

CANADIAN STUDENT

Review

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February 2001

Guaranteed Annual Income A Non-Starter

By Chris Schafer, Honours Political Science, Wilfrid Laurier University

Shortly after the last federal election campaign ended, it was revealed that Canada's current Prime Minister had asked Ian Green, the deputy secretary to the Cabinet, to lead a top-level committee to determine the possibility of establishing a lifelong guaranteed annual income (GAI) program. The GAI would be created by integrating all or some of the federal child benefit, employment insurance, and old age pension programs.

Putting aside the fact that such a massive overhaul of social programs would require significant provincial cooperation and the fact that any proposed reform along these lines was absent from the election campaign, the GAI is an idea that should be put to rest.

Proponents of the GAI are often the first to point out that the idea was devised by Milton Friedman, an ardent defender of free markets.

However, what they often forget to mention is that Friedman proposed the idea because he believed such a program would allow for a scaling back of other anti-poverty programs, with substantial cost-savings as a result. What he soon realized is that governments and politicians were more inclined to add the GAI to the myriad of other social programs without making the necessary cuts.

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Welcome!

Welcome to the first Canadian Student Review of the new millennium. We are pleased to bring you articles on organic foods, the Guaranteed Annual Income proposal, and overpopulation and famine.

Thanks to the sponsorship of the Lotte & John Hecht Memorial Foundation, we are able to distribute this newsletter free of charge to students across Canada, through a network of professors and campus clubs. If you're interested in distributing copies at your school, please contact us at 1-800-665-3558, or student_program@fraserinstitute.ca

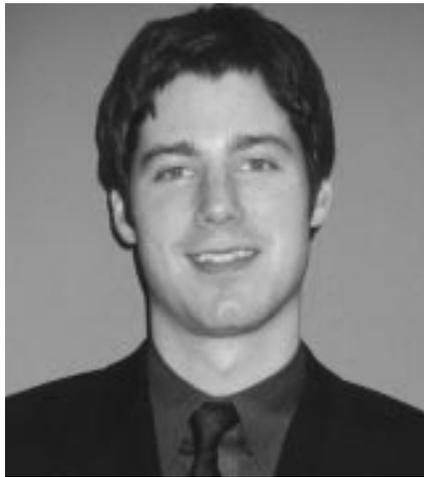
Enjoy!

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The concept of a GAI first crept into the minds of Canadian politicians and bureaucrats in 1974. The province of Manitoba and the federal government conducted a GAI experiment. Subsequently, the report was more or less shelved. However, the idea was resuscitated in 1994 by Human Resources Development Canada (HRDC), but was dismissed by the then Minister Lloyd Axworthy. According to Axworthy, “we could not provide anything more than a token guaranteed income without raising taxes sharply.”

In addition, not only did HRDC find the GAI or its hybrid form under a Universal Demogrant or Negative Income Tax financially unfeasible, the Canadian Taxpayers Federation recently calculated that the GAI would cost taxpayers \$80-billion annually¹. Considering the promises made by the Liberal party during the election campaign and the promised tax cuts that started to take effect January 1, 2001, the GAI it would seem, is rather untenable.



Nevertheless, perhaps the most worrisome aspect of the GAI is the incentives it creates. The GAI contains two important elements, those being the guarantee and the taxback rate. The guarantee is a sum of money that each citizen would receive if they failed to earn any income on their own. The taxback rate involves how much of the guarantee one forfeits for every dollar that is earned. Hence, any student with some exposure to economics realizes that the GAI could potentially lead to a situation where current productive citizens may choose

unemployment over employment. Also, the tax revenue necessary to pay for such a scheme could further advance the “brain drain” to the United States as productive Canadian citizens seek lower tax jurisdictions.

In the end, nothing much has been heard from Jean Chretien or the Liberal party in regards to the GAI since it was first made public. One can only hope that unless a serious social policy overhaul is planned, the Liberal government has decided, much like it did with its plan to subsidize Canadian NHL teams, to ice this proposal once and for all.

