Fraser Forum

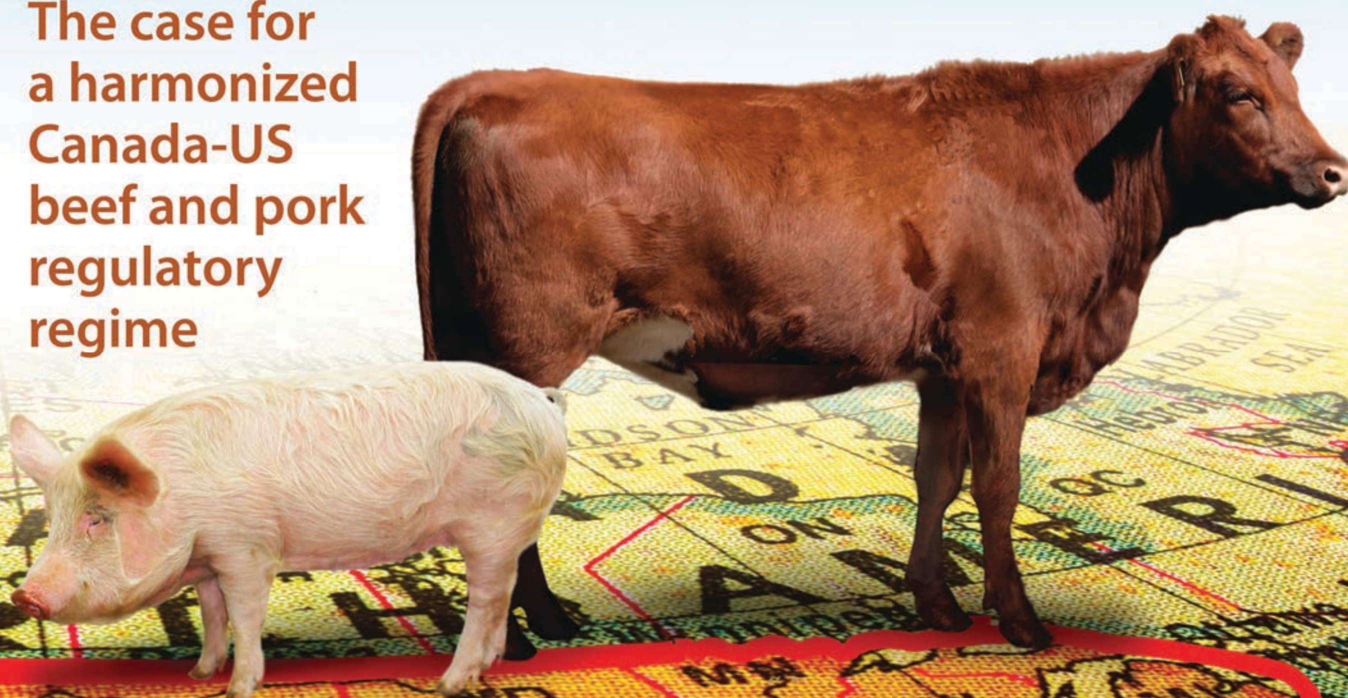
July/August 2012
$3.95

A Fraser Institute review of public policy in Canada

Mandatory Country of Origin Labeling:

The case for a harmonized Canada-US beef and pork regulatory regime

Canadian Publication Mail Sales Product Agreement Number 40069269.



ALSO IN THIS ISSUE:

Tax Freedom Day 2012

Reforming the Ontario drug benefit program

Health reform lessons from Switzerland

FRASER INSTITUTE

Fraser Forum

Publisher Fraser Institute
Chief Editor Niels Veldhuis
Managing Editor Emma Tarswell
Editorial Advisor Kristin McCahon
Contributing Editors Charles Lammam, Joel Wood, Fred McMahon
Art Direction and Cover Design Bill C. Ray
Cover Illustration Deposit and Bigstock
Production and Layout Emma Tarswell
Media Relations Dean Pelkey
Advertising Sales Advertising In Print
Tel: (604) 681-1811
E-mail: info@advertisinginprint.com

The Fraser Institute's vision is a free and prosperous world where individuals benefit from greater choice, competitive markets, and personal responsibility. Our mission is to measure, study, and communicate the impact of competitive markets and government interventions on the welfare of individuals. Founded in 1974, we are an independent Canadian research and educational organization. Our work is financed by tax-deductible contributions from thousands of individuals, organizations, and foundations. In order to protect its independence, the Institute does not accept grants from government or contracts for research.

For additional copies, or to become a supporter and receive Fraser Forum, write or call the Fraser Institute, 4th Floor, 1770 Burrard Street, Vancouver, BC V6J 3G7
Telephone: (604) 688-0221; Fax: (604) 688-8539; Toll-free: 1-800-665-3558 (ext. 580–book orders; ext. 586–development)

Copyright © 2012 Fraser Institute
ISSN 0827-7893 (print version)
ISSN 1480-3690 (online version)
Printed and bound in Canada.

Return undeliverable Canadian addresses to:
Fraser Institute, 4th Floor, 1770 Burrard St., Vancouver, BC V6J 3G7

The contributors to this publication have worked independently and opinions expressed by them are, therefore, their own and do not necessarily reflect the opinions of the supporters, trustees, or other staff of the Fraser Institute. This publication in no way implies that the Fraser Institute, its trustees, or staff are in favour of, or oppose the passage of, any bill; or that they support or oppose any particular political party or candidate.

Fraser Institute Board of Trustees Peter Brown (Chairman), Brad Bennett (Vice Chairman), Mark W. Mitchell (Vice Chairman), Salem Ben Nasser Al Ismaily, Gordon Arnell, Kathy Assayag, Ryan Beedie, Ed Belzberg, Joseph Canavan, Alex Chafuen, Derwood Chase, Jr., James Davidson, Stuart Elman, David Filmon, Greg Fleck, Shaun Francis, Ned Goodman, John Hagg, Paul Hill, Stephen Hynes, Charles Jeannes, C. Kent Jespersen, Andrew Judson, Robert Lee, Brandt Louie, David MacKenzie, James McGovern, George Melville, John Montalbano, Gwyn Morgan, Eleanor Nicholls, Roger Phillips, Herb Pinder, Kevin Reed, H. Sanford Riley, Rod Senft, Bill Siebens, Anna Stylianides, Arni Thorsteinson, Michael Walker, Jonathan Wener, Niels Veldhuis (President), Peter Cowley (Senior Vice President, Operations), Fred McMahon (Vice President, International Research), Sherry Stein (Vice-President, Development), Stuart MacInnis (Secretary-Treasurer)

Founder & Honorary Chairman for Life T. Patrick Boyle

Fraser Institute Lifetime Patrons Sonja Bata, Charles Barlow, Ev Berg, Jim Chaplin, Serge Darkazanli, John Dobson, Art Grunder, Raymond Heung, Bill Korol, Bill Mackness, Fred Mannix, Con Riley, Jack Pirie, Catherine Windels

Purpose, Funding, and Independence
The Fraser Institute provides a useful public service. We report objective information about the economic and social effects of current public policies, and we offer evidence-based research and education about policy options that can improve the quality of life. The Institute is a non-profit organization. Our activities are funded by charitable donations, unrestricted grants, ticket sales and sponsorships from events, the licensing of products for public distribution, and the sale of publications. All research is subject to rigorous review by external experts, and is conducted and published separately from the Institute's Board of Trustees and its donors. The opinions expressed by staff or author(s) are those of the individuals themselves, and should not be interpreted to reflect those of the Institute, its Board of Trustees, or its donors and supporters. As a healthy part of public discussion among fellow citizens who desire to improve the lives of people through better public policy, the Institute welcomes evidence-focused scrutiny of the research we publish, including verification of data sources, replication of analytical methods, and intelligent debate about the practical effects of policy recommendations.

From the editor

When I was an undergraduate, I worked part-time at a health food store. The store catered to customers looking for organic food, non-genetically modified products, and locally produced goods. While working there, I noticed something odd: Many people had no idea how their food was produced or where it came from or how it was controlled. This wasn't that surprising; it's easy to forget that rice isn't grown in southwestern Ontario and that there are laws against the sale of raw milk, but it did make me wonder how certain individuals could spout food wisdom when they themselves didn't have all the facts.

In this issue of *Fraser Forum* we look into food and the policies that hinder its exportation along with the beliefs people hold that influence the way we view its production and transportation. Our cover article, *Mandatory Country-of-Origin Labeling: The Case for a harmonized Canada-US beef and pork regulatory regime* (p.14), delves into the United States' meat labeling policies to determine if these rules actually benefit the consumer or if they are nothing more than a "Buy American" provision. In a new book, *The Locavore's Dilemma: In praise of the 10,000-mile diet*, authors Pierre Desrochers and Hiroko Shimizu debunk the idea that eating foods within a 100 mile radius of one's home is best. In a short summary of the book, *The Locavore's Delusion* (p.34), the authors discuss the arguments that those who believe in the 100-mile diet use and explain why food from multiple sources is best for health, trade, and community.

This issue of *Fraser Forum* also finds a variety of articles on the Canadian health care system and suggests steps that could be taken to make the system more efficient. *Reforming the Ontario Drug Benefit Plan: A missed opportunity* (p.20), details the province's drug subsidizing plan and *Leaving Canada for medical care 2011* (p.18) reports that many Canadians still leave the country for treatment due to a lack of resources that cause long delays. In a new series, Mark Rovere and Bacchus Barua will look to other countries and their health care plans to determine what could be done to fix Canada's system. In this issue, they compare Canada with Switzerland for lessons and possible improvements (p.24).

You will also find articles on Tax Freedom Day (p.5), old age security (p.12), urban planning regulations (p.32), employment insurance (p.10), equalization (p.29), and mining legislature (p.8).

— Emma Tarswell

Fraser Forum

Contents

5

Tax freedom day

20

Ontario drug benefit reform

24

Lessons from Switzerland

1 **From the editor**

4 **Forum Authors**

5 **Canadians celebrated Tax Freedom Day on June 11**

Milagros Palacios, Niels Veldhuis, and Charles Lammam

Fraser institute researchers calculate when Canadians have finally earned enough money to pay all the taxes they owe to all levels of government for the year.

8 **Bill C-323: Another threat to Canadian mining**

Fred McMahon

A new Bill could destroy Canada's current positive mining environment.

10 **Bolder reforms needed for EI to be a true insurance program**

Charles Lammam and Amela Karabegović

Canada's employment insurance needs a complete overhaul to work properly and benefit those that truly need the service.

12 **Reforming Old Age Security: Too timid and too narrow**

Niels Veldhuis and Milagros Palacios

Raising the age of eligibility for old age security from 65 to 67 will not make the significant changes needed.

Feature Story

Mandatory Country of Origin Labeling — page 14

14 **Mandatory Country of Origin Labeling: The case for a harmonized Canada-US beef and pork regulatory regime**

Alexander Moens and Amos Vivancos Leon

Is the US law that forces origin labeling on red meats an attack on free trade?

18 **Leaving Canada for medical care 2011**

Nadeem Esmail

Long wait times for health care in Canada force many citizens to go south for their medical needs.

20 **Reforming the Ontario Drug Benefit Plan: A missed opportunity**

Mark Rovere and Bacchus Barua

Ontario needs to recognize that more prudent spending on drug benefits for high-income seniors is needed.

24 **Opportunity for health reform: Lessons from Switzerland**

Mark Rovere and Bacchus Barua

Switzerland's health care system could provide a positive example for medical reforms in Canada.

29 **Some inconvenient facts about equalization**

Mark Milke and Fred McMahon

Monetary transfers between the federal government and provincial governments are not as positive as they may seem.

32 **Regulation Review: Free our cities**

Joel Wood

Land use regulations are causing high housing prices in Canada's largest cities.

34 **The Locavore's Delusion**

Pierre Desroches and Hiroko Shimizu

A new book argues against the 100-mile diet and explains why sourcing food from a variety of countries makes for a stronger supply.

Forum *Authors*

Bacchus Barua (bacchus.barua@fraserinstitute.org) is an economist in the Centre for Health Policy Studies. He completed his B.A. degree in economics at the University of Delhi, and received an M.A. in economics from Simon Fraser University.

Alexander Moens (alex.moens@fraserinstitute.org) is a professor of political science at Simon Fraser University in Vancouver and a senior fellow in American Policy at the Fraser Institute.

Nadeem Esmail is a senior fellow and a former director of Health System Performance Studies at the Fraser Institute. He holds an M.A. in economics from the University of British Columbia.

Milagros Palacios (milagros.palacios@fraserinstitute.org) is a senior economist with the Fraser Institute's fiscal studies department. She holds an M.Sc. in economics from the University of Concepcion in Chile.

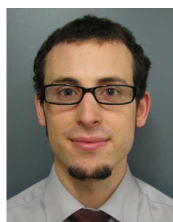
Amela Karabegović (amela.karabegovic@fraserinstitute.org) is a senior economist in the fiscal studies department at the Fraser Institute. She has an M.A. in economics from Simon Fraser University.

Mark Rovere (mark.rovere@fraserinstitute.org) is the associate director of the Health Policy Research Centre at the Fraser Institute. He holds an M.A. in political science from the University of Windsor.

Fred McMahon (fred.mcmahon@fraserinstitute.org) is the Director of the Centre for Trade and Globalization Studies at the Fraser Institute. He has an M.A. in economics from McGill University.

Niels Veldhuis (niels.veldhuis@fraserinstitute.org) is Fraser Institute president. He has an M.A. in economics from Simon Fraser University.

Charles Lammam (charles.lammam@fraserinstitute.org) is a Charles Lammam is Associate Director of the Centre for Tax and Budget Policy and the Centre for Studies in Economic Prosperity at the Fraser Institute. He holds an M.A. in public policy from Simon Fraser University.



Amos Vivancos-Leon is a research assistant at the Fraser Institute in the department of Canadian-American relations. He is currently finishing a business degree at the Simon Fraser University with specializations in finance and operations management as well as an extended minor in economics.

