening 'productivity gap' between Canada and the US as a result of American IT usage (Hufbauer and Schott: 43). Another concern is that NAFTA is contributing to a high-skilled labour migration, although NAFTA's contribution is secondary to "higher Canadian taxes, better US job opportunities, and higher salary levels [in the US]" (Hufbauer and Schott: 96). Although NAFTA has been able to create a modest increase in Canadian employment, it has not been able to address employment-related issues outside of its mandate.



The ideological debate is an important final step in establishing how NAFTA benefits Canada. One group of critics argues that NAFTA challenges Canada's ability to "propose government-based solutions to a variety of socio-economic problems" (Hart: 612). These critics also argue that free trade agreements bypass democratic processes and blur national identity. Conversely, another group of critics argue that NAFTA has neither the scope nor the strength desirable for Canada. These critics advocate for an EU-like partnership that would make supranational decisions more binding (Hart: 612). Both critical arguments of NAFTA essentially say that only strong governments, be they national or supranational, can handle the intricacies of economics.

NAFTA proponents have responses to both of these ideological challenges. First, the argument that free trade bypasses democracy is disarmed by the fact that markets are profoundly democratic because consumers make choices about their preferences daily. Being a small open economy, Canada is “heavily dependant upon trade to sustain incomes and living standards” (Harris:10). NAFTA

## NAFTA has clearly achieved the intended goal of increased trade

provides a means of balancing state sovereignty and economic prosperity, while increasing the quality of Canadian market ‘democracy’. Second, the argument

that Canada would benefit from a stronger supranational body fails to recognize that American political philosophy precludes any sacrifice of self-determination for economic gain. In the current political atmosphere, free trade association is the most beneficial economic course of action for Canada.

In summary, NAFTA has clearly achieved the intended goal of increased trade, while the goal of increased employment is harder to quantify. The ideological debate is arguably won by the proponents of NAFTA, who argue that markets and freer trade encourage democracy and prosperity in Canada. ■

*Matthew Day is a second-year student at the University of Ottawa, pursuing an Honours Bachelor of Social Sciences with a Major in Political Science and a Minor in History. This article is excerpted from a longer paper examining the effects of NAFTA on Canada.*



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# Seen a **SPEAKEASY** Lately?

By Tim Mak

**C**anadians have had a long and storied relationship with their alcohol. In 1898, in one of three national referenda ever held in our country, citizens were asked if they were “in favour of the passing of an Act prohibiting the importation, manufacture or sale of spirits, wine, ale, beer, cider and all other alcoholic liquors for use as beverages” (Dunsmuir, 1992). In every single province but Quebec, polls returned a resounding victory for the temperance movement. However, as time wore on, people began to realize that a ban on alcoholic goods was unenforceable and only led to the creation of black markets that bred violence and funded criminal organizations. While well-intentioned, proponents of government intervention on the matter ended up supporting a policy that resulted in unintended negative consequences.

Realizing that the government could not effectively suppress one’s freedom to drink alcohol, temperance advocates focused on promoting government control of liquor through regulation and liquor control boards. To this day, we find much of the temperance movement’s work intact. Indeed, Alberta is the only province in Canada that has completely privatized its retail liquor industry. But we don’t live in the 19th century anymore, and the original aspirations of the temperance movement are extinct. Today there is no justification for a state monopoly on alcohol.

Using Alberta as an example, we find that privatization of liquor retailing leads to a reduction in prices, greater accessibility, the creation of more jobs, and greater product choice. Allowing the private sale of alcohol enables businesses to compete, and liquor stores attempt to differentiate themselves from the competition by offering competitive prices, greater selection, and better service. Privatization in this industry also allows entrepreneurs to open more liquor outlets. Since Alberta significantly liberalized its liquor laws in 1994, it has seen a 250 percent increase in the number of liquor stores (West, 2003). What is best about this increase is that since store locations are determined by market

demand, a store will locate where it is most accessible to those that demand its goods. Instead of just a geographically random increase in the number of stores, entrepreneurs have the incentive to locate their liquor outlets in locations that maximize profits and benefit consumers most, by reducing the time, effort, and transportation costs necessary to purchase alcoholic beverages. In addition to greater accessibility, an increase in the number of liquor stores also creates new jobs. In fact, Alberta has seen the number of full-time equivalent positions more than triple since 1994 (West, 2003). The final benefit of privatization of alcohol distribution is that it leads to an increased range of products in stores. The owners of these private liquor stores have a profit incentive to supply goods that satisfy even the most obscure product demands. This does not necessarily mean bigger stores, but stores that will now have products that consumers demand, rather than products set out in a government-dictated inventory list.