Editor's note: For more information on this topic, see Journal of Labour Economics, Volume II, #1, Part 2, January 1993. 🍁

thank you

Thanks to all of you who attended our student seminars this year! The Fraser Institute hosted a number of very successful seminars across the country. Students from all areas and levels of study came together for these one-day events to explore policy issues and interact with experts, and other students. (For those of you on the Prairies, check page 11 for the details of the upcoming Saskatoon and Winnipeg student seminars!)

Throughout this issue, you will see photos from this year's seminars.

1 <http://www.taxpayer.com/lts/federal/December13-00.htm>



Above: Students listen to a presentation at the Vancouver high school seminar, *Tools for Critical Thinking*, held on October 6th, 2000 at the Empire Landmark Hotel.

Things Folks Know That Just Ain't So...

What folks know...

The world is over-populated.

The notion of over-population isn't new. Thomas Malthus in 1798 was one of the first people to warn of the *impending* population disaster. He asserted that human population always grows faster than food supplies, ultimately leading to famine. Since then, many doomsayers have expanded on the Malthusian argument.

Why it ain't so...

Part I: Food Production and Famine

Paul Ehrlich, in his 1968 bestseller *The Population Bomb*, predicted that unless we curbed our population growth we were facing a disaster. As far as Ehrlich was concerned, the "battle to feed all of humanity is over" and starvation has won. Among his most dire predictions was that "...England will not exist in the year 2000." Luckily for us, reality has never caught up with Erlich's scenarios. (Peron, p. 7)

The reason for this is that there are two factors in the equation: the number of people, and the availability of the food supply. If the world population is growing each year but the food supply is growing at a faster rate, then each year there will be more and more food per person. Under these circumstances we would have to

say that each year the world is less over-populated despite the increase in the number of people. And the fact is that world food production *has* regularly and consistently grown at a faster rate than world population. (Peron, p. 8)

Nations where famine was common just a few years ago have now become food exporters. Only a few decades ago, for example, India was considered over-populated and doomed to mass

The crumbs of capitalism are capable of feeding more people than the planned banquets of socialism.

starvation. Paul Ehrlich wrote in 1968, "I have yet to meet anyone familiar with the situation who thinks India will be self-sufficient in food by 1971, if ever." Yet India today exports food, and mass starvation is not very likely there anymore. Ehrlich must have noted this himself, since in 1971 he quietly deleted this comment from his book. (Peron, p. 9)

It is true, of course, that some nations still cannot feed themselves, but the reason for this tends to be political. For instance, Cuba, once a highly industrialized and well-fed nation, is having major problems under Castro's brand of socialism. Africa is the last bastion of state

planning and socialism, and it is no accident that it is also the last bastion of famine.

Nations that abandon state and economic planning for free markets see dramatic increase in food production and even the poorest of the poor are better fed because of that increase. The crumbs of capitalism are capable of feeding more people than the planned banquets of socialism. (Peron, p. 10)

This report was excerpted primarily from *Exploding Population Myths* by Jim Peron, Critical Issues Bulletin (The Fraser Institute: Vancouver, BC) October 1995, pp. 7-10. Full text available on-line at: http://www.fraserinstitute.ca/publications/critical_issues/1995/exploding/

Editor's note: This is part one of a three-part series on Overpopulation. Look for Part II: Resource Scarcity, and Part III: Population Density in future issues of CSR. 🍁



Don't go around saying the world owes you a living. The world owes you nothing. It was here first.

- Mark Twain

- Samuel Longhorne Clemens (1835 - 1910)



STUDENT ESSAY CONTEST

1st Prize: **\$1,000**

2nd Prize: **\$500**

 **High school category: \$250**

How Can the Market Provide for the Well-Being of Canadians?

Recommendations:

Essay topics may include, but are not limited to, private alternatives to government provision of: welfare, health care, education, retirement and pensions, or other important services currently provided by government. Students may also consider ways in which market transactions can solve problems of environmental quality, poverty, childcare, or other important social problems.