Mark Milke (mark.milke@fraserinstitute.org) is director of the Fraser Institute's Alberta office and of the Alberta Prosperity Project. He has a Ph.D. in international relations and political philosophy from the University of Calgary.

Joel Wood (joel.wood@fraserinstitute.org) is the Fraser Institute's senior research economist in the Centre for Environmental Studies and the Centre for Risk and Regulation. He has a Ph.D. in economics from the University of Guelph.

Canadians celebrated Tax Freedom Day on June 11

Bigstock

Milagros Palacios, Niels Veldhuis, and Charles Lammam

It is nearly impossible for an ordinary Canadian to have a clear idea of how much tax they really pay. While Canadians are painfully aware of sales taxes, calculating the total amount paid would require tracking all personal purchases over the course of a year. There are also many taxes of which Canadians are largely oblivious to as they are built into the price of goods and services. Such taxes include import duties, excise taxes on tobacco and alcohol, amusement taxes, and gas taxes. Most Canadians are unaware that they pay the employers' portion of payroll taxes such as Employment Insurance and Canada Pension Plans premiums as well as other taxes levied on businesses.

The Fraser Institute annually calculates Tax Freedom Day in order to provide a comprehensive and easily understood indicator of the overall tax burden faced by the average Canadian family. This article summarizes our *2012 Tax Freedom Day* report (Palacios, Veldhuis, and Lammam, 2012).

Tax Freedom Day 2012

Tax Freedom Day is the day in the year the average Canadian family has earned enough money to pay the taxes imposed on it by the three levels of Canadian government: federal, provincial, and local. Taxes used to compute Tax Freedom Day include income taxes, property taxes, sales taxes, profit taxes, health taxes, social security and employment taxes, import duties, licence fees, taxes on alcohol and tobacco, natural resource fees, fuel taxes, hospital taxes, and a host of other levies.

In 2012, Canadians started working for themselves on June 11 (table 1). That is, Canadians worked until June 10 to pay the total tax bill imposed on them by all levels of government and from June 11 to the end of the year, taxpayers can keep all the income they earn.[1]

A later Tax Freedom Day

This year, Tax Freedom Day arrives one day later than in 2011, when it fell on June 10.[2] In 2000, Canada's Tax Freedom Day was on June 25, its latest point ever and almost two months later than in 1961 (May 3), the earliest year for which the calculation has been made.

Tax Freedom Day decreased slightly from 2000 to 2005, receding from June 25 to June 22. From 2005 to 2009, Tax Freedom Day for the average Canadian family decreased further from June 22 in 2005 to June 3 in 2009. There are many reasons for the relatively large retreat in Tax Freedom Day over this period.

Prior to the 2008/09 recession, the federal government and many provinces reduced taxes.[3] However, much of the decline in Tax Freedom Day in both 2008 and 2009 had little to do with either federal or provincial government tax rate reductions. Tax Freedom Day is a comparison of income and total taxes for average Canadian families; when the economy slows and incomes either stagnate, or worse, decline (as was the case during the 2008/09 economic recession), the tax burden for families tends to decrease to a greater extent. This accelerated decrease in the tax burden compared to income is a result of the progressive nature of the Canadian tax system—meaning that as one earns more income, one pays proportionately more in taxes. The reverse is also true. It is this reverse phenomenon that drove some of the improvement in the 2008 and 2009 Tax Freedom Days.

The Canadian economy rebounded from the 2008/09 recession and, since 2010, Tax Freedom Day has come later each year. As explained above, when the economy recovers and incomes increase, a family's tax burden tends to increase to a greater extent. Household consumption also increases, which results in an increase in the amount of sales and other consumption taxes that Canadian families pay. Business profits also increase during a recovery, which increases the profit taxes businesses pay.

Tax Freedom Day also came later in 2012 because the federal government and some provinces have increased taxes. For example, the federal government increased Employment Insurance premiums; Quebec increased its provincial sales tax rate, contributions to its Health Services Fund (health tax), and its gas and mining taxes; British Columbia increased

its monthly Medical Services Plan premiums (health tax); New Brunswick increased its financial corporation capital tax and property transfer tax; Manitoba increased its tobacco and fuel taxes as well as its financial corporate capital tax, and expanded the list of items covered by its provincial sales tax (hair services, spa treatments, property and casualty insurance, among other items); and Ontario introduced a new tax bracket for high income earners and canceled a scheduled decrease in the general corporate income tax rate.

Tax Freedom Day by province

Tax Freedom Day for each province varies according to the extent of the provincially levied tax burden. This year, the earliest provincial Tax Freedom Day fell on May 22 in Alberta, while the latest date was in Newfoundland and Labrador on June 21.

Compared to last year, the 2012 Tax Freedom Day is later for all but three provinces—Newfoundland and Labrador, British Columbia, and Alberta (table 1). This means that most Canadians are working more for the government and less for themselves and their families.

Given that there is some debate as to whether natural resource royalties are actually a tax, we provide two sets of Tax Freedom Days for provinces with significant natural resources. If natural resource revenues are excluded, Tax Freedom Day is 24 days earlier in Newfoundland and Labrador, 11 days earlier in Saskatchewan, 9 days earlier in Alberta, and 3 days earlier in British Columbia (table 1).

Balanced budget tax freedom day

Canadians may be thinking about the economic and tax implications of budget deficits. Indeed, almost all Canadian federal and provincial governments (excluding Saskatchewan) are forecasting budget deficits for 2012; the federal government budgeted for a $21.1 billion deficit in 2012/13 while the provinces are cumulatively forecasting deficits amounting to $19.7 billion.[4]

Table 1: Tax Freedom Days*

	1981	1985	1995	2000re	2005re	2009re	2010re	2011re	2012pe
Newfoundland and Labrador	18 May	9 May	24 May	8 June	26 June	19 June	24 June	28 June	21 June
Prince Edward Island	6 May	7 June	22 May	29 May	9 June	28 May	28 May	31 May	2 June
Nova Scotia	11 May	17 May	31 May	10 June	17 June	1 June	8 June	10 June	12 June
New Brunswick	6 May	6 May	1 June	6 June	8 June	29 May	1 June	3 June	6 June
Quebec	7 June	7 June	9 June	3 July	25 June	5 June	8 June	13 June	17 June
Ontario	29 May	29 May	8 June	15 June	16 June	3 June	6 June	9 June	10 June
Manitoba	17 May	17 May	14 June	19 June	21 June	31 May	3 June	5 June	7 June
Saskatchewan	24 May	24 May	20 June	26 June	3 July	9 June	8 June	10 June	12 June
Alberta	30 May	30 May	2 June	18 June	16 June	21 May	20 May	22 May	22 May
British Columbia	9 June	9 June	12 June	24 June	25 June	3 June	6 June	8 June	8 June
Canada	**30 May**	**30 May**	**11 June**	**25 June**	**22 June**	**3 June**	**6 June**	**10 June**	**11 June**
Without Natural Resources									
Newfoundland and Labrador	17 May	8 May	23 May	7 June	17 June	28 May	28 May	28 May	28 May
Saskatchewan	15 May	9 May	13 June	14 June	20 June	2 June	29 May	31 May	1 June
Alberta	6 May	3 May	24 May	25 May	25 May	14 May	12 May	12 May	13 May
British Columbia	6 June	12 June	8 June	16 June	18 June	31 May	3 June	5 June	5 June
Canada	**27 May**	**4 June**	**9 June**	**20 June**	**17 June**	**1 June**	**4 June**	**7 June**	**9 June**

re = revised estimate; pe = preliminary estimate
*based on total taxes as a percentage of cash income for families with two or more individuals
Source: The Fraser Institute's Canadian Tax Simulator, 2012.

Table 2: Tax Freedom Days including government deficits, 2012, preliminary estimates

	Tax Freedom Day	Balanced Budget Tax Freedom Day	Total increase (days)
Newfoundland and Labrador	21 June	1 July	10
Prince Edward Island	2 June	14 June	12
Nova Scotia	12 June	21 June	9
New Brunswick	6 June	15 June	9
Quebec	17 June	23 June	6
Ontario	10 June	28 June	18
Manitoba	7 June	18 June	11
Saskatchewan	12 June	17 June	5
Alberta	22 May	30 May	8
British Columbia	8 June	17 June	9
Canada	**11 June**	**23 June**	**12**

Source: The Fraser Institute's Canadian Tax Simulator, 2012; 2012 Federal and Provincial Budgets.

Of course, today's deficits must one day be paid for with taxes and should therefore be considered as deferred taxation. For this reason, we calculate a Balanced Budget Tax Freedom Day, the day when average Canadians would start working for themselves if governments were obliged to cover current expenditures with current taxation.

Table 2 presents Balanced Budget Tax Freedom Days for Canada and the provinces. Balanced Budget Tax Freedom Day for Canada arrives on June 23, which means that the average Canadian family will work until June 22 to pay its tax bill if, instead of financing expenditures by deficits, Canadian governments had simply increased taxes to balance their budgets. The Balanced Budget Tax Freedom Day arrives 12 days later than Tax Freedom Day. Among the provinces, the latest Balanced Budget Tax Freedom Day falls on July 1 in Newfoundland and Labrador. Of particular concern is the Balanced Budget Tax Freedom Day in Canada's largest province, Ontario, which arrives on June 28—over two weeks later than its Tax Freedom Day.

Conclusion

The Canadian tax system is complex and no single number can give us a complete idea of who pays how much. That said, Tax Freedom Day is the most comprehensive and easily understood indicator of the overall tax bill of the average Canadian family. In 2012, Canadians celebrate Tax Freedom Day on June 11, one day later than in 2011.

Notes

1 Canadians can calculate their personal Tax Freedom Day using the Fraser Institute's Personal Tax Freedom Day Calculator at **www.fraserinstitute.org**.

2 As is the case every year, Tax Freedom Day calculations are based on forecasts of personal income, and on federal and provincial budget tax revenue. When final revenue numbers become available at the end of each fiscal year and personal income data are updated by Statistics Canada, we revise our Tax Freedom Day calculations for previous years.

3 For example, the federal government reduced the Goods and Services Tax (GST) rate from 7 percent to 6 percent in 2006 and to 5 percent in 2008. In addition, the federal and many provincial governments reformed their business tax regime by cutting corporate income and corporate capital taxes. Moreover, some provinces like British Columbia and Manitoba enacted personal income tax relief while Saskatchewan reduced its provincial sales tax.

4 The cumulative deficit figure only includes those provinces with forecasted deficits for 2012/13. Saskatchewan is forecasting a small surplus of $48 million.

References

Palacios, Milagros, Niels Veldhuis, and Charles Lammam (2012). *Canadians Celebrate Tax Freedom Day on June 11, 2012*. Fraser Alert (June). Fraser Institute.

Bill C-323: Another threat to Canadian mining

Fred McMahon

Canadian politicians beat their chests about creating world-class centres of industrial and technological excellence, so why are some intent on destroying one area where Canada is not simply a world leader, but THE world leader—and perhaps make other Canadian international companies drive-by victims?[1]

The key sector—mining—has deep historical roots in Canada. It was one of the growth engines that helped elevate us from a developing economy to one of the world's richest nations.

The threat is Private Member's Bill C-323—the step-child of C-300, which would have allowed Ottawa to punish Canadian mining companies accused of various sins abroad. In 2010, Bill C-300 was narrowly defeated. The main target of C-323 is extractive industries—the bill contains a laundry list of the charges radical NGOs level at these industries—but it would extend to all Canadian companies.[2]

C-323 would give Canadian courts jurisdiction in all civil cases, launched from anywhere, that involved a violation of international law or a treaty to which Canada is a party. The idea is to hold Canadian companies responsible for their actions in countries where the court system is corrupt.

The idea has merit but a bias against foreign companies is found in many developing resource nations. In 2001, Chevron bought Texaco, which once had operations in Ecuador. Now, Ecuadorian courts have fined Chevron $18 billion for dumping waste in the Lago Agrio area. Never mind that Ecuador's state-owned oil company has had a controlling interest in the area since 1977 and took over the full operation in 1992 (meaning neither Chevron nor Texaco has had any presence for the last 20 years); that Texaco paid $40 million for cleanup, with a successful completion signed off by the Ecuadorian government in 1998 releasing Texaco from all liability; that government-owned Petroecuador not only failed to clean up the pits assigned to it but continued using them; that "impartial" court documents recite verbatim pages of plaintiff documents (Keefe, 2012). The list goes on.[3]

C-323 would rarely be needed to overrule local courts that were somehow biased in favour of Canadian companies.

But, the law could be used mercilessly by anti-mining, anti-development NGOs to tie up companies in huge costs and red tape in Canadian courts anytime they felt like it.[4] They could cripple the foreign operation of Canadian companies at the drop of a hat—creating an exodus from Canada of companies with international operations. Imagine the costs of dealing with frivolous suits launched every other day from a far off country.

C-323 isn't limited to violations of Canadian treaties and international law; it adds a lengthy list of other offenses that seem to stop short only of spitting out gum.

Here's an example: A company with "direct knowledge of an impending environmental emergency" that fails to provide "adequate" warnings could be subject to Canada's civil law. What does this mean? What is "direct knowledge," or "environmental emergency," or "adequate" warnings? Well, it can be just about anything in the view of radical NGOs—and thus the company in question will find itself off to Canadian courts under C-323.

So does C-323 have evidentiary rules and other safeguards against abuse? Quite the opposite—it is downright reckless.

C-323 abolishes all time limits, so a company could be sued for an environmental accident that took place 100 years ago. That's not the worst; the burden of proof is placed on the defendant to "clearly, cogently, and convincingly establish" that Canadian courts should not accept the case. So a Canadian company facing a frivolous charge could see a bill for millions of dollars before the case is dismissed.