A typical argument in favour of the regulations surrounding alcohol distribution is that it is not a typical good. The argument goes that alcohol can lead to a variety of illnesses, physical and social. Others argue that the risk for abuse is great, and that there are some negative consequences beyond the individual, such as drunk drivers. Of course, no one can say that alcohol doesn’t carry significant risks. But surely the fact that alcohol is dangerous is not reason enough to infringe on an individual’s ability to use it. I could accidentally stab someone with a screwdriver if I use it irresponsibly, but only the most radical would agree that this justifies a state-run monopoly on screwdrivers and other pointed objects. Moreover, it is absurd to think that walking into a government-run liquor distribution outlet would somehow make me a more responsible user of alcohol. Reckless indi

**we don’t live in  
the 19th century  
anymore**

individuals will get their alcohol whether it's sold to them by the state or by a private business.

The idea that we need a paternalistic agency to control our alcohol consumption is archaic and hurts consumers. Whether it is a BC Liquor Store, a Beer Store, an LCBO or an SAQ, we should consider why we need the government to control liquor distribution, after taking into account the negative effects a public monopoly on alcohol brings. The next time you buy something alcoholic to drink, think about how you could have walked a shorter distance to get to a liquor store, had a better selection when you arrived, and paid less at the register. Privatize the SAQ—I'll drink to that. ■

*Tim Mak is a third-year Political Science and Geography student at McGill University in Montréal. In the summer of 2007 he was an intern in at the Fraser Institute, working in the Donner Canadian Foundation Awards for Excellence in the Delivery of Social Services program.*

**WINNER!** *This article is the winner in the CSR Op-ed contest. Congratulations to Tim Mak who wins a \$100 cash prize. Details of the Op-ed contest are on page 14.*

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# Saskatchewan's Universal Drug Program

## How Flawed Election Promises Can Lead to Unsound Public Policies

By Mark Rovere and Brett J. Skinner

In the midst of the October 2007 provincial election in Saskatchewan, NDP Leader Lorne Calvert proposed expanding the province's public drug plan to cover all provincial residents. Calvert was not elected, so his universal drug plan did not become policy. However, the concept is not novel and will surely be revisited in the future. Advocates of universal, publicly-funded drug programs argue that such plans reduce costs while providing equal access to new medicines. Though these assertions appear at the outset to make sense, they could not be further from the truth.

Prior to Calvert's proposal, Saskatchewan's drug program provided drugs at a flat rate of \$15 per prescription to seniors and low-income residents. Mr. Calvert argued that the new program would improve access to medicine. However, economic evidence and policy experience suggest that the program would have been expensive for taxpayers. The costs would have inevitably created pressures for government to stop covering the most advanced medicines. Such a program would also crowd out the availability of alternative private insurance coverage, leaving people stranded in the government plan.

By capping drug costs at a fixed rate of \$15 per prescription for the entire population, individuals would be overly insulated from the cost of prescription drugs, which would result in escalating program expenditures. As we have seen

with Medicare, when government health insurance attempts to provide equal access and cover 100 percent of the costs of any medical need on a universal basis, then the system becomes financially unsustainable. Under such programs, costs tend to rise faster than the capacity to pay for them (Skinner and Rovere, 2006; 2007).

It is true that any kind of insurance (private or government) insulates the consumer from price to some degree and this can distort demand. But when drugs are publicly funded, politicians face pressure from voters to reduce consumers' out of pocket cost. Lack of exposure to cost removes necessary economic incentives that help to control price inflation and encourage the efficient use and substitution of medicines (Skinner and Rovere, 2007).

### How will governments deal with the rising cost of a new universal drug program?

Experience shows that government drug insurance programs are notorious for restricting access to new medicines in a misguided attempt to control costs (Skinner and Rovere, 2007).