Application Rules:

1. Submissions will be considered from secondary and post-secondary (undergraduate and graduate) students in all disciplines. New this year, secondary students will be considered in a separate category, with a cash prize of \$250. Outstanding high school submissions will not be excluded from winning the \$500 and \$1,000 post-secondary prizes.
2. Entry must include two clean copies of a typed essay of 1,000-1,500 words, and a cover sheet including the student's name, mailing address and phone number, and date of birth. High school students include school and grade. Post-secondary students, include school, major, and year of graduation.
3. Entries will be accepted in English and French.
4. Entries may be submitted by e-mail, as attachments only, not as text in the body of an e-mail message.
5. Entries will be judged on originality, expression of ideas, presentation, and understanding of competitive markets.
6. All entries become the property of The Fraser Institute. In addition to receiving cash prizes, winners may have their essays published in Fraser Institute periodicals.

SUBMISSION DEADLINE: JUNE 1, 2001

Send entries to:

Student Programs
The Fraser Institute
1770 Burrard St., 4th Floor
Vancouver, BC • V6J 3G7 • Canada

Or submit via e-mail:

vanessas@fraserinstitute.ca

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Professors Write Economic “Love Story”

Gavin Sinclair, Robert W. Taylor and Dee E. Cuttell, *Life, Love and Economics* (Pearson Custom Publishing: Needham Heights MA, 2000). US \$42.50

Three professors at Purdue University in Indiana have borrowed a page from dime-store romance novels to teach basic economic principles. They have written a textbook, “Life, Love and Economics,” which follows two college graduates and the economic decisions they make as they meet, marry, take jobs and raise children.

The three professors, Sinclair, Cuttell and Taylor, say they wrote the textbook to reach a generation of students turned off by traditional economics texts. “There are a lot of good economics texts. The trouble is, students don’t like them.” Taylor says. “We wanted a textbook they would read.”

The book tells the fictional story of Jason Cooley and Samantha Fletcher. The two university graduates meet while in line at a frozen custard stand. They discover they’ve accepted positions at the same computer company, and their relationship blossoms from there.

Each chapter covers a different economic topic, such as financial planning, conservative vs. liberal economic philosophies, entrepreneurship, and welfare. For example, in Chapter 2, “Watching a Soccer Game: The Economics of a Society Chapter,” Uncle Mitchell easily explains supply and demand to Jason, a concept that he had previously not understood in his Economics 101 class. Using an analogy of big screen televisions and by drawing supply and demand schedules and curves on napkins, Uncle Mitchell helps Jason to understand the concepts.

Each chapter in the book is followed by a summary of “key economic terms.” In addition, the text contains a comprehensive glossary and written assignments section.

Professor Cuttell says the book is meant only as a supplement to traditional classroom lectures. He says some educators may frown on the treatment economics is given in the

book, but he, Sinclair and Taylor are more concerned about connecting with students.

So far, students are devouring every paragraph of “Life, Love and Economics.” Even Purdue staff have found the book hard to put down. Sinclair says a staff member in the Department of Agricultural Economics was asked by her boss why she hadn’t placed the new text in a faculty display case.

“She said, ‘I haven’t finished reading it yet,’” Sinclair says.

Source: “Kiss and sell: Profs write economic ‘Love Story,’” News Release. Steve Leer, Agricultural Communication Service, Purdue University, April 2000. For more information on this book, please contact Steve Leer at (765) 494-8415. ★

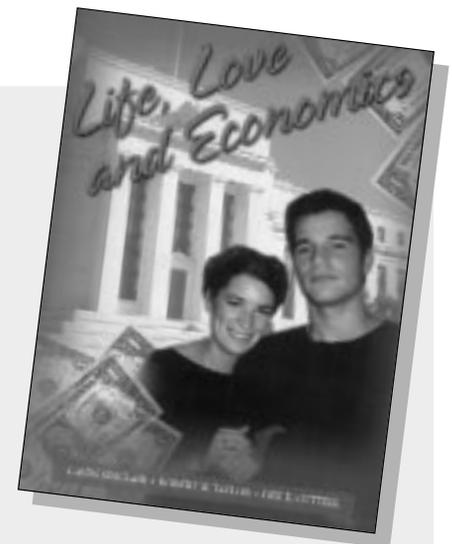
How to order *Life, Love and Economics*:

Log on to Pearson Custom Publishing’s website: <http://www.pearsoncustom.com/>

Select *Review/Order Books* under the heading *Instructor’s Resources*.