In introducing the Bill C-323, Peter Julien, MP for Burnaby-New Westminster, claimed it "mirrors the US

Fotolia

alien torts claim act" (Hansard, 2011). This is not correct, that act, passed in 1789 as part of the original Judiciary Act, simply says "district courts shall have original jurisdiction of any civil action by an alien for a tort only, committed in violation of the law of nations or a treaty of the United States" (Legal Information Institute). The act has no long list of additional areas of jurisdiction, no lifting of time limits, no burden-of-proof reversal. The act was ignored for 200 years and has rarely been used since; it has had few applicants and still fewer successful applicants (Berkman Center).

If anything, C-323 is mirror image of the alien torts act. It leaves Canadian firms vulnerable to huge risks and costs. One blog supporting the bill notes that Canadian companies are risk adverse, so the law will be effective (Dirmeitis, 2011).

This is likely right. Companies are risk adverse. In the face of a bill as reckless as C-323, they will flee to nations with sensible legal codes—and for some anti-development types, that would be success.

Notes

1 Just one indication of Canada's world leading status is that 30% of the "world's equity financing for mineral exploration and mining was raised by companies listed on Canadian stock exchanges." Natural Resources Canada (2011) lists other indicators as well.

2 Unless otherwise noted, all references to and quotes from C-323 are from the Parliament of Canada.

3 Since this article was prepared, a Toronto lawyer is attempting to utilize Canadian courts under existing law, demonstrating how unnecessary Bill C-323 is, given it deliberately eliminates safeguards in the current law (Hasselback and Johnson, 2012).

4 NGO groups are already attempting to use the Canadian court system and tie up Canadian mining companies in legal tape (Canadian Network on Social Responsibility).

References

Berkman Center for Internet and Society at Harvard University. *Alien Tort Claims Act*. Harvard University. <**http://cyber.law.harvard.edu/torts3y/readings/update-a-02.html**>, as of May 16, 2012.

Canada (2011). *House of Commons Debates, (Hansard) No. 27 (2011, October 5)*. Parliament of Canada. <**http://www.parl.gc.ca/HousePublications/Publication.aspx?DocId=5159010&Language=E&Mode=1**>, as of May 16, 2012.

Canadian Network on Social Responsibility (2012). *Tort and the Overseas Extractive Sector*. Canadian Network on Social Responsibility. <**http://cnca-rcrce.ca/tort/**>, June 7, 2012.

Hasselback, Drew, and Julia Johnson (2012, May 31). Giant suit hits Chevron Canada: Seeks to enforce $18B ruling from Ecuador. *Financial Post*. <**http://www.canada.com/business/Giant+suit+hits+Chevron+Canada/6705109/story.html**>, as of June 2, 2012.

Keefe, Patrick Radden (2012). Reversal of Fortune. *The New Yorker*. <**https://coursewebs.law.columbia.edu/coursewebs/cw_12S_L6171_001.nsf/0f66a77852c3921f852571c100169cb9/5109FA3D4D9F3515852579B80053EFD0/$FILE/Steven+Donziger,+Chevron,+Ecuador+_+The+New+Yorker.pdf?OpenElement**>, as of June 7, 2012.

Legal Information Institute. *Alien's action for tort*. Cornell University Law School. <**http://www.law.cornell.edu/uscode/text/28/1350**>, as of May 16, 2012.

Natural Resources Canada (2011). *Key mining facts, 2011*. Natural Resources Canada. <**http://www.nrcan.gc.ca/minerals-metals/nmw-smc/4450**>, as of June 8, 2012.

Dirmeitis, Mary (2011). Bill C-323: A tough on crime idea we actually like. *This Magazine*. <**http://this.org/blog/2011/11/01/corporate-accountability-bill-c-323/**>, as of May 16, 2012.

Parliament of Canada. *Bill C-323*. Parliament of Canada. <**http://www.parl.gc.ca/HousePublications/Publication.aspx?Language=E&Mode=1&DocId=5160018&File=24**>, as of May 16, 2012.

Fotolia

Bolder reforms needed for EI to be a true insurance program

Charles Lammam and Amela Karabegović

Imagine a world where your car insurance premium doesn't depend on your driving record or the number of claims you make. Nor does it depend on your age or other characteristics that increase your risk of getting into an accident. Instead, your insurance company charges everybody the same premium.

Such a system seems absurd because it benefits bad drivers at the expense of good drivers. But this is exactly how Canada's employment insurance (EI) program operates.

In an attempt to "make Employment Insurance work better for Canadians" (HRSDC, 2012a), the federal government recently proposed changes to EI—a program that cost more than $16 billion in 2011 (Statistics Canada, 2012). Unfortunately, the changes do not address fundamental problems with the EI system. To truly reform EI for the benefit of Canadians, the EI system needs to operate like a true insurance system where premiums are adjusted for the risk of making a claim.

One of the many problems with EI is that premiums are not adjusted this way.[1] Employers and workers pay the same premium rate ($2.56 and $1.83 per $100 of insurable earnings, respectively) regardless of claim history or occupation.[2]

Predictably, EI is prone to misuse since there is an incentive for seasonal employers to game the system by offering workers enough hours to qualify for EI, laying them off, and then rehiring them next season when they are needed again. After all, no penalties are levied either in the form of higher premiums or lower benefits for workers.

Not surprisingly, some workers structure their work life around the EI system. A study by economists David Card and Craig Riddell compared unemployment rates in the United States and Canada and found evidence that "Canadian workers have increasingly tailored their labor supply behavior to the characteristics of the [EI] system" (Card and Riddell, 1993: 185). Specifically, the study found that over time there was an increase in the number of Canadians who became unemployed after working the exact number of weeks needed to qualify for EI. Another study by David Green and Timothy Sargent examined the EI program in the late 1980s and early 1990s and found evidence of "substantial tailoring of job durations" in seasonal jobs to meet EI eligibility criteria (Green and Sargent, 1998: 247). Put differently, the study found that some workers plan the duration of their employment based on qualifying periods for EI benefits.

In May, the federal government proposed reforms that clarify what constitutes "suitable employment" for those on EI (HRSDC, 2012a). What's suitable will depend on an EI recipient's claim history and how many weeks they've been on the program. Specifically, EI recipients would be categorized into the following groups: frequent claimants, occasional claimants, and long-tenured workers (rare users of the program). Initially, frequent claimants would have to accept a job that paid 80% (or more) of their previous wage but after seven weeks on EI the percentage would decrease to 70% of their previous wage (HRSDC, 2012a). For occasional claimants, the job would need to pay 90% (or more) for the first six weeks on EI, after which the percentage would decrease to 80% and to 70% after 18 weeks. Long-tenured workers would initially be required to accept jobs paying 90% (or more) of their previous wage or risk losing EI benefits; the percentage would decrease to 80% after 18 weeks. All EI recipients would generally have to accept jobs that are within a one hour commute from home.

While the proposed rules are intended to get EI recipients "back to work" quicker, they do not address underlying problems with the program.

The practice of "experience rating" would significantly improve EI because premiums would vary depending on one's risk of making a claim. With experience rating, employers that regularly lay-off and rehire workers would pay higher premiums, as would workers who use the system more often.

The federal government briefly experimented with a form of experience rating in the 1990s; the reforms were implemented in 1996 but ultimately repealed in 2001.[3] Despite being in effect for only a short period, research by professors Alice Nakamura and Erwin Diewert suggests that experience rating successfully reduced EI program expenditures (Nakamura and Diewert, 2004).

Several US states have also experimented with various forms of experience rating. The US evidence shows that experience rating reduces temporary lay-offs and unemployment. A study by Michigan State University Professor Stephen Woodbury examined employment insurance systems in Missouri, Washington, and Pennsylvania and found that "increased experience rating significantly reduces layoffs" (Woodbury, 2004: 2). A 1998 study published in the *Journal of Labor Research* also examined the impact of state policies on county and metropolitan unemployment rates and found greater experience rating is associated with lower jobless rates (Moomaw, 1998).

Employment Insurance should provide temporary assistance to Canadians who unexpectedly lose their job through no fault of their own. If Canadians want a system that achieves that goal while limiting opportunities for it to be abused, then EI needs bolder reform to allow it to function like a true insurance system. In this regard, experience rating is a must.

Notes

1 The current EI system has other shortcomings. First, eligibility criteria and the generosity of benefits vary across Canada by economic region (there are 58 EI economic regions in total). Specifically, the number of hours one has to work to qualify for EI and the duration of EI benefits depends on the unemployment rate in one's economic region. Someone living in the Newfoundland & Labrador region has to work for less than three months (2.8) to receive EI benefits for about eight months (Service Canada, 2012; HRSDC, 2012b). Meanwhile, someone in Vancouver or Ottawa has to work for over 10 months (nearly four times longer) to get about eight months of EI benefits. In addition, the coverage of EI includes parental and compassionate care leave which are not necessarily consistent with the insurance principle. Finally, there are issues with the funding and administration of the program. Specifically, the setting of EI premiums is subject to political influence and not determined by actuarially matched benefits. The EI program also does not have a dedicated fund for its premiums and payouts.

2 The EI premium is split between employers and workers. The 2012 EI premium for employees is set at 1.83% or $1.83 for every $100 of insurable earnings up to an annual maximum of $839.97. Employers pay 1.4 times the employee premium or $2.56 for every $100 earned up to an annual maximum of $1,175.96 (Canada Revenue Agency, 2012). While employers pay EI premiums, the cost of this tax is ultimately passed onto working Canadians. See Clemens and Veldhuis (2003) for a discussion of who actually pays business taxes.

3 Experience rating had two features that depended on claim history. First, frequent users received a lower income replacement rate (percentage of earnings replaced by EI) by up to five percentage points. Second, experience rating applied to higher income workers that faced an increase in the percentage of benefits that were "clawed-back" (Nakamura and Diewert, 2004).

References

Beausejour, Louis, Munir A. Sheikh, and Baxter Williams (1998). Experience Rating Employment Insurance Contributions. *Canadian Public Policy* 24, 3: 388-393.

Canada Revenue Agency (2012). *EI premium rates and maximums*. CRA. <**http://www.cra-arc.gc.ca/tx/bsnss/tpcs/pyrll/clcltng/ei/cnt-chrt-pf-eng.html**>, as of June 1, 2012.

Card, David, and W. Craig Riddell (1993). A Comparative Analysis of Unemployment in Canada and the United States. In David Card and Richard B. Freeman (eds.), *Small Differences that Matter: Labor Markets and Income Maintenance in Canada and the United States* (University of Chicago Press): 149-189.

Clemens, Jason, and Niels Veldhuis (2003). Who Pays Business Taxes? A Different View. *Fraser Forum* (October).

de Raaf, Shawn, Anne Motte, and Carole Vincent (2005). *A Literature Review of Experience Rating: Employment Insurance in Canada*. SRDC Working Paper Series 05-03. Social Research and Demonstration Corporation. <**http://www.srdc.org/uploads/ei_literature.pdf**>, as of June 1, 2012.

Green, A. David, and Timothy C. Sargent (1998). Unemployment Insurance and Job Durations: seasonal and non-seasonal jobs. *Canadian Journal of Economics* 31, 2: 247-278.

Human Resources and Skills Development Canada [HRSDC] (2012a). *Connecting Canadians with Available Jobs*. Government of Canada. <**http://news.gc.ca/web/article-eng.do?m=%2Findex&nid=676379**>, as of June 1, 2012.

Human Resources and Skills Development Canada [HRSDC] (2012b). *Unemployment Rates for the EI Economic Regions*. Government of Canada. <**http://srv129.services.gc.ca/eiregions/eng/rates.aspx?id=2012#data**>, as of June 1, 2012.

Moomaw, L. Ronald (1998). Experience Rating and the Generosity of Unemployment Insurance: Effects on County and Metropolitan Unemployment Rates. *Journal of Labor Research* 19, 3: 543-560.

Nakamura, Alice O., and W. Erwin Diewert (2004). Why We Need a Return to Experience Rating in EI. *Fraser Forum* (February): 10-12.

Service Canada (2012). *Employment Insurance Regular Benefits*. Government of Canada. <**http://www.servicecanada.gc.ca/eng/ei/types/regular.shtml#table2**>, as of June 1, 2012.

Statistics Canada (2012). CANSIM Table 380-0019. <**http://www5.statcan.gc.ca/cansim/pick-choisir?lang=eng&p2=33&id=3800019**>, as of June 1, 2012.

Woodbury, A. Stephen (2004). *Layoffs and Experience Rating of the Unemployment Insurance Payroll Tax: Panel Data Analysis of Employers in Three States*. Michigan State University. <**http://www.ukcpr.org/SeminarSeries/Layoffs(Sep04).pdf**>, as of June 1, 2012.

Reforming Old Age Security: Too timid and too narrow

Bigstock

Niels Veldhuis and Milagros Palacios

In its latest budget, the federal government announced its plan to reform the Old Age Security (OAS) program. While the federal government should be commended for showing leadership in tackling a sensitive issue, increasing the age of eligibility for OAS from 65 to 67 was too timid and too narrow a reform.

Increasing the eligibility age for retirement programs like OAS, and related programs such as the Guaranteed Income Supplement (GIS),[1] is a logical reform for several reasons.

For starters, demographic circumstances have changed considerably in Canada. Average life expectancy for males and females combined in the late-1960s was 72 years, which meant an average period of benefits of seven years (Statistics Canada, 2007). Average combined life expectancy now stands at 81, implying a benefit period of 16 years or more than double the original benefit period (Statistics Canada, 2009 and 2011). If the age of eligibility for OAS were indexed for increases in life expectancy, the age of eligibility would be 74 years today (calculations by the authors).

Upping the age of eligibility to 67 from 65 was much too timid because it does not come close to adjusting for these changes in life expectancy that have occurred since the mid-1960s.

It is also important to note that the physical demands of many jobs in Canada have changed markedly over the past 50 years. Research comparing older people who remain active in the labour market, including part-time and volunteer work, with those who cease working consistently shows the former are healthier, more satisfied, and live longer.[2]

Additionally, the change won't be implemented until 2023 and won't be fully in force until 2029. Delaying the reform's complete implementation for 17 years will significantly reduce its ability to materially reduce the fiscal pressure retiring baby boomers (those born between 1946 and 1965 and retiring between 2011 and 2030) are placing on government programs.