As table 1 shows, in 2005 Saskatchewan's public drug program took 268 days, or nearly 9 months on average, just to decide whether or not to pay for a new drug after Health

“...costs tend to rise faster than the capacity to pay for them”



## “... private insurance provides full access”

Canada had certified it as safe and effective. Making matters worse, the program ultimately only fully covered about 28 percent and partially covered an additional 26 percent of all new drugs that were approved by Health Canada in that year. As more people become dependent on public drug programs, costs will inevitably escalate causing even more government rationing. Consequently, the meagre drug coverage that Saskatchewan residents currently rely on would likely become even less comprehensive were the province’s entire population to become eligible for public drug coverage.

Currently in Canada, most people with private insurance do not pay for it directly. It is usually paid for by employers and this also distorts a properly functioning market.

However, public drug programs tend to be even further insulated from the kinds of incentives that would produce better choice and access for patients, as well as cost control. They are often in effect government-run monopolies facing political incentives that are counter to sound insurance design. Public drug programs cannot take advantage of the efficiency benefits of new medical technologies because they usually are not designed with appropriate incentives for patients and providers to make optimal use of medical goods and services (Skinner and Rovere, 2007).

**Table 1: Full and Partial Public Reimbursement of New Drugs for the Province of Saskatchewan, 2005**

	Drugs eligible for public reimbursement	Drugs eligible for public reimbursement as a percentage of total drugs that were issued market authorization from Health Canada in 2005 (54 total)	Average time taken by the province to issue a final reimbursement decision (in days)
Full coverage	15	28%	298
Partial coverage	14	26%	239

The presence of a universal, publicly-funded program would also destroy the market for private drug insurance. For people on ordinary incomes, there is little extra money to pay additional premiums for private insurance after paying taxes to fund the public system. Most people would pass up private insurance thinking the taxpayer-funded

Source: Brogan Inc., (2007). Author's calculations using data obtained for Access Delayed, Access Denied: Waiting for Medicines in Canada (2007).

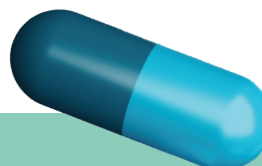
program would be sufficient; they would realize too late that they can't get public coverage for the drug they need and their pre-existing condition makes them uninsurable. The resulting lack of parallel private insurance options would effectively eliminate their ability to escape the public program when it fails to meet their needs.

By contrast, private insurers generally cover every drug as soon as Health Canada has certified them. This means that private insurance provides full access to the latest medicines without any delay.

Fortunately, for the sake of all Saskatchewan residents, the notion of a universal, publicly-funded drug program is no longer being discussed. However, residents in other provinces must be cautious, as universal drug programs will surely be used as a means of attracting votes in future elections. Instead of cutting costs and granting equal access to the most innovative medicines, this will have serious consequences for anyone who becomes ill and lacks the financial capacity to pay cash for their drugs, after already paying taxes to fund such an enormous new program. ■

### All the wrong incentives

Private insurance companies are more likely to cover new medicines because they must compete for clients by providing the widest range of benefits possible at acceptable premium prices. In a private competitive market, patients receive the best value for their money because they choose the coverage that most reflects their medical needs depending on their willingness to pay higher premiums and co-payments.





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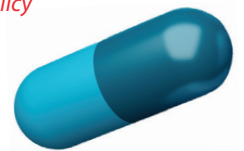
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The intern will be responsible for identifying schools, and documenting their important characteristics, and establishing contact with them.

The candidate should have completed a Bachelor's level degree, have strong research skills; have a persuasive telephone manner, and have strong MS Word and MS Excel skills. Facility in English is essential. The ability to work in additional languages is desirable.

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The applicant should be: familiar with finance or accounting and/or economics; proficient with MS Excel; comfortable and familiar with government documents; able to communicate and write complex issues in an accessible and easy-to-understand manner for average, interested readers; detail-oriented; familiar with academic and non-academic research methods; able to work independently within a team structure.