On that page, <http://www.pearsoncustom.com/best/index.html>, click on *Business & Career Development*.

The *Life, Love and Economics* icon is on the top left of that page, <http://www.pearsoncustom.com/best/index.html>. Follow instructions to order the book or receive a review copy.



Organic Food Hardly Utopian

By Tracy Wates, Bachelor's of Journalism, Carleton University



If you were an organic vegetable in today's market, you would be one happy piece of produce.

Not only are you worth more, but according to polls, 70 per cent of people think you are safer, more nutritious and better for the environment.

Much of this rhetoric is based on myths that influence the way people shop.

It's a myth that the pesticides used by conventional farmers to protect their crops from insect damage are an unchecked cause of cancer. Both the Canadian Network of Toxicology Centres and the Canadian Cancer Society agree that they can find no cancer risk from modern pesticide residues.

Massive doses of these chemicals can be dangerous, but Canadian and American regulators only allow exposure to residues at levels that are determined to be acceptable for human health.¹ The American Council on Science and Health concurs, "no child (or adult) has ever been harmed by eating any amount of fruits and vegetables produced using approved, regulated pesticides."²

Another common myth states that

organic food is more nutritious. This too is false. The Organic Trade Association, which represents the organic industry in North America, states "there is no conclusive evidence at this time to suggest that organically produced food are more nutritious."³

In July 2000, the Advertising Standards Authority, a government agency in the United Kingdom, instructed organic farmers to remove misleading and erroneous claims from their pamphlets – namely, that organic food tasted better and was healthier and safer for the environment.⁴

Organic farming has been depicted as a form of environmental protection in an age of modern, technology-enriched agriculture. However, this too constitutes yet another myth about organic farming. New technology is responsible for tripling crop yields in the last half-century on existing farmland.

Indur Goklany, an official at the U.S. Department of Interior, estimates that if agricultural technology had frozen at 1961 levels, 61 per cent of the world's land would now be used for agriculture as opposed to the present level, 34 per cent.⁴

Goklany says unless technology can

keep up with the pace of population expansion, we may still have to double the amount of land used globally for farming over the next 50 years. Organic farming uses more land to produce the same amount of food than conventional farming. If the world were to switch to organic farming, says Dennis Avery, a former agricultural analyst at the U.S. State Department, it would be necessary to plough 10-15 million square miles of wild land for the "green manure" crops that produce the fertilizer used by organic farmers.⁵ That is over three times Canada's land mass.

It would be disastrous for conservation efforts to convert a significant portion of the world's farmland to organic methods.

Both organic and conventional farming hold a valuable position in our agricultural marketplace. Consumers deserve choice; if they agree with the simple, back-to-the-land ethic of organic farming, let them purchase these goods. But they need accurate information about their choices, not a bunch of myths that demonize modern agriculture and paint a picture of a utopian organic world that doesn't exist. ✨

1 For more information on Canada's regulations regarding pesticides see www.cpm.ca/english/pesticides.htm

2 "We Can Eat Our Vegetables Without Risk" by Gilbert L. Ross, MD, Medical Director of the American Council on Science and Health. *New York Times*, February 23, 1999. <http://www.acsh.org/press/editorials/vegetables022699.html>

3 www.ota.org, see Frequently Asked Questions

4 www.monsanto.co.uk/news/2000/july2000/12072000ananova.html

4 To read more of Goklany's work, see www.pacificresearch.org/issues/enviro/00eindex/sustain.html

5 www.cgfi.com/new_detail.cfm?Art_ID=190. See Dennis Avery's book, *Saving the Planet with Pesticides and Plastic*, 2nd edition (Hudson Institute: Indianapolis) 2000.

Polls, Schmolls

By Wayne Kelly, Master of Education, University of Victoria

We are threatened by polls. In the guise of determining the people's will in aid of doing the people's will, our political representatives are abnegating their responsibilities as leaders. There are several aspects of polling that are particularly troublesome:

1. Context

The emotion of the moment may have a profound effect on people's views. It should surprise nobody that polls done in the wake of horrific events may be more emotional than rational. The results of polls and referenda are dependent on the mood of the people and that mood can be profoundly affected by events. For this reason, Quebec separatists await "winning conditions" for their next referendum; and for this reason Ottawa's main counter-measure is to avoid any situation with Quebec that could sour the mood of Quebecers.