At approximately $38 billion, and 16.1% of program spending, Old Age Security is the federal government's

single largest program expense and is paid out of general revenue (OSFI, 2011; Canada, Department of Finance, 2012; calculations by authors).[3]

Even with the increased age of eligibility, OAS will consume ever-greater proportions of the federal budget. For instance, we estimate that by 2030, OAS will represent 21.6% of federal program spending (OSFI, 2011; Canada, Department of Finance, 2012; calculations by authors).

While a greater proportion of the federal budget being dedicated to OAS does not mean the program is unsustainable, it will require additional changes to benefits, reductions in spending in other areas of government, or additional taxation.

In tackling the sensitive issue of retirement program reform, the government unfortunately missed an opportunity to enact a bolder and broader reform of Canada's pension system.

Beyond a greater increase in the age of eligibility for OAS, the federal government could have proposed a more targeted benefit focused more specifically on lower-income Canadians.

Currently, OAS benefits are reduced (or "clawed" back) for individual incomes above $69,562 and are completely eliminated when an individual's net income is above $112,772 (Service Canada, 2012). The claw-back calculation is based on individual rather than household income, meaning that a couple can earn nearly $140,000 and still receive full OAS benefits.[4]

In addition, broader pension system reforms would have tackled barriers for older workers to remain in the workforce and provided options for greater private savings.[5]

Ultimately, increasing the age of eligibility is sensible policy but broader reforms are needed.

Notes

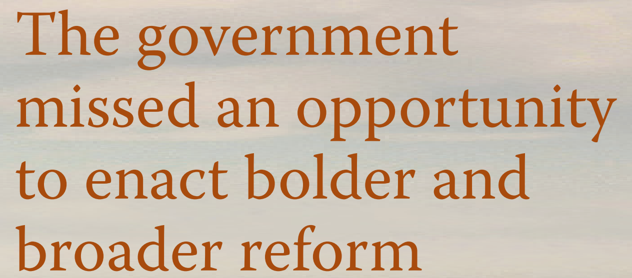
1 For more information on Canada's Old Age Security program, please see **http://www.servicecanada.gc.ca/eng/isp/oas/oasoverview.shtml**.

2 Zhan et al. (2009) found that men and women who kept working after retirement had fewer major diseases or disabilities, fewer functional limitations, and better mental health than those who quit work. Other studies have also supported the idea that working after retirement is beneficial, such as Gallo et al. (2004).

3 There is no dedicated revenue source or pre-funding mechanism for OAS.

4 For more information about the OAS benefit payment amounts see Service Canada (2012).

5 For example, the federal government could eliminate the current ceiling on investment in registered pensions and RRSPs, or increase the limits.



The government missed an opportunity to enact bolder and broader reform

Reference

Canada, Department of Finance (2012). J*obs, Growth, and Long-Term Prosperity—Economic Action Plan 2012 (March 29, 2012)*. Government of Canada. <**http://www.budget.gc.ca/2012/plan/pdf/Plan2012-eng.pdf**>, as of May 16, 2012.

Gallo, William T., Elizabeth H. Bradley, Tracy A. Falba, Joel A. Dubin, Laura D. Cramer, Sidney T. Bogardus, and Stanislav V. Kasl (2004). Involuntary Job Loss as a Risk Factor for Subsequent Myocardial Infarction and Stroke: Findings from the Health and Retirement Survey. *American Journal of Industrial Medicine* (May); 45 (5): 408-416.

Office of the Superintendent of Financial Institutions [OSFI] (2011). *Actuarial Report (10th) supplementing the Actuarial Report on the Old Age Security Program*. OSFI. <**http://www.osfi-bsif.gc.ca/app/DocRepository/1/eng/reports/oca/OAS10_e.pdf**>, as of May 16, 2012.

Service Canada (2012). *Old Age Security Payments Amounts, April-June 2012*. Service Canada. <**http://www.servicecanada.gc.ca/eng/isp/oas/oasrates.shtml**>, as of May 16, 2012.

Statistics Canada (2007). *A portrait of Seniors in Canada 2006*. Catalogue no. 89-519-XIE. <**http://www.statcan.gc.ca/pub/89-519-x/89-519-x2006001-eng.pdf**>, as of May 16, 2012.

Statistics Canada (2009). *Life expectancy, at birth and at age 64, by sex, Canada, provinces and territories.* CANSIM table 102-0512. <**http://www5.statcan.gc.ca/cansim/a01?lang=eng**>, as of May 16, 2012.

Statistics Canada (2011). *Life expectancy at birth, by sex and province, summary tables.* <**http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/health26-eng.htm**>, as of May 16, 2012.

Zhan, Yujie, Mo Wang, Songqi Liu, and Kenneth S. Shultz. Bridge Employment and Retirees' Health: A Longitudinal Investigation. *Journal of Occupational Health Psychology*, 2009; Vol. 14, No. 4: 374-389. ■

Mandatory Country of Origin Labeling:

The case for a harmonized Canada-US beef and pork regulatory regime

Images: Deposit & Bigstock

Alexander Moens and Amos Vivancos Leon

In 2002, the United States introduced Mandatory Country of origin labeling (MCOOL), which labels various classes of meat including beef and pork, and brought it into effect in 2008. Unlike other labeling practices, which either label imported products with a simple declaration of the country of origin or under the name of the country that added the last substantial amount of value such as product processing, MCOOL requires that retailers account for the origin of the animal, where it was raised, and where it was slaughtered and processed. Because Canada and the United States (as well as Mexico) have in past decades developed an integrated supply chain for red meat products in which calves and young pigs are born in one country, raised in another, and/or slaughtered on either side of the border, the new MCOOL label imposes by necessity a tracking, segregating, and recording system that adds significant costs to the integrated system of meat production. As a result, any final product that involves a non-American animal or non-American stage of production faces a much higher label processing cost than the equivalent "all-American-all-the–time" product. The large discrepancy in transaction costs is driving a wedge into the integrated industry and is acting as a severe protectionist measure against Canadian and Mexican products.

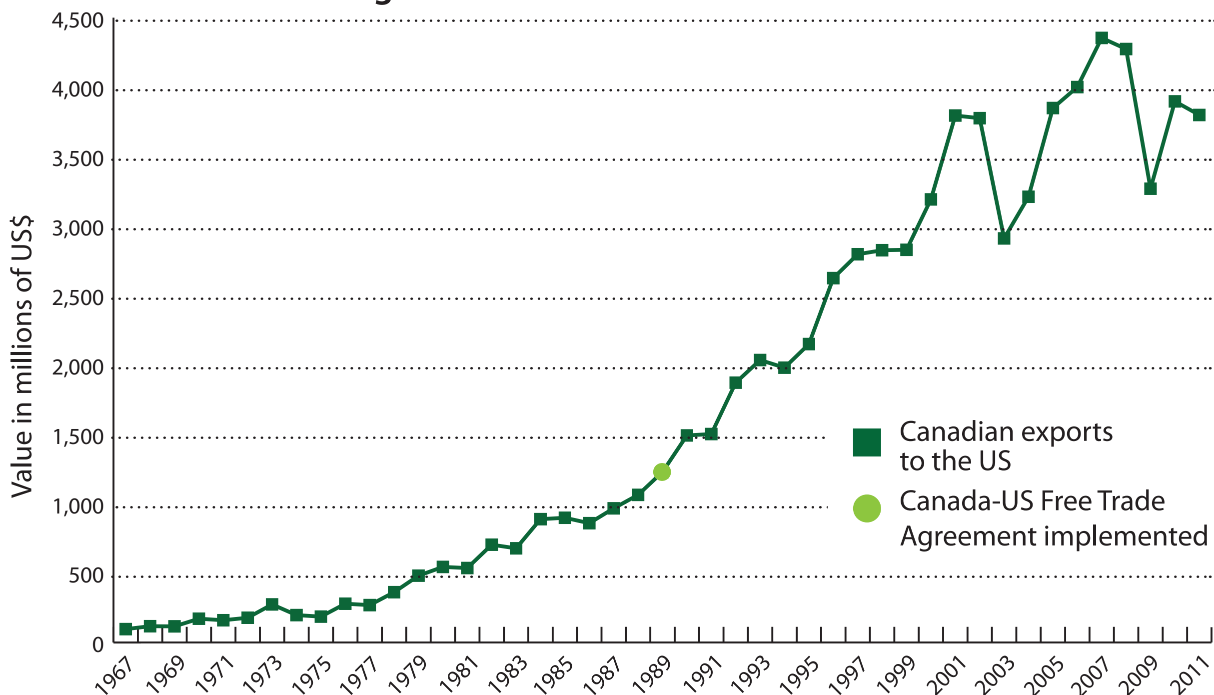
In 2011, Canada-US bilateral agriculture trade was worth over US$38 billion. Canadian agricultural exports to the United States were approximately 19% of total US agricultural imports and Canadian imports from the US were approximately 14% of total US exports (USDA/FAS,

2012). Over US$4.1 billion of this trade pertained to live cattle and hog trade as well as beef and pork products (red meats). In 2011, Canada exported over US$2.8 billion worth of red meat to the US. In turn, the US exported over US$1.3 billion to Canada (Statistics Canada, 2011). This trade has benefited from years of deep supply-chain integration. Cattle or hogs may be born or raised in one country, slaughtered and processed in another, and sold again in yet another country. MCOOL appears to be a disguised "Buy American" provision, creating a de facto protective barrier against Canadian product. Since MCOOL became law in 2008, Canadian cattle and hog exports to the United States decreased by 42% and 25% respectively (USDA/FAS, 2012).

On March 16, 2009, the US Department of Agriculture mandated that retailers list the country of origin on various classes of meat products—including muscle cuts of beef, pork, lamb, and chicken—as well as fish products and other perishable food items. The MCOOL regulations create distinct label categories for products on the basis of "born," "raised," "slaughtered," and "mixed origin" criteria (Federal Register, 2009). Because MCOOL regulations apply to distinct origin products, additional tracking, segregating, and recording system costs for exclusive USA and non-exclusive USA products are spread unequally. In effect, non-American product becomes more expensive than all-American product due to the various transaction costs associated with creating the complex label. Nobody objects to Country of Origin Labeling (COOL), but this method leads to unequal transaction costs between American, non-American, and mixed products.

MCOOL is an attack on free trade in a sector that has for years been deeply integrated. As a result, consumers on both sides of the border will eventually face higher prices for red meats and both Canada and the United States will lose their relative competitiveness. The lesson of MCOOL is that regulatory barriers to trade are among the chief threats Canada faces in its dealings with the United States.

Studies that claim strong consumer support for COOL actually show modest-to-strong consumer preference. But the key question is will American consumers actually pay more to buy "USA origin only" meat? Market research from the fish industry shows that MCOOL (implemented in the USA in 2004) has not shifted consumer purchasing patterns (Kuchler, Krissoff, and Harvey, 2010; Wozniak, 2010; Jones, Somwaru, and Whitaker, 2009). Furthermore, after MCOOL was implemented, surveys showed that only about 30% of consumers were aware that MCOOL existed and, when asked if they pay attention to country of origin on meat labels, 60% of consumers answered "no" (Tonsor, 2011; Grovers CattleNetwork, 2012; Western Producer, 2012). Clearly, there is not enough actual consumer support or demand for MCOOL to lead to any substantial benefits or warrant higher prices. The momentum of MCOOL in Congress is best explained by a majority of politicians desiring to have an ethnocentric label that will help the Buy American objective. A common



Source: USDA/FAS, 2012.

Table 1: Imports and consumption from 2007 to 2011

	Commodity	Percent change
US imports from Canada	Cattle	-51%
	Hog	-42%
US consumption	Beef	-8%
	Pork	-5%

Source: ERS/USDA, 2011; USDA/FAS, 2012. Calculations by authors.

rationale to justify government intervention in the market is when a market failure exists. A market failure is a situation where "the market fails to provide a socially optimal allocation of resources" (Lusk et al., 2006). But this does not apply to MCOOL as there is no underlying problem of communication in the beef and pork market between producers and consumers. If there was substantial consumer demand for a "USA-only" label, producers would have filled this market void and would have been able to increase their profit margin in so doing. Voluntary-COOL labeling does not face any restrictions. Indeed, in the years between 2003 and 2009 when VCOOL was offered by US regulators, there were no takers among the main meat producers. The fact that it did not occur strongly suggests that producers know consumers are not willing to pay more for such a specific label. In fact, the absence of VCOOL suggest that producers will, out of necessity, need to pass the extra MCOOL labeling cost to suppliers down the chain rather than to consumers.

MCOOL significantly reduced Canadian hog and cattle exports to the United States. Figure 1 shows that between 2000 and 2011 there were two significant dips in Canadian livestock and meat exports to the US. The first dip, in 2004, was caused by the Bovine spongiform encephalopathy (BSE), or Mad Cow crisis, and the subsequent closure of the US border to Canadian cattle. This led to a drop in value of 22.9% of the total livestock and meat trade from 2003 to 2004 (USDA/FAS, 2012). The trade dip in 2009 shows a decrease in Canadian exports to the US of 23.5%. Though the financial crisis, high feed prices, and the high Canadian dollar also added to the decrease in trade, MCOOL was still the most significant factor (USDA/FAS, 2012). Table 1 presents an example. It shows that the reduction in imports from Canada far exceeded the reduction in US consumption of beef and pork products, pointing strongly to import substitution.

How does MCOOL act as a trade barrier? The law requires that livestock and meat products imported into the US be segregated from domestic commodities throughout the product's life cycle. This means that if a company that deals with domestic products chooses to import Canadian livestock, the Canadian livestock must be kept, slaughtered, processed, and packed separately from American products. If a company wants to produce products that originate from the US as well as Canada and Mexico, it must segregate all its production processes for each individual origin.