#### **EDUCATION POLICY: CHILDREN FIRST PARENT SURVEY – TORONTO**

The intern will work with the Director of Education Policy and the Program Director for Children First: School Choice Trust to survey lower-income parents who applied for the Children First grant and either did or did not receive a Children First grant. The survey recipients will be asked about their demographics, their reasons for wanting a grant and their satisfaction with their children's school(s). The intern will be responsible for disseminating the survey, persuading parents to complete and return it, organizing, analyzing, presenting and writing up the findings. He or she will also be asked to help with events, mapping projects and other Children First related tasks. Children First is Canada's first privately funded, province-wide school choice program. The applicant should be: a clear thinker and writer; capable of working independently; interested in education and free-market ideas; capable of writing about complex ideas in a simple, understandable manner; a clear and patient communicator.

### Program internships

#### **DEVELOPMENT INTERNSHIP – VANCOUVER**

Reporting to the Director of Development, the intern will be exposed to a variety of tasks essential to the success of the development department of one of Canada's largest independent non-profit research organizations. These projects will include researching and identifying major prospects for general contributions and project specific work, developing proposals to market to foundations, individuals and corporations, identifying potential sponsors for Vancouver events, and participating in fundraising events. The intern will develop their skills through mentorship from professional fundraising staff and access to ample resource materials. The intern will learn how to craft effective proposals, and will learn key criteria for identifying major prospects and then put this to use.

The candidate should be: interested in learning about fundraising in a non-profit research organization; a strong communicator (written and oral) with a professional demeanour; organized; able to work independently as part of a team; and familiar with MS Word and Excel.

In 2007, waiting times for access to health care in Canada reached a new historical high: 18.3 weeks averaged across 12 medical specialties (Esmail and Walker with Bank, 2007). While many politicians are likely to respond by pointing to costly government programs and initiatives attempting to shorten wait times, few will ask the important question: why are Canadians waiting at all?<sup>1</sup>

# WHY WAIT?

By Nadeem Esmail

Wait lists for medically necessary health care are Canada's shame. Canadians are generally proud of their universal access health insurance program, which ostensibly provides access to care regardless of ability to pay. But, as Chief Justice of the Supreme Court Beverley McLachlin and Justice of the Supreme Court John Major stated in the 2005 Chaoulli decision:

"Access to a waiting list is not access to health care" (Supreme Court of Canada, 2005: para. 123)

An examination of Canada's lengthy wait lists can help put that statement in perspective. For example, Canadians waited a median of 25 weeks for cataract surgery in 2007 from the time their general practitioner (GP) referred them to a specialist to the time they received treatment. More alarmingly, Canadians waited a median of 42 weeks for joint replacement from GP referral to treatment (Esmail and Walker with Bank, 2007). This means that of those patients who were referred by their GP for a hip or knee replacement surgery on January 2, half will have received their treatment by October 21 while half will still be waiting for care.

Consider for a moment the personal costs a wait time of that magnitude entails. Of course there are the medical issues of an adverse event while waiting, a potentially worse outcome from surgery, or a potentially more difficult surgery and recovery as a result of deterioration over the 42 week period. But there are also additional and often significant personal costs that are rarely accounted for in Canada.

Any wait, even a short one, entails some amount of pain and suffering, mental anguish, lost productivity at work and leisure, and strained personal relationships. Wait times can also take a toll on the family and friends of those waiting, and may even have an effect on an individual's ability to provide for himself and his loved ones.

How concerned are governments about the personal costs associated with these lengthy wait times? Not much, it seems. While they are focusing on defining a limit to how long Canadians should wait for care, their focus is from the perspective of avoiding serious negative health consequences and not from the perspective of minimizing waiting (and thus personal costs) altogether.

According to the Pan-Canadian Benchmark Wait Times announced jointly by the federal, provincial, and territorial governments in December 2005, being treated within 26 weeks from the time a Canadian sees a specialist to the time they receive treatment for hip or knee replacement surgery is reasonable. So is being treated within 26 weeks for level 3 cardiac bypass surgery, or 16 weeks for cataract surgery for patients at "high risk," or 4 weeks for radiation therapy (Ontario Ministry of Health and Long Term Care, 2005). Notably, many of the provincial wait times guarantees announced earlier this year are much longer than even these generous targets (Esmail, 2007).

For those wondering how we can get ourselves out of this mess, the answer is surprisingly simple. Canadians must move beyond the politics and rhetoric that plague the health care debate and let health care policy reform be guided by a serious examination of the policies of the nations that deliver universal access health insurance without waiting lists.