2. Language

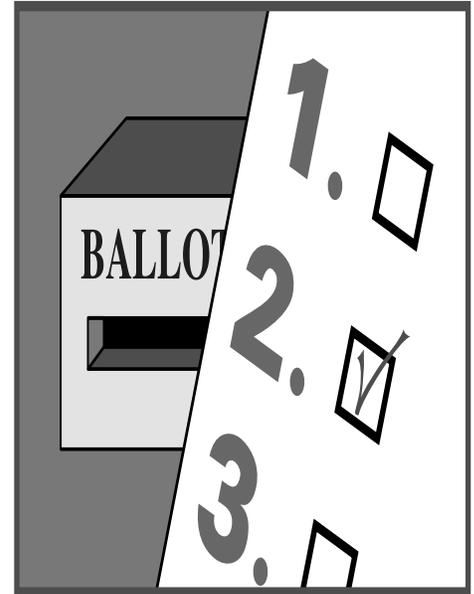
Words, nuances, intonation, and inflection (and facial expression and body language during in-person polls) all contribute to the meaning milieu to which poll respondents respond. For example, inclusion of the word "violence" in a poll question related to gun control legislation would likely affect the responses. The justice, efficacy, practicality, cost and constitutionality of such aims are all muted, if not downright over-ridden, by the fear mongering inherent in the word "violence."

3. Sample

Although pollsters claim random representatives for their poll results, there must always be great skepticism about such claims. The 1948 US presidential election is a classic case: telephone polling was so sure of its results that the famous "Dewey Wins" newspaper headline was printed, despite Truman's win. Only later did pollsters realize that their telephone polling was over-representative of wealthier people in a nation in which many poorer people did not yet have telephones. More recently, there is the example of the US election, where exit polls indicated victories in Oregon, Florida and Arizona, only to later be reversed.

4. Limited choice

For practical reasons, polls must limit the categories in which responses are recorded. This limiting often forces respondents to choose between extremes A and B, when in fact they may prefer a compromise—with parts of Plan A combined with parts of Plan B; or they may have their own Plan C, totally unanticipated by the pollsters and therefore not recordable. Polling related to capital punishment may be illustrative here. "In favour" or "not in favour" questions are too limiting, because they may not address the methods used, or the crimes worthy of capital punishment. This problem of limited choice presents poll designers with the serious challenge of balancing at least some degree of response complexity with the large degree of administrative ease, speed and



simplicity that is an inherent requirement in all polling.

5. Time

Polls must be quickly administered. In the span of a few minutes, most people cannot respond with much breadth or depth to issues about which they may not have much background, exposure or interest. Just as first impressions very often prove wrong, so too are first opinions very often superseded by the more considered opinions wrought by the passage of time and the gaining of experience. Meaningful polling is difficult to do in our fast-paced society. Polling must therefore walk a tightrope between gathering serious information and doing it quickly. Unfortunately, seriousness and quickness are inevitably in inverse proportion to one another.

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6. Manipulation

Constraints imposed by the above difficulties make polling very susceptible to manipulation. Political elites, media elites, and special interest groups can exploit these difficulties to set agendas for public policy discourse and to control the parameters of that discourse. The right context, crafty wording, skewed representatives, limited response choice and speedy questioning can all be exploited to get the poll results that suit manipulators.

7. Democracy

Rule of the majority is a fundamental tenet of democracy. Since polls can make known the will of the majority, polling appears at first blush to be a useful handmaiden to democracy.

However, our democracy is a constitutional democracy, a constitution being needed for protection of individuals from the potential tyranny of unfettered majority rule. What is popular is not always the best decision, and the best decision is not always popular. Polls may be useful in determining what is popular, but they are much less useful in determining what is right. Polls threaten our constitutional democracy by blurring this distinction.