"The segregation costs to US firms that are creating products that use imported cattle were expected to increase by an estimated US$45.50 to $59.00 per head. Meanwhile, if US producers used only cattle originating in America, their costs would rise by only an estimated $1.50 a head" (Informa Economics, Inc., 2010). Similarly, the segregation costs to US firms for handling mixed origin hog products were expected to increase by an estimated $6.90 to $8.50 per head, while firms that make products using only American hog will see increases estimated at $0.25 per head (Informa Economics, Inc., 2010). Obviously, these cost differentials act as strong incentives for US processors/packers and wholesalers/retailers to avoid international (Canadian) products or to demand large discounts if they do use Canadian cattle and hogs. After MCOOL's implementation, many companies announced that they would not be accepting imported products (Federal Register, 2009).

Trade action is not the solution

Recognizing the discriminatory nature of the MCOOL law, Canada and Mexico filed complaints against the US under WTO's Technical Barriers to Trade agreement and the General Agreements on Tariffs and Trade. In December 2011, the WTO declared that MCOOL violates international trade agreements by affording less favourable treatment to imported livestock and failing to fulfill the genuine objective (minimal cost) of providing consumers with information on origin. The American government appealed the WTO decision in the spring of 2012 and as of this writing, the WTO Appellate verdict is expected on June 29.

While MCOOL has caused drastic declines in trade, which makes Canadian—and Mexican—action essential, retaliation on Canada's part is not recommended. Any such action would likely further damage the savings generated in the integrated supply chain.

Instead, in our recently-released report, *MCOOL and the Politics of Country-of-Origin Labeling*, we recommend immediate Canadian-American negotiations—either by means of the Regulatory Cooperation Council as created by the 2011 agreement between President Barack Obama and Prime Minister Stephen Harper called the Beyond the Border Vision or by a separate venue—to remove all remaining regulatory differences between our two countries so that consumers in both countries can benefit from a single red meat market in a single red meat regulatory area. The point is that a single regulatory regime administered bi-nationally by our two governments would not allow a coalition of lobbies to succeed in seeking unilateral measures that disrupts trade such as MCOOL has shown. Given that the current regulations on meat and meat safety between Canada and the United States are already very close, setting up a bi-national regime will not be onerous and will not require large or costly changes. To achieve such a fully integrated sector, we argue, requires the following steps:

- Finalize a bi-national food and animal safety standards regime for beef and pork in which regulations on both sides of the border would either be harmonized or in which the two sides extend mutual recognition.
- Implementing a bi-national inspection regime on both sides of the border at various stages of the production process, including slaughtering and processing
- Blending or harmonizing meat grades designation
- Adopting a single bi-national country-of-origin label
- Subsequently removing all border inspections.

A single label indicating "Product of the USA and Canada" will require no differentiated costs for segregation and record keeping. It will produce no loss in quality for US consumers, but will enable the bilateral supply chain to become even more efficient, and in so doing generate overall benefits for both US and Canadian red meat consumers. The efficiency gains from this bi-national red meat sector will also make North America more competitive in the global arena. We argue that the Canadian-US regime should be transparent and allow Mexico to join eventually when its standards on the points above match the Canada-US regime.

References

Economic Research Services /United States Department of Agriculture (2011). *Food availability spreadsheets*. US Department of Agriculture. <**http://www.ers.usda.gov/data/foodconsumption/FoodAvailspreadsheets.htm#mtpcc**>, as of May 16, 2012.

Federal Register (2009). *Mandatory Country of Origin Labeling of Beef, Pork, Lamb, Chicken, Goat Meat, Wild and Farm-Raised Fish and Shellfish, Perishable Agricultural Commodities, Peanuts, Pecans, Ginseng, and Macadamia Nuts; final rule*. Federal Register 74(10): 2657-2707. <**http://www.ams.usda.gov/AMSv1.0/getfile?dDocName=STELPRDC5074925**>, as of May 16, 2012.

Informa Economics, Inc. (2010). *Update of cost assessment for country of origin labeling–beef and pork (2009)*. Informa Economics, Inc. <**http://www.informaecon.com/COOLStudyUpdate2010.pdf**>, as of May 16, 2012.

Jones, K.G., A. Somwaru, and J. Whitaker (2009). Country of Origin Labeling: evaluating the impacts of US and world markets. *Agricultural and Resource Economics Review*, 38: 1-9.

Kuchler, F., Krissoff, B., and Harvey, D. (2010). Do consumers respond to Country-of-Origin Labelling? J*ournal of Consumer Policy*, 33(4), 323-337.

Neils, S. R. (2009). *Country of Origin Labeling impact on consumer purchasing decisions. (D.I.B.A., International Business Administration)*. ProQuest Dissertations and Theses. Nova Southeastern University. <**http://proxy.lib.sfu.ca/login?url=http://search.proquest.com.proxy.lib.sfu.ca/docview/305148228?accountid=13800**>, as of May 16, 2012.

OpenSecrets. (2012, January 23). *Influence & Lobbying*. OpenSecrets. <**http://www.opensecrets.org/lobby/index.php**>, as of May 16, 2012.

Statistics Canada. (2011). C*anadian international merchandise trade database*. <**http://cansim2.statcan.gc.ca/cgi-win/CNSMCGI.PGM?Lang=E&CIMT_Action=Sections&ResultTemplate=CII_CIMT5**>, as of May 16, 2012.

Tonsor, G. (Interviewee) (2011, June 1). Why does WTO think COOL is four letter word? *SwineCast* [Show 0638]. Podcast. <**http://www.swinecast.com/swinecast-0638-why-does-wto-think-cool-is-four-letter-word**>, as of May 16, 2012.

Umberger, W. J., Feuz, D. M., Calkins, C. R., and Sitz, B. M. (2003). Country-Of-Origin Labeling of beef products: US consumers' perceptions. *Journal of Food Distribution Research,* 34(03). <**http://ageconsearch.umn.edu/handle/27050**>, as of May 16, 2012.

United States Department of Agriculture/Foreign Agriculture Service (2012). *US trade internet service*. US Department of Agriculture. <**http://www.fas.usda.gov/gats/default.aspx**>, as of May 16, 2012.

United States House of Representatives Office of the Clerk (2005-2011). *Lobbying disclosure reports*. US House of Representatives. <**http://lobbyingdisclosure.house.gov/index.html**>, as of May 16, 2012.

Western Producer (2012). *Survey shows most favour COOL change*. Western Producer. <**http://www.producer.com/2012/02/survey-shows-most-favour-cool-change%e2%80%a9/**>, as of May 16, 2012.

Wozniak, Shawn (2010). *Has Country of Origin Labelling influenced salmon consumption? Department of Agribusiness, Applied Economics & Agriscience Education*. NC A&T University. <**http://ageconsearch.umn.edu/bitstream/56460/2/2010%20SAEA%20Wozniak.pdf**>, as of May 16, 2012.

World Trade Organization (2012). *United States-certain Country of Origin Labelling (COOL) requirements, Report of the Panel*. WTO. <**http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds384_e.htm**>, as of May 16, 2012.

Bigstock

Leaving Canada for medical care 2011

Nadeem Esmail

Among the consequences of poor access to health care in Canada is the reality that some Canadians will ultimately receive the care they require outside of the country. Some of these patients will have been sent out of country by the public health care system due to a lack of available resources or the fact that some procedures or equipment are not provided in their home jurisdiction. Others will have chosen to leave Canada in response to concerns about quality (Walker et al., 2009); to avoid some of the adverse medical consequences of waiting for care such as worsening of their condition, poorer outcomes following treatment, disability, or death (Esmail, 2009); or simply to avoid delay.

Understanding how many Canadians receive their health care in another country each year gives some insight into the state of health care in Canada, as well as the state of medical tourism among Canadian residents. Data on this topic are not readily available but an estimation is possible using annual wait times data from the Fraser Institute and the numbers of procedures performed in Canada from the Canadian Institute for Health Information (CIHI).[1]

An estimated count of patients leaving Canada

In 2011, a significant number of Canadians—an estimated 46,159—received treatment outside of the country.[2] Increases between 2010 and 2011 in the estimated number of patients going outside Canada for treatment were seen in British Columbia (5,565 to 9,180), Saskatchewan (943 to 1,221), Manitoba (933 to 1,436), New Brunswick (282 to 526), Nova Scotia (851 to 1,271), Prince Edward Island (44 to 54), and Newfoundland and Labrador (130 to 433). Conversely, Ontario (23,192 to 18,172) saw a decrease in the estimated number of patients who received treatment outside Canada.[3]

As discussed in the methodology below, estimates for 2011 for Alberta (9,267), Quebec (4,600), and Canada as a whole cannot be compared between 2010 and 2011.[4]

At the same time, the national median wait time for treatment after consultation with a specialist increased from 9.3 weeks in 2010 to 9.5 weeks in 2011. Among the provinces, wait times from consultation with a specialist to treatment decreased in six provinces, rising only in Manitoba, Ontario, New Brunswick, and Nova Scotia.

Methodology

As noted above, these estimations rely on physician survey responses from the Fraser Institute's annual national waiting list survey, and the numbers of procedures performed in Canada from the CIHI.

Each year, the Fraser Institute's *Waiting Your Turn* survey asks physicians across Canada in 12 major medical specialties the question: "Approximately what percentage of your patients received non-emergency medical treatment in the past 12 months outside Canada?" The answers are averaged for each of the specialties studied in *Waiting Your Turn* for each province, producing a table that reports the average percentage of patients receiving treatment outside Canada (Barua et al., 2011: table 11). In 2011, 1.0% of all patients in Canada were estimated to have received non-emergency medical treatment outside Canada, the same as in 2010.

Combining these percentages[5] with the number of procedures performed in each province and in each medical specialty gives an estimate of the number of Canadians who actually received treatment outside the country. Three data-related issues must be noted. First, the number of procedures performed in Canada is not readily available from the CIHI. Notably, Alberta and Quebec do not provide complete discharge abstract data (DAD) to the CIHI, which is the source for the procedure data used in *Waiting Your Turn*. The authors of *Waiting Your Turn* address this concern by making a pro-rated estimate of procedures to fill in for the actual number of procedures in Alberta and Quebec.

Second, a refinement in the estimation methodology for Alberta and Quebec made possible by newly available data from the CIHI will have an impact on the estimated counts in those two provinces. In previous years, the authors of *Waiting Your Turn* used historic data from the CIHI's Hospital Morbidity Database to produce the estimated procedure counts for Alberta and Quebec. In 2011, the authors were able to take advantage of newly available data for Quebec and make this estimation using current data, which better captures the proportion of surgeries performed in these two provinces. The consequence of this refinement is an 8% decrease in the number of procedures estimated for Quebec and a 57% increase in the number of procedures estimated for Alberta (Barua, 2012; calculations by author).[6] This means that estimates of the number of Canadians who received treatment outside Canada in 2011 cannot be compared with estimates from 2010 for Alberta, Quebec, or Canada as a whole.

Third, there is a temporal mismatch between the timing of the Fraser Institute's *Waiting Your Turn* survey and the CIHI's annual DAD release. Specifically, procedure counts

Table 1: Estimated number of patients receiving treatment outside Canada, 2011

	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL	CAN
Plastic Surgery	651	316	17	8	48	29	45	0	-	0	1,114
Gynaecology	506	145	133	14	849	214	0	0	0	16	1,878
Ophthalmology	559	1,882	83	12	1,469	1,218	123	67	0	0	5,414
Otolaryngology	178	215	0	58	274	112	12	17	0	0	867
General Surgery	1,599	1,281	181	136	1,457	664	14	232	0	265	5,829
Neurosurgery	167	113	5	0	133	37	0	0	-	0	455
Orthopaedic Surgery	196	702	183	17	1,520	124	67	40	5	0	2,854
Cardiovascular Surgery	0	32	0	20	289	221	0	0	0	0	562
Urology	656	345	0	64	2,257	143	45	319	6	0	3,836
Internal Medicine	643	754	123	577	1,867	150	0	142	15	0	4,271
Radiation Oncology	9	24	-	-	44	14	4	0	0	0	95
Medical Oncology	26	-	-	3	242	16	2	4	2	0	295
Residual*	3,991	3,456	495	527	7,722	1,657	213	451	26	152	18,690
Total	9,180	9,267	1,221	1,436	18,172	4,600	526	1,271	54	433	46,159

* The residual count was produced using the average provincial percent of patients receiving treatment outside Canada and the residual count of procedures produced in *Waiting Your Turn*.

Source: Rovere, Skinner, and Barua, 2011; calculations by author

data used for *Waiting Your Turn* are typically one year behind (e.g., the 2011 edition of *Waiting Your Turn* used procedure counts from 2009/2010). While the calculation above uses the temporally mismatched procedure counts to provide up-to-date information, previous calculations adjusting for the temporal mismatch show that it does not appear to materially affect the trend witnessed in the overall count of Canadians. However, it does, as expected, affect the actual counts of Canadians (Esmail).[7]

The number of patients receiving treatment outside Canada each year produced by this methodology is likely to be an underestimate. This is the result of a few factors. Most importantly, these numbers are based on specialist responses, which means that patients who leave Canada without consulting a specialist[8] are not likely to be included in the count shown in table 1. The counts are also based on the number of procedures estimated to have been performed in Canada, which is less than the total number of patients consulted and less than the total number of Canadians who would have required treatment, including those who left Canada to seek it.

Conclusion

In 2011, an estimated 46,159 Canadians received nonemergency medical treatment outside Canada. In some cases, these patients needed to leave Canada due to a lack of available resources or a lack of appropriate procedure/technology. In others, their departure will have been driven by a desire to return more quickly to their lives, to seek out superior quality care, or perhaps to save their own lives or avoid the risk of disability. Clearly, the number of Canadians who ultimately receive their medical care in other countries is not insignificant.

Notes

1 This includes estimates for Alberta and Quebec, which do not provide comparable data to the CIHI.

2 The products of the percentage of patients receiving nonemergency treatment outside of Canada and the number of patients treated in Canada as estimated in *Waiting Your Turn* are shown in table 1.