Austria, Belgium, France, Germany, Japan, Luxembourg, and Switzerland provide what many Canadians might see as the impossible dream. In each of these nations, individuals are guaranteed access to health insurance regardless of their ability to pay. And each of those individuals, regardless of their income or wealth, has access to the health care they need without waiting lists (Esmail, 2004). Equally importantly, the cost of these health care systems is, on an age-adjusted basis, similar to or

**THE ANSWER IS SURPRISINGLY SIMPLE**

## ACCESS TO A WAITING LIST IS NOT ACCESS TO HEALTH CARE

less than Canada's, so Canadians need not dig deeper into their pockets to achieve this sort of access (Esmail and Walker, 2007).

In these nations, patients are free to choose for themselves whether their care provider will be a public or private hospital, all under the terms of the public insurance contract. They must, however, share in the cost of the care they consume, which encourages them to make more informed decisions about when and where it is best to access the health care system. Patients in these nations are also free to purchase the care they desire privately if they wish to do so (Esmail and Walker, 2007).

While patients in these seven nations bear more personal financial responsibility for the care they consume, they also enjoy more freedom in determining who will pay for and who will deliver the care they need. The result is that patients enjoy access to care without waiting lists.

Each of these sensible policies has come under fire in Canada as a road to the "Americanization" of health care. But the experiences of those seven nations shows that these policies will do nothing of the sort. Instead, they will provide all Canadians with wait-list-free access to a world-class health care program regardless of ability to pay; a significant departure from the system we have today. ■

### Note

1 A version of this article appeared in the *National Post*.

*Nadeem Esmail has an MA in Economics from the University of British Columbia. He is the Director of Health System Performance Studies at The Fraser Institute.*

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# Things Folks Know that Just Ain't So

Compiled by Candice Malcolm

Things folks know...

**Canadians are more generous than Americans**

Why it ain't so...

According to a recent Fraser Institute study, Americans donate a considerably larger proportion of their incomes to charities than do Canadians.

The Fraser Institute recently released *The 2007 Generosity Index*, which measures the percentage of tax filers donating to charity and the proportion of total personal income donated to charity in Canada and the United States. The study informs us that Manitoba is the most generous province in Canada, with 28.4 percent of taxpayers donating to charity. Their donations total approximately 1.11 percent of the total amount of personal income earned in that province.

When measured against our American counterparts, Manitoba ranks 43rd on the index of the 64 sub-national jurisdictions in North America, while the other Canadian provinces and territories occupy 12 of the bottom 20 spots on the index. Utah is the most generous state, as 36.4 percent of residents donate 3.71 percent of the total income to various charities.

On a national basis, 30.6 percent of American taxpayers donate to charity, and their contributions total 1.77 percent of total national (personal) income. This compares to just 25.1 percent of Canadian taxpayers who donate to charity. Their charitable contributions account for 0.75 percent of their personal incomes. Furthermore, those Canadians who do donate, do so in smaller amounts than Americans. The average charitable donation in the U.S. was US \$4,388, well over three times the average Canadian donation of Cdn \$1,345. Albertans give the largest donations in Canada, averaging \$1,836 per tax filer who filed for charitable deductions, while residents of Wyoming donated the largest amount in North America, averaging over US \$10,000 per tax filer who filed for charitable deductions. The lowest ranked American state, Rhode Island, nearly doubled the average donation of the highest ranking Canadian jurisdiction, Alberta, with an average donation of US \$2,594. These numbers are even further magnified if currency differences are taken into consideration.

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Generosity index author Niels Veldhuis, Director of Fiscal Studies at The Fraser Institute, states that “[i]f Canadians followed the Americans’ lead and donated the same percentage of their income, Canadian charities would have received an extra \$10.4 billion in revenue.” This extra income would greatly increase the amount of services and assistance Canadian charities could provide to those in need.

Despite a perception of Canadians as the gentler, kinder North Americans, this report reveals that when it comes to financially assisting members of society who are less privileged or struggling, Americans come through and are more generous than Canadians. As Veldhuis states, “Many Canadians continue to feed the myth that Canada is a more generous and giving society than the United States. However, when it comes to reaching into our own pockets and giving our own money to charity, Americans are clearly more generous than Canadians.” ■

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