8. Leadership

There is potential for great mischief when political representatives and leaders pay too much attention to polls. Leaders become followers, merely reflecting stale ideas back to

their constituents, instead of inspiring them with new ones. Polls cause too many politicians to trade courage for popularity, society's long-term improvement and sustainability for their own short-term survival and electability. Serious problems may arise when governments become preoccupied with polls.

Perhaps Prime Minister John Diefenbaker was not merely jesting when, upon learning of an unflattering poll result, remarked, "You know what dogs do to poles." We could save dogs the trouble if we refused to respond to polls. The *big poll*, held once every four years and called an *election*, is the only one that should concern us. 🍁



National Post Editorial staff member Ezra Levant gives a luncheon presentation at the Toronto student seminar, *How Can the Market Provide for the Well-being of Canadians?*, held on November 4, 2000 at the Courtyard Marriott Hotel.



Paul Stanway, Editor in Chief at the *Edmonton Sun*, illustrates his point while giving the luncheon presentation at the Edmonton student seminar, *What is the Appropriate Role of Government?* on January 27, 2001 at the Westin Edmonton Hotel.

Fraser Institute New Releases

Rewarding University Professors: A Performance-Based Approach

by Professor Hymie Rubenstein

Public Policy Sources, \$7.49

Available on-line at

<http://www.fraserinstitute.ca/publications/pps/44/>

This paper says that Canadian universities are failing to attract and retain the best faculty because they do not properly reward and evaluate their academics.

“Many universities are suffering ‘academic flight’ as competition for the best brains increases between the ivory tower and the private sector, on the one hand, and Canada and the United States on the other,” says the paper’s author, Professor Hymie Rubenstein, a highly-regarded academic from the University of Manitoba.

Rubenstein says that budget constraints at most universities make it difficult to recruit and retain the best faculty, but blames the current compensation framework for the shortage of star performers in Canada. Existing remuneration policies do not link rewards to performance, and powerful faculty unions, timid administrations, government indifference, and a pervasive egalitarian mind-set have penalized excellence and prevented reform.

In order for universities to attract and fairly reward the best academic faculty—and to reverse the academic brain drain—the following reforms must be considered:

- University tenure systems should be replaced with renewable performance-based contracts. Traditional lifetime tenure should be limited to truly exceptional scholars.
- Collective agreements should be replaced by flexible private-sector-style contracts for individuals that combine elements of basic employment agreements with incentives for drive, imagination, and productivity.
- Current performance reviews should be replaced with rigorous and objective evaluations.
- Performance and rewards must be closely linked.
- Teaching and research should be evaluated separately. Faculty who neither conduct research nor publish should have their compensation reduced accordingly. Average teachers who are not

also scholars would have their tenure revoked in accordance with existing private-sector professorial job descriptions.

- Sabbaticals should not be automatic, but awarded in a system of unrestricted results-oriented competition.
- Individual ability, not pay equity, should determine questions of academic remuneration.

Editor’s note: Professor Hymie Rubenstein will be presenting this paper at the upcoming student seminar in Winnipeg. See page 11 for full details.

Shifting Priorities: From Deficit Spending to Paying Down the Debt and Lowering Taxes

by Mebs Kanji and Barry Cooper

Public Policy Sources \$7.49

Available on-line at

<http://www.fraserinstitute.ca/publications/pps/46/pdf/alberta-advantage6.pdf>

Alberta’s Klein government has defied the traditional political strategy of undertaking short-term policies most likely to maximize voter support. Opinion polls indicate that this position has been rewarded with strong public support for the government’s long-term focus on fiscal prudence and debt reduction, says this new study.

The analysis uses data from a series of public opinion surveys- the *Alberta Advantage Surveys* conducted in 1995, 1996, 1999, and 2000—to trace the impact on Albertans of the Klein government’s policies.

The government has drastically cut spending on highly-valued social programs, not immediately reduced taxes, and yet continued to become increasingly popular regardless of the criticism of a well-organized opposition.

Among the findings of this study:

- Sixty-nine percent of Albertans approve of the Klein government’s performance.