3 Estimates from 2010 are from Esmail (2011).

4 Without the refinement in estimation methodology, the number of Canadians receiving treatment outside Canada increased in Alberta (5,447 to 6,258) and decreased in Quebec (7,406 to 4,981) and for the nation as a whole (44,794 to 43,532) between 2010 and 2011.

5 Readers should note that exact values, not the rounded values which appear in table 11 in Barua et al., 2011, are used for this calculation.

6 This refinement led to an increase the calculated national median wait time (Barua et al., 2011, p.26).

7 Specifically, the Canadian counts with the temporal mismatch for 2004, 2005, and 2006 were 49,392, 44,022, and 39,282, respectively. Accounting for the mismatch, the counts for 2004 and 2005 were 47,011 and 45,776, respectively. See Esmail.

8 In 2011, the national median wait time between referral by a general practitioner and consultation with a specialist was 9.5 weeks. See Barua et al., 2011.

References

Barua, Bacchus (2012). *Special Data Request.* Received May 16, 2012.

Barua, Bacchus, Rovere, Mark, and Brett J. Skinner (2011). *Waiting Your Turn: Wait Times for Health Care in Canada (2011 Report).* Fraser Institute.

Esmail, Nadeem (2007). Receiving Medical Treatment Outside of Canada. *Fraser Forum* (February): 5–8.

Esmail, Nadeem (2009). *Waiting Your Turn: Hospital Waiting Lists in Canada, 19th Ed.* Fraser Institute.

Esmail, Nadeem (2011). Leaving Canada for medical care. *Fraser Forum* (March/April): 19–21.

Walker, Michael, Maureen Hazel, and Nadeem Esmail (2009). *A Comparative Analysis of Mortality Rates Associated with Coronary Artery Bypass Graft (CABG) Surgery in Ontario and Select US States.* Fraser Institute.

Bigstock

Reforming the Ontario Drug Benefit Plan: A missed opportunity

Mark Rovere and Bacchus Barua

While Ontario's recent budget suggests that the provincial government finally recognizes the importance of being more prudent when subsidizing drug costs—it has fallen short of introducing meaningful reforms. The province missed an ideal opportunity to take the necessary steps required to significantly improve its prescription drug program and ultimately save taxpayers a significant amount of money.

As of 2014, Ontario will require high-income seniors (those with a net income of $100,000 or more) to pay a slightly larger deductible for their prescription drugs (Ontario Ministry of Finance, 2012a). While this is a move in the right direction, since most seniors (especially those who are wealthy) do not actually require assistance paying for prescription medicines, the province should have gone further and scrapped age-based drug subsidies altogether.

Ontario should learn from other provinces such as British Columbia[1] and change its eligibility criterion for its public drug program to one based on need, regardless of age.

Today's Ontario Drug Benefit plan

The government of Ontario currently operates Canada's largest taxpayer-funded prescription drug program, which is expected to cost the province over $3.6 billion in 2012 (Ontario Ministry of Finance, 2012b). A large portion of the Ontario Drug Benefit (ODB) programs resources are devoted to providing coverage for about 1.9 million seniors, who receive automatic eligibility for the program's benefits (Ontario Ministry of Finance, 2012a).[2]

At present, the program does not link patient cost-sharing to the price of the prescription, or to the recipient's income for individuals aged 65 and older. Instead, single seniors with a net income over $16,018 are only required to pay a small co-payment along with a flat annual deductible (see table 1). In other words, notwithstanding the low income threshold, the majority of seniors living in Ontario are responsible for only a very small share of their drug costs; regardless of their income and consumption.

The 2014 Ontario Drug Benefit plan

Faced with ballooning government health care expenditures and a massive fiscal deficit, the provincial government's recent budget included a provision to reform the ODBs reimbursement arrangement for high income seniors. Although the adjustment is likely intended to save the province money, it has been framed as an issue of "fairness" by suggesting that under the current scheme "someone with an annual income of $300,000 … gets the same benefit as someone with an income of $30,000 per year" as all seniors earning more than $16,018 had to pay the same fixed-amount (Ontario Ministry of Finance, 2012a).

Table 1: Seniors contributions under current ODB plan

	Net income	Deductible	Co-payment
Single seniors	<$16,018	—	$2.00
	>$16,019	$100	$6.11
Senior couple	<$24,175	—	$2.00
	>$24,176	$200 ($100 each)	$6.11

Source: Ontario Ministry of health and long-term care, 2012a

In order to remedy this situation, the province is requiring "high-income" seniors to pay a deductible based on their income. For instance, in addition to a $6.11 co-payment per prescription, seniors with a net income over $100,000 will soon be required to contribute "$100 plus 3% of income over $100,000" towards their annual deductible (see table 2) (Ontario Ministry of Finance, 2012a).

While this is certainly a step in the right direction, simply because those that can afford to pay a higher share of their drug costs should not be eligible for automatic government handouts because of their age, the change pertains to a very small portion of the population (about 5% of seniors); and only requires high-earning individuals to be responsible for a fraction of their drug costs. Table 2 displays how the new ODB deductibles will work under the proposed reforms.

Regressive contributions

Under the proposed changes, those with a net income of more than $16,018, but less than $100,000, will still only pay a flat $100 deductible and a $6.11 co-payment (Ontario Ministry of Finance, 2012). This means that the majority of Ontario's seniors will not be affected by the new reforms and thus remain subject to a system that does not take their respective incomes into account.

Indeed, the regressive nature of such a system can clearly be seen in table 3 where, for example, seniors who earn $40,000 are required to pay up to 0.25% of their income towards their drug costs while those earning $100,000 are only required to pay up to 0.10% of their income. This is a clear indication that flat-deductibles that are not income-sensitive result in wealthier seniors gaining far more from a system that should be designed to assist only those in greatest need (i.e., those with catastrophic drug costs relative to income).

Spending by seniors

While it is true that on average, seniors spend between three and four times more on medication than those under the age of 65 (Morgan et al, 2008; calculations by authors), it does not mean that they necessarily require a public subsidy to pay for their drugs. According to the Ontario government, 7% of the ODBs beneficiaries account for 36% of the program's total costs (Ontario Ministry of health and long-term care, 2012b). This implies that a small portion of beneficiaries account for a disproportionately larger share of expenditures.

Data also indicates that seniors are, generally very capable of being responsible for a more significant portion of their drug costs. In 2009, the average after-tax income of elderly families in Canada was $55,200. At the same time, we estimate that senior couples would have spent approximately 7 percent of this amount on recreation, games of chance, and tobacco products and alcoholic beverages (Statistics Canada, 2010 and 2011; calculations by authors). By contrast, a senior couple with the same after tax-income, would only be required to contribute about 0.36% of their income towards their drugs costs (not counting co-payments).

Means testing

There is a significant problem with the current and proposed structure of the ODBs reimbursement arrangement. This is because publicly subsidized drug coverage should be based on catastrophic drug costs relative to income, regardless of age. As previously discussed, most seniors do not require assistance to pay for their medication, especially those with higher incomes. Therefore, only those that have significant drug costs relative to net income should qualify for public assistance.

Table 2: Examples of deductibles for high income seniors under proposed ODB plan

Single seniors				
Net income ($)	100,000	120,000	150,000	200,000
Deductible ($)	100	700	1,600	3,100
As % of income	0.10%	0.58%	1.07%	1.55%
Senior couple				
Net income ($)	160,000	200,000	250,000	300,000
Deductible ($)	200	1,400	2,900	4,400
As % of income	0.13%	0.70%	1.16%	1.47%

Source: Ontario Ministry of Finance, 2012a

This could be easily achieved by simply replacing the age-based criteria with a means-tested approach, which is already available through Ontario's Trillium drug plan.[3]

Using Trillium's catastrophic threshold of approximately 4% as an example, and applying it to the data displayed in table 2, it is evident that the province could save significant tax dollars by requiring seniors to pay a higher share of their drug costs. For instance, a single senior with a net income of $100,000 would be required to contribute around $4,000 (4%) before qualifying for public coverage, compared to $100 (0.1%) under the proposed arrangement. Likewise, a senior couple with a net income of around $300,000 would be required to pay the first $12,000 (4%) prior to being eligible for public assistance compared to $4,400 (1.47%) under the newly proposed reimbursement scheme. Finally, using the 2009 average after-tax income of $34,400 for unattached seniors in Ontario (Statistics Canada, 2011), the 4% deductible for people close to this average would be approximately $1,376. Notably, low income seniors (those who earn under $16,018 for instance), could still be exempt from paying the deductible altogether.

Importantly, under this sensible reimbursement structure, a person's age will not determine their eligibility for public reimbursement. In contrast, what should matter is how much a person or household spends annually on medications relative to their after-tax income.

Finally, experience from BC indicates that moving from public drug coverage eligibility based purely on age to a government assistance program based on catastrophic drug costs relative to income can result in significant savings for the public without reducing access to prescription drugs for seniors (Morgan et al., 2006).

Conclusion

Although Ontario's provincial government has taken a step in the right direction by requiring high income seniors to contribute a higher share of their drugs costs, the province has not gone far enough. The newly proposed ODB reimbursement structure outlined in the most recent provincial budget will likely do very little to reduce government drug spending because the increased deductible is so small. Likewise, though the reform is designed to improve "fairness" because the current reimbursement arrangement has low income and high income seniors receiving the same benefits, the new structure will not remedy the regressive deductible contribution that will continue to apply to the vast majority of seniors.

However, one way to address the "fairness" issue while also saving taxpayers a significant amount of money is to completely replace age-based eligibility for public drug coverage with means-tested eligibility for catastrophic drug costs relative to income. While some seniors require government assistance to pay for their medications, public subsidies should not be based on age alone.

Table 3: Regressive contributions by seniors under the current and proposed ODB plans

Single seniors			
Net income ($)	16,019	40,000	100,000
Deductible ($)	100	100	100
As % of income	0.62%	0.25%	0.10%
Senior couple			
Net income ($)	24,176	60,000	160,000
Deductible ($)	200	200	200
As % of income	0.83%	0.33%	0.13%

Source: Ontario Ministry of Finance, 2012a and Ontario Ministry of health and long-term care, 2012a; calculations by authors.

Notes

1 In BC, lower deductibles and catastrophic thresholds (based on income) are used for families that include an individual born in 1939 or earlier (British Columbia Ministry of Health, 2012). At present, this criterion only pertains to individuals over 73 years old. Since it is based on a fixed year, rather than a particular age, the rule will become redundant in the years to come.

2 About 2.6 million recipients used the benefits of the ODB programs in 2010/11, at a cost of over $4 billion to the government. Of this figure, $2.7 billion were spent in order to provide benefits to about 1.7 million seniors (Ontario Ministry of Health and Long-Term Care, 2012b).

3 The Trillium Drug Program (TDP) is for Ontario residents that spend a large share of their income on prescriptions drugs. The TDP provides assistance for purchasing prescription drugs listed on the provincial formulary when drug costs for a household are more than around 4% of the total household net income (Government of Ontario, 2008).

References

British Columbia Ministry of Health (2012). *Fair Pharmacare*. Government of BC. <**http://www.health.gov.bc.ca/pharmacare/plani/planiindex.html**>, as of May 16, 2012.

Canada Revenue Agency (2010). *Final Basic Table 6: All Returns by Age, Sex, Total Income Class, and Major source of Income, Ontario*. Canada Revenue Agency.

Government of Ontario (2008). *A Guide to Understanding the Trillium Drug Program*. Government of Ontario. <**http://www.forms.ssb.gov.on.ca/mbs/ssb/forms/ssbforms.nsf/GetFileAttach/014-S46850E-87~15/$File/TrilliumBookE.pdf**>, as of May 16, 2012.

Morgan, Steve, Robert G. Evans, Gillian E. Hanley, Patricia A. Caetano, and Charlyn Black (2006). Income-Based Drug Coverage in British Columbia: Lessons for BC and the Rest of Canada. Healthcare Policy (November) 2(2): 115–127.

Morgan, Steve, Colette Raymond, Dawn Mooney, and Daniel Martin (2008). *The Canadian Rx Atlas, 2nd edition*. UBC Centre for Health Services and Policy Research. University of British Columbia.

Ontario Ministry of Finance (2012a). *A fair and efficient drug system*. Government of Ontario. <**http://www.fin.gov.on.ca/en/budget/ontariobudgets/2012/pdf/bk4.pdf**>, as of May 16, 2012.

Ontario Ministry of Finance (2012b). *Ontario Health Insurance Program - vote 1405*. Government of Ontario. <**http://www.fin.gov.on.ca/en/budget/estimates/2012-13/volume1/MOHLTC_750.html**>, as of May 16, 2012.

Ontario Ministry of Health and Long-Term Care (2012a). *Ontario's Drug Plans: How much do I pay?* Government of Ontario. <**http://www.health.gov.on.ca/en/public/programs/drugs/programs/odb/opdp_pay.aspx**>, as of May 16, 2012.

Ontario Ministry of Health and Long-Term Care (2011b). *Correspondence.*

Skinner, Brett J. (2005). *Universal Drug Benefits for Seniors: Unnecessary, Unsustainable, and Unfair*. Fraser Institute.

Statistics Canada (2010). *Spending Patterns in Canada. Average expenditures by household type, 2009*

Statistics Canada (2011). *Income in Canada. Average after-tax income, by economic family type, 2009 constant dollars.* ■

Opportunity for health reform: Lessons from Switzerland

Bigstock

Mark Rovere and Bacchus Barua

Since 2004/05, the year in which it announced its *10-Year Plan to Strengthen Health Care*, the federal government has transferred $154.4 billion in cash transfers for health spending to the provinces—$6.4 billion beyond that necessary to keep pace with population growth and inflation (Esmail et al., 2012). Critically, this funding has not resulted in significant improvements in access to health care. For example wait times have not decreased (Barua et al., 2011) and many Canadians do not have access to a regular family physician (Statistics Canada, 2012). At the same time, nearly all provinces are facing unsustainable growth in government health expenditures (Skinner and Rovere, 2011). Finally, in comparison to other OECD countries, Canadians are not getting good value for money from their health insurance (Rovere and Skinner, 2012). The status quo or the "Canadian way" is clearly not working. It's time to look to other countries for alternative ways of achieving universal health care with superior results for patients.

This article is the first of a series that will explore how other developed countries, Switzerland in this case, achieve universal health care by promoting patient choice, provider competition, and market incentives; many of the restrictions that currently impede sensible reforms from taking place in Canada.

Spending and health care financing

In 2009 (the most recent data available), Switzerland was tied with Canada as the sixth most expensive health care system in the OECD. It spent 11.4 percent of its gross domestic product [GDP] on health care, as did Canada (OECD, 2011). When the age[1] of the population is taken into account (based on 30 OECD countries), Switzerland spends 10.3 percent of its GDP on health care (ranking the tenth most expensive), while Canada spends 12.0 percent (ranking second most expensive) (OECD, 2011; calculation by authors).

The Swiss have a universal health care system, as does Canada. However, instead of relying on government health insurance monopolies to purchase medically necessary services as Canadians do, the Swiss purchase their health insurance in a competitive private market.

After being approved by a national referendum in 1994, the Swiss Federal Law on Compulsory Health Care (LAMal) was implemented in 1996 (Frank and Lamiraud, 2008). Under this model, residents must[2] purchase basic insurance packages from one of a number of non-profit insurers (public and private), who compete with each other in a regulated competitive market. Individuals and families who cannot afford to purchase private insurance receive government subsidies to finance their basic health insurance premiums.[3] Thus, contrary to what many advocates of single-payer health insurance

claim, low-income families are not abandoned in health care systems that use private health insurance.

Basic insurance in Switzerland normally covers the majority of treatments performed by a doctor and/or in a hospital including maternity, accidents, illness, and certain preventative measures. Additionally, if provided by a health care professional at a doctor's request, physiotherapy, nursing home or nursing care at home, nutritional advice, advice for diabetic patients, speech therapy, occupational therapy, and psychotherapy in certain conditions, are also covered under the basic plan. All patients with basic insurance have access to about 2,500 medicines appearing on the "list of pharmaceutical specialties" (Federal Office of Public Health, 2012b).

Importantly, this basic benefits package is identical among insurers, all of whom are required to accept all applicants. Insurers do, however, offer plans with different levels of service. For example, applicants can choose to enroll in plans with higher deductibles or managed care plans with restricted doctor and hospital choice in order to lower their premiums. Under these managed care plans, health care providers have an incentive to provide high quality services at the lowest cost in order to guarantee insurer contracts.

Individuals may also enroll in "Bonus Plans" which enable them to enjoy progressive reductions in premium payments for each year without any claimed reimbursements (Federal Office of Public Health, 2012b). Residents can also purchase supplementary insurance to cover costs for those services not covered by the basic benefits packages like dental insurance or access to private rooms. Insurers providing supplementary insurance may vary their insurance packages and premiums, deny coverage, and pursue profit (Leu et al., 2009).

Consumer choice is one of the fundamental aspects of Switzerland's health insurance market. Moreover, because residents can shop around for an insurance package that suits their personal medical needs and an insurance payment structure that fits their financial means, the Swiss truly have control and personal responsibility over their health insurance plan.

Premiums and cost-sharing

Insurers set premiums at the regional level, which are thus not dependent on a person's income (Federal Office of Public Health, 2012b). Patients in Switzerland are also expected to contribute to their consumption of health care services through deductibles, co-payments (retention fees) and fees for hospital stays.

At present, the standard annual deductible for basic health insurance is 300 Swiss francs (CDN$216 [4]), although patients can choose to opt for plans with higher deductibles in order to lower their premiums. Patients are further subject to 10% co-payments (retention fee) for the services they consume after reaching their chosen deductible, up to a maximum of 700 Swiss Francs (CDN$504) per year.

Finally, patients are also expected to pay a 15 CHF (CDN$11) contribution for each day they stay in hospital in order to off-set the living costs they would have otherwise incurred at home. This contribution is graduated according to family income, and waved for certain groups like children and expectant mothers (Federal Office of Public Health, 2012e).

Choice and performance

As previously mentioned, choice is one of the fundamental characteristics of the Swiss health care system. It is relatively easy for individuals and families to change their insurers at certain points in the year—and doing so does not result in them incurring any penalties (Federal Office of Public Health, 2012b). Patients can also generally choose their doctors and hospitals and can access specialists without referral. Importantly, because the Swiss have the freedom to switch insurers throughout the year and have a large pool of insurance companies to choose from, there is a strong incentive for insurance providers to compete on both price and service. Forcing insurers to compete for their customers is clearly an ideal situation for patients and Swiss residents more generally as it creates the necessary economic incentives to encourage good value for money.

The Swiss not only enjoy a wide variety of choice among insurers that are competing for their services, but compared to Canada, the Swiss health care system has a relatively higher concentration (availability) of important health care resources (see table 1). For instance, when adjusting for age, in 2009 Canada had 2.5 physicians per thousand people compared to 3.5 in Switzerland; 9.9 nurses per thousand people compared to 13.8 in Switzerland; 1.9 beds per thousand people compared to 3.0 in Switzerland; 14.6 CT scanners per million compared to 29.6 in Switzerland; 8.4 MRI scanners per million compared to 12.6 in Switzerland; 1.2 PET scanners per million compared to 2.7 in Switzerland; and 0.6 lithotriptors per million compared to 4.4 in Switzerland (OECD, 2011).[5]

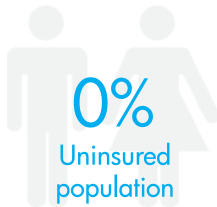
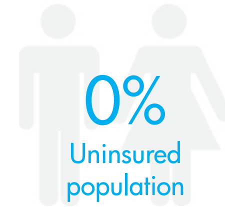
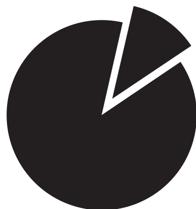
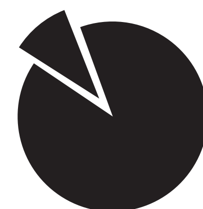
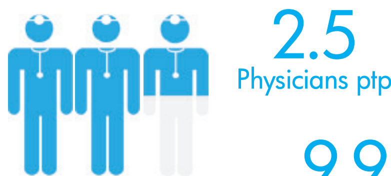
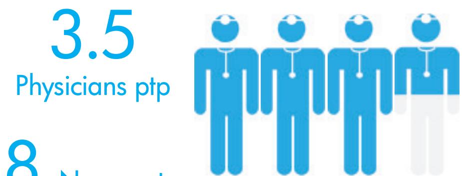
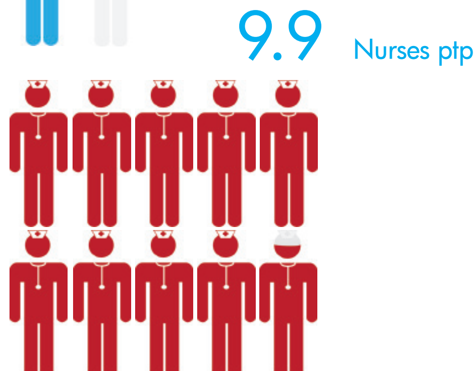
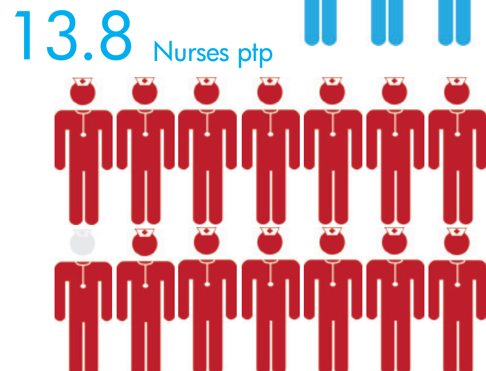
At the same time, in contrast to Canada, relatively few patients in Switzerland are expected to endure lengthy wait times for appointments with specialists or to receive elective surgery (see table 1). According to the Commonwealth Fund survey on wait times, in 2010, 41% of respondents waited "two months or more for a specialist appointment" in Canada compared to 5% in Switzerland. Similarly, in that same year, 25% of Canadian respondents waited "four months or more for elective surgery" compared to 7% in Switzerland (Commonwealth Fund, 2011).

Lessons for Canada

This article briefly describes how Switzerland provides universal health care without having to rely on a government-run health insurance monopoly. Importantly, Switzerland

Table1: Health system comparison between

	CANADA	SWITZERLAND
Type of Insurance	Universal (Public)	Universal (Mandatory Private)
Uninsured population	0%	0%
Financing	Mostly general taxation	Premiums and taxes
Premium regulation	Not applicable	Community rated
Health spending as a % of GDP, age-adjusted (2009)	12.0%	10.3%
Cost sharing	• Drugs	• Hospital • GP • Specialist • Drugs
Two months or more for specialist appointment	41%	5%
Four months or more for elective surgery	25%	7%
Gatekeeping*	Yes	No
Beds ptp**	1.9	3.0
CT scanners pmp	14.6	29.6
MRI scanners pmp	8.4	12.6
PET scanners pmp	1.2	2.7
Lithotriptors pmp	0.6	4.4
Physicians ptp	2.5	3.5
Nurses ptp	9.9	13.8

Sources: OECD, 2008; OECD, 2011; Paris et al., 2010; Commonwealth Fund, 2011; Federal Office of Public Health, 2012b
Notes: OECD data is from 2009, 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.

spends less of its GDP on health care than Canada (when adjusting for the age of the population), and yet appears to have superior access to, and availability of important medical services and resources. Moreover, in contrast to Canada, Swiss residents have greater control over their health insurance. A system that allows the Swiss to shop around for an insurance scheme that best suits their individual or their family's medical needs and financial means also promotes choice and greater responsibility. More importantly, because the Swiss have the freedom to choose their insurer, insurers must compete on price and service. Consequently, insurers have the economic incentives to deliver good value for money. Canada has a lot to learn about alternative ways to finance their universal health care system, and the Swiss have a lot to offer.

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. Therefore, on one side, failing to adjust data for the population's age distribution might understate the real level of spending for countries with younger populations. On the other side, failing to adjust the data for age will understate the real level of resources and output supplied by a health insurance system for countries with younger populations. (Rovere and Skinner, 2012).

2 If an individual does not take out insurance, the cantonal authority will automatically register the person with a health insurance fund (Federal Office of Public Health, 2012a). Diplomats, individuals working for international organizations, temporary students with equivalent health insurance coverage, and some individuals with health insurance in another EU member state may be exempt from compulsory coverage (Federal Office of Public Health, 2012b).

3 In some regions, government subsidies are granted to over 40 percent of the population (Frank & Lamiraud, 2008).

4 Conversion performed using ppp monthly comparative price levels for April 2012 (OECD, 2012).

5 Without adjusting for age, Canada had 2.4 physicians per thousand people compared to 3.8 in Switzerland; 9.4 nurses per thousand people compared to 15.3 in Switzerland; 1.8 beds per thousand people compared to 3.3 in Switzerland; 13.9 CT scanners per million compared to 32.8 in Switzerland; 8 MRI scanners per million compared to 14 in Switzerland; 1.1 PET scanners per million compared to 3 in Switzerland; and 0.6 lithotriptors per million compared to 4.9 in Switzerland.

References

Alberta Health & Wellness (2006a). *The Swiss Health System: Meeting with representatives of the Ministry of Health and Wellness of the province of Alberta, Canada—June 14, 2006*. Government of Alberta. <**http://www.health.gov.ab.ca/healthrenewal/SwissSweden.html**>, as of May 28, 2012.

Barua, Bacchus, Mark Rovere, and Brett Skinner (2011). *Waiting Your Turn: Wait Times for Healthcare in Canada (21st ed.)*. Fraser Institute.

Commonwealth Fund (2011). *International Profiles of Health Care Systems, 2011*. Commonwealth Fund.

Esmail, Nadeem, Milagros Palacios, and Niels Veldhuis (2012). *Canadian Federal Health Transfers to the Provinces*. Fraser Institute.

European Observatory on Health Care Systems (2000). *Health Care Systems in Transition: Switzerland. European Observatory on Health Care Systems*. European Observatory on Health Care Systems.

Federal Office of Public Health (2012a). *Requirement to take out insurance*. FOHP. <**http://www.bag.admin.ch/themen/krankenversicherung/04114/04123/index.html?lang=en**>, as of May 23, 2012.

Federal Office of Public Health (2012b). *The compulsory health insurance in Switzerland. Your questions, our answers*. FOHP. <**http://www.bag.admin.ch/themen/krankenversicherung/06377/10007/index.html?lang=en**>, as of May 23, 2012.

Federal Office of Public Health (2012c). *TARMED*. FOHP. <**http://www.bag.admin.ch/themen/krankenversicherung/06492/06494/index.html?lang=fr**>, as of May 23, 2012.

Federal Office of Public Health (2012d). SwissDRG. <**http://www.bag.admin.ch/themen/krankenversicherung/06492/12987/index.html?lang=fr**>, as of May 23, 2012.

Federal Office of Public Health (2012e). Cost Sharing. <**http://www.bag.admin.ch/themen/krankenversicherung/04114/04285/index.html?lang=en**>, as of May 23, 2012.

Frank, Richard and Karine Lamiraud (2008). *Choice, Price Competition and Complexity in Markets for Health Insurance*. Working Paper 13817. National Bureau of Economic Research (NBER).

Leu, Robert E., Frans F. H. Rutten, Werner Brouwer, Pius Matter, and Christian Rütschi (2009). *The Swiss and Dutch Health Insurance Systems: Universal Coverage and Regulated Competitive Insurance Markets*. Commonwealth Fund.

Organisation for Economic Co-operation and Development [OECD] (2008). *The Looming Crisis in the Health Workforce. How can OECD countries respond?* OECD.

Organisation for Economic Co-operation and Development [OECD] (2011). *OECD Health Data 2011. Statistics and Indicators for 32 Countries*. OECD.