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Shifting Priorities: From Deficit Spending to Paying Down the Debt and Lowering Taxes

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- Fifty-seven percent of Albertans believe the government's top priority should be to pay down the debt or reduce taxes. This is a clear shift from 1999 when nearly two of three Albertans (62%) said they would prefer to use the surplus revenue for targeted spending on priority programs.
- Most Albertans, some 92%, indicate they are satisfied with the financial situation of the provincial government, an 11% increase from 1999. Nearly two out of three Albertans (63%) say they are very satisfied, which is a 40% increase from 1999.
- Although user fees were relatively popular in 1995, support for this particular policy appears to be in decline. The most recent results show that only

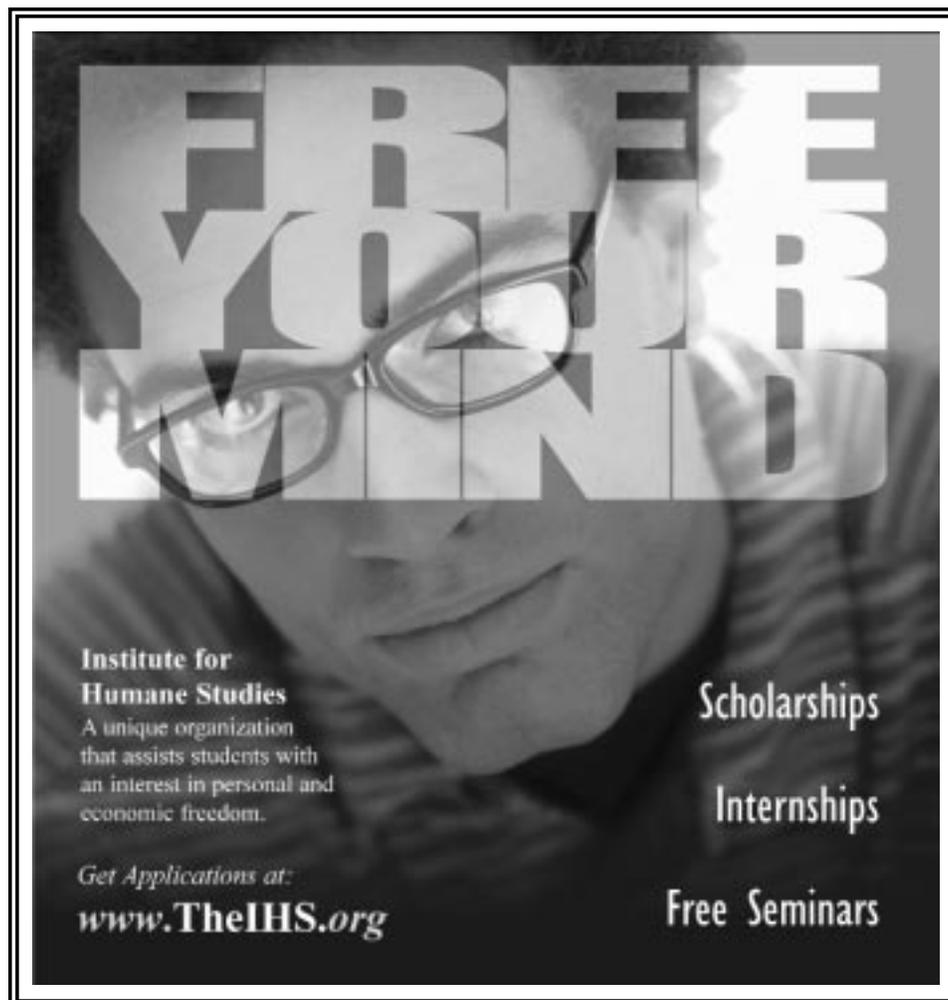
two in every five Albertans (40%) agree with the idea of having to pay user fees.

- Support for deficit reduction is a far more powerful predictor of support for the government's performance than are attitudes toward the speed and size of budget cuts.
- Albertans opposed to corporate and sales taxes are more likely than those who support them to approve of the government's actions.

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Organized with The College of Commerce, University of Saskatchewan and The Saskatoon Junior Chamber of Commerce

This stimulating one-day seminar offers hands-on analysis of issues important to Canadian students. Focusing on privatization, health care and taxation, the questions that will be explored during interactive sessions include:

Is the process of privatization complete in Saskatchewan? Does the Canadian health care system provide both equality and efficiency? What effect does tax competition have on neighbouring provinces? What are the ramifications for Saskatchewan?

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Privatization Panel

John Brennan, Chief Executive Officer,
 CA School of Business, Edmonton
 Peter Holle, President of the Frontier Centre
 for Public Policy, Winnipeg

Taxation Panel

Shelley Brown, CA, Ernst & Young
 LLP Chartered Accountants, Saskatoon
 Jason Clemens, Director of Fiscal Studies,
 The Fraser Institute, Vancouver

Health Care Panel

Walter Podiluk, CM, Health Consultant, Saskatoon
 Martin Zelder, Director of Health Policy Research,
 Fraser Institute, Vancouver

Getting Government Right

Winnipeg, MB - Saturday, March 10, 2001
 Holiday Inn Winnipeg South - 1330 Pembina Hwy
 10:00 am to 3:30 pm

Sponsored by Coghlan's Ltd., Mr. L.O. Pollard, W.H. Escott Co. Ltd. and Gemini Fashions of Canada Ltd.

At what size is government most efficient?

How can individuals and communities provide for those in need?

Can we prevent an academic "brain drain" in Canada?

How can universities fairly reward the best academic faculty?

How can we improve long-term and home care services?

Jason Clemens is the Director of Fiscal Studies at the Fraser Institute, and has done extensive research in the areas of fiscal policy, taxation, charities and civil society. He will lead a discussion on the appropriate role of government, and how voluntary actions, instead of state intervention can best provide for those in need. His talk is called *Getting Government Right: Alternatives for Welfare Provision*.

Hymie Rubenstein, Professor of Anthropology at the University of Manitoba, will present *How to Make University Professors More Productive*. His recent publication examines pay, tenure and sabbatical policies at Canadian universities, and gives suggestions on how to better recognize and reward quality professors.

Martin Zelder is the Director of Health Policy Research at the Fraser Institute, and his presentation is called *Government Failure in Home and Long-Term Care*. Government policies, including reimbursement and licensing arrangements, have substantial implications for long-term and home care providers. Principal among these implications are the distortions of resource allocations between hospitals and alternative care facilities, and the regulatory barriers to efficient growth of alternative care providers. Significant reforms, therefore, are necessary to allow these alternatives to be efficiently, and thus compassionately, employed.

For full program information or to register, please visit the Fraser Institute website at www.fraserinstitute.ca or call toll free 1-800-665-3558 Ext. 571.

Q : What implications might Canada's low dollar have for Canadians' economic freedom?

Stephen Graf, LL.B. Candidate, University of British Columbia

A : The falling dollar has a negative impact on economic freedom. An unstable currency means that as people exchange things through the medium of currency the value becomes uncertain. This muddies the consequences of free exchange, which is clearly at its freest when both parties have a full understanding of the value exchanged and have freely agreed to this exchange at that understood value.

That said, however, the falling exchange rate has thus far had little impact on domestic levels of inflation, and thus little direct impact on economic freedom in Canada through this route. However, devaluation is a reflection of bad economic policies. These policies themselves have eroded Canadians economic freedom and also weakened Canada's productivity growth.

The main culprit has been escalating taxes. These erode freedom in two ways. They reduce your control of your own property - either the fruit of your labour or returns on investment in property, both of which government taxes away at unacceptable levels. And, by increasing government's presence in the economy, they reduce the room available to free agents. This is somewhat analogous to free speech. If government controlled over 40 per cent of the media in Canada, our independent press would suffer. The government now taxes away and spends over 40 per cent of our economy.

The high taxes have made Canada a less attractive place to invest. This erodes our productivity. To continue to sell our products on world markets, we have to devalue our currency to make up for weak productivity growth. The value of every Canadian's earning power and property are eroded by this devaluation, an indirect negative impact on economic freedom in that government policy is responsible for this diminution of our property.

Fred McMahon, Director of the Social Affairs Centre,
The Fraser Institute

If you have a question that you would like answered by a Fraser Institute policy analyst, please submit it to student_program@fraserinstitute.ca.

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