Organisation for Economic Co-operation and Development [OECD] (2012). *Monthly comparative price levels*. OECD.

Paris, Verlie, Marion Devaux, and Lihan Wei (2010). *Health Systems Institutional Characteristics. A Survey of 29 OECD countries*. OECD.

Rovere, Mark and Brett J. Skinner (2012). *Value for Money from Health Insurance Systems in Canada and the OECD, 2012 edition*. Fraser Institute.

Skinner, Brett J. and Mark Rovere (2011). *Canada's Medicare Bubble. Is Government Health Spending Sustainable without User-based Funding?* Fraser Institute.

Statistics Canada (2012). *Table 105-3024: Population reporting a regular family physician, household population aged 15 and over, Canada, provinces and territories, occasional*.

HAVES
HAVE NOTS

Some inconvenient facts about equalization

Mark Milke and Fred McMahon

The federal government provides significant support to provincial governments in the form of cash transfers—an estimated $61 billion this year alone. That includes $46 billion for social programs and another non-directed $14.8 billion for equalization. Equalization is a separate envelope as it fulfills an ostensible constitutional requirement whereby less prosperous provincial governments are given funds to provide their residents with public services that are reasonably comparable to those in other provinces, at reasonably comparable levels of taxation (Canada, 2012). However, there are plenty of myths about the desirability, usefulness, and even the constitutional status of equalization.

Inconvenient Fact #1: Canada's founders didn't want transfers between governments

The federal government has been sending money to the provinces since Confederation, but not because the founding fathers wanted it that way. The only reason such transfers exist is because the founders believed that the provinces would impose provincial tariffs on each other's goods (tariffs then being the main source of revenues for governments) and in so doing create trade barriers within the new country.

The deal brokered was that modest transfers would be given but were to be capped, though endless exceptions were made over the ensuing decades. The provinces were also given the right to raise money via the income tax. However, at the time, few of Canada's founders thought the provinces would ever enact such then-hated taxes, though all would eventually do so. Almost a century-and-a-half after Confederation, the provinces collect provincial income tax and still receive federal transfers (For a detailed look at early Confederation debates on this topic, see Milke, 2002: 20-30). The provinces get the "best" of both worlds—federal transfers plus own-source income tax—far beyond the revenue-receiving potential ever envisioned by Canada's founders.

Our earliest leaders never thought transfers were a good idea. In a 1905 speech, Prime Minister Sir Wilfrid Laurier noted: "It is a sound principle of finance and a still sounder principle of government that those who have the duty of expending the revenue of a country should also be saddled with the responsibility of levying it and providing it" (Hamilton and Hutchinson, 1965: 219).

Inconvenient Fact #2: Public services are often more generous in have-not provinces

In theory, as Section 36(2) of the Constitution Act, 1982 states, equalization is meant to "provide reasonably comparable levels of public services at reasonably comparable levels of taxation" (Department of Justice, undated). In practice, nothing of the sort occurs.

For example, Quebec, the biggest equalization recipient (which receives almost half of the $14.8 billion federal transfer to six provinces), also has the lowest tuition fees for post-secondary education among all the provinces (Statistics Canada, 2011). It also has universal $7 per day daycare (Quebec, undated). One of the more comprehensive studies (Eisen and Milke, 2010) noted how social and government services including the above-noted benefits in Quebec and other "have-not" provinces, are actually often more generous and lavish in such provinces when compared to the "have" provinces such as Alberta and British Columbia.

That's bad policy as cheap tuition and universal daycare for all end up subsidizing everyone, including the rich who can afford to pay the full freight for their daycare and tuition. This policy means that low-income taxpayers in "have" provinces pay for the benefits of the well-off in recipient provinces. That's an indefensible transfer of income and is fiscally Kafkaesque—think of a waitress in Vancouver whose federal taxes are partly transferred to "have-not" provincial governments.

Quebec's Finance Minister Raymond Bachand claims that its higher taxes explain Quebec's lavish social programs (Duhaime, 2012). But this assertion is disproven by a simple calculation: If the $7.4 billion in equalization transfers to Quebec was removed the province would have to raise taxes even higher, or borrow more money, or pare back its lavish social programs, or some combination of the three. Contra Mr. Bachand, of course the $7.4 billion—from taxpayers in the rest of the country—makes a difference to Quebec's budget and Quebec's generous welfare practices.

Inconvenient Fact #3: Equalization is actually a transfer of wealth from high-cost provinces to low-cost provinces

Many people describe equalization as being about "have" and "have-not" provinces—i.e., those who receive

Images: Bigstock

..."over-equalization" weakens the economies of poorer provinces

equalization payments ("have-nots") and those who do not ("haves"). In fact, it's an income transfer of federal tax dollars from provinces with high costs of living such as British Columbia and Alberta to governments in low-cost of living provinces in Atlantic Canada along with Quebec and Manitoba. [Ontario is an anomaly—it is a high cost province that also happens to be a have-not province, though when other federal transfer programs are thrown into the calculation mix, it too is a net contributor to federal coffers (Eisen and Milke, 2010: 11-13) with the province contributing 39 per cent of all federal revenues with 34 per cent spent in the province by the federal government (Ontario, 2012)].

For example, in so-called "have-not" provinces, and according to a Royal LePage survey of housing prices in the first quarter of 2012, a bungalow in Halifax, Charlottetown, Saint John, Quebec City, Montreal, and Winnipeg varies in price from a low of $170,000 (in Charlottetown) to a high of $380,000 (in Quebec City's most expensive neighbourhood; a similar bungalow goes for $239,000 in that city's cheapest neighbourhood). In contrast, in "have" provinces a similar bungalow will set a buyer back between $291,700 and $697,800 in Calgary; and between $477,000 and $1.4 million in greater Vancouver (Royal LePage, 2012).

Equalization is supposed to reduce inequalities in government services. However, because costs are lower in "have-not" provinces, services can be provided at a lower cost—a civil servant needs a much higher salary in Vancouver than Charlottetown for an equivalent standard of living. Thus "equalizing" funds available for services means recipient provinces can afford a higher level of services than the provinces that fund them (McMahon, 2001 and 2011).

Inconvenient Fact #4: Transfer programs weaken the economies of poorer provinces

As pointed out in a series of studies by Fred McMahon, lagging regions in Canada have been catching up more slowly than poorer regions in the United States, Europe, and Asia (2001). In fact, "over-equalization" weakens the economies of poorer provinces.

That is because the rich flow of funds—equalization and other federal transfers—into recipient provinces boosts government spending, pulls resources away from the private sector, and politicizes the economy. For private businesses it becomes more about who you know in government, the region's biggest customer, than which goods and services are produced. (McMahon, 2001 and 2011.)

Total government expenditures in recipient provinces vary from 47 percent of GDP (Manitoba) to 64 percent (PEI). This compares to 23 percent in Alberta and 38 percent in British Columbia (Statistics Canada, 2009).

Government, by bidding resources and workers away from the private sector, artificially increases costs for the private sector which reduces competitiveness and growth—things poorer provinces need much more than bundles of cash from the rest of Canada. (McMahon 2001 and 2011).

Inconvenient Fact #5: Equalization is likely not enforceable in court

Many people might see the flaws in equalization and conclude nothing can be done as it is part of the 1982 Constitution. However, as legal scholar Burton H. Kellock, Q.C., and former Fraser Institute analyst Sylvia LeRoy found in their 2006 paper, *Questioning the Legality of Equalization*, the legal significance of the Constitution's equalization provisions is misunderstood.

For instance, University of Alberta law professor, Dale Gibson, has observed that "… it could be contended that because s. 36(2) contains no reference to legislative jurisdiction, and employs soft terms like 'committed' and 'principle' rather than power-granting expressions like 'may make laws,' it was not intended to have any direct legal effect."

Similarly, Professor Peter Hogg, one of Canada's leading constitutional scholars, has described equalization

as “statements of economic and social goals that ought to guide government but which are not enforceable in court.”

In summarizing the consensus among academics, Kellock and LeRoy observe that “the ambiguity of these terms has contributed to a consensus amongst academics,” which is, to quote Hogg, that “the constitutional obligation to make adequate equalization payments to the poorer provinces is probably too vague, and too political, to be justiciable” (All citations in this section from Kellock and LeRoy, 2006).

Back to the political world—and three modest proposals

If the form and funding of equalization payments then resembles less a constitutional imperative than a non-enforceable informal convention, we are back to the politics of transfer payments.

Here are some suggestions for reform in the short-term and, possibly, even the eventual abolishment of equalization. First, equalization should be based on the cost of providing services as it clearly costs more to deliver a service in Vancouver than it does in Charlottetown.

Second, freeze the amount paid out by the federal government under equalization and transfer payment programs. If the amount paid out in various transfers declines as a percentage of federal spending, it will then make another reform easier, which we address next.

Third, remove the federal government from areas of provincial responsibility and return an equivalent amount of tax room to the provinces. This would initially mean that there would primarily be one transfer payment program rather than a complex of interlocking programs. Eventually, and preferably, equalization should end in exchange for a variety of more tax points.

This would make provincial finances more flexible. Also, equalization’s eventual end would increase transparency and improve government incentives since it would be clear to taxpayers which level of government delivers what service and at what cost. Prime Minister Laurier would heartily approve.

References

Bougrine, Hassan, Ian Parker, and Mario Seccareccia, editors. 2010. *Introducing Microeconomic Analysis: Issues, Questions, and Competing Views*. Emond Montgomery Publications.

Clemens, Jason and Niels Veldhuis (2007). *Beyond Equalization: Examining Fiscal Transfers in a Broader Context*. Fraser Institute. <**http://www.fraserinstitute.org/publicationdisplay.aspx?id=12837&terms=equalization**>, as of May 22, 2012.

Department of Justice (undated). Constitution Acts 1867 to 1982. Part III: Equalization and regional disparities. <**http://laws-lois.justice.gc.ca/eng/Const/page-12.html#sc:7_III**>, as of May 11, 2012.

Duhaime, Eric (2012, April 18). Wildrose win could derail gravy train. *Winnipeg Sun*. <**http://m.winnipegsun.com/2012/04/18/wildrose-win-could-derail-gravy-train?noimage=true**>, as of May 11, 2012.

Eisen, Ben and Mark Milke (2010). *The Real Have-Nots in Confederation: Alberta, British Columbia and Ontario*. Frontier Centre for Public Policy. <**http://www.fcpp.org/publication.php/3197**>, as of May 22, 2012.

Government of Canada (2012). *Federal transfer to provinces and territories*. Department of Finance. <**http://www.fin.gc.ca/fedprov/mtp-eng.asp**>, as of May 11, 2012.

Government of Ontario (2012). Budget 2012: Chapter III-Federal-Provincial Relations. <**http://www.fin.gov.on.ca/en/budget/ontariobudgets/2012/ch3.html**>, as of May 22, 2012.

Government of Quebec (undated). Daycare. <**http://www.gouv.qc.ca/portail/quebec/international/general/quebec/mode_de_vie/garderies/?lang=en**>, as of May 11, 2012.

Hamilton, Robert H. and Bruce Hutchinson (1965). *Canadian Quotations and Phrases: Literary and Historical*. McClelland & Stewart.

Kellock Q.C., Burton H., and Sylvia LeRoy (2006). *Questioning the legality of equalization*. Fraser Institute. <**http://www.fraserinstitute.org/research-news/display.aspx?id=1333**>, as of May 11, 2012.

McMahon, Fred (2001). *Retreat from Growth: Atlantic Canada and the Negative-Sum Economy.* Atlantic Institute for Market Studies.

Milke, Mark (2002). *A Nation of Serfs? How Canada’s Political Culture Corrupts Canadian Values*. Wiley & Sons.

Royal LePage (2012). *Housing price survey—first quarter 2012*. Royal LePage. <**http://docs.rlpnetwork.com/rlp.ca/hps/Q1_2012_EN_HPS.pdf**>, as of May 11, 2012.

Statistics Canada (2009). System of National Economic Accounts, Data Tables, available at <**http://www.statcan.gc.ca/nea-cen/index-eng.htm**>, as of May 11, 2012.

Statistics Canada 2011. Undergraduate tuition fees for full-time Canadian students. See main Canada table and individual provincial tables. <**http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/educ50a-eng.htm**>, as of May 11, 2011.

Regulation *Review*

Free our cities

Deposit

Joel Wood

Cities remain a bastion of regulation in Canada in the guise of urban planning. There are multitudes of plans, rules, and regulations that attempt to control how cities develop. With housing prices at an all-time high in Canada's major cities, reducing the regulatory burden in these cities will help make housing more affordable.

While the United States housing market struggled following the financial crisis and resulting recession, Canadian house prices continued to rise. Calgary, Montreal, Toronto, and Vancouver have all seen house price increases of over 40% between 2005 and 2012 (MLS, 2012). Figure 1 displays average house prices in these cities between 2005 and 2012. Home prices in Calgary increased 68% (MLS, 2012) while consumer prices increased by only 20% (Statistics Canada, 2012). Home prices in greater Vancouver increased 59% (MLS, 2012) while consumer prices increased by only 13% (Statistics Canada, 2012). It is clearly becoming more expensive to purchase housing in these major cities.

Much of the increase in house prices is probably due to demand-side factors, such as low-interest rates. However, supply restrictions may also play a role.

Cities employ various rules and regulations in an attempt to control the way they develop. For example, zoning regulations specify which areas of a city can be used for industrial, commercial, and residential developments and how dense these developments can be (MCSCD, 2012). Many cities also impose a requirement for public hearings where residents or businesses in a neighbourhood can voice their displeasure with proposed developments (MCSCD, 2012). Furthermore, many cities now require new developments to provide space for public services such as daycare or social housing in order to be approved (MCSCD, 2012). Also, regional land use restrictions such as the Agricultural Land Reserve in Metro Vancouver or the Greenbelt in the Greater Toronto Area specify which land surrounding a city must remain segregated for agricultural use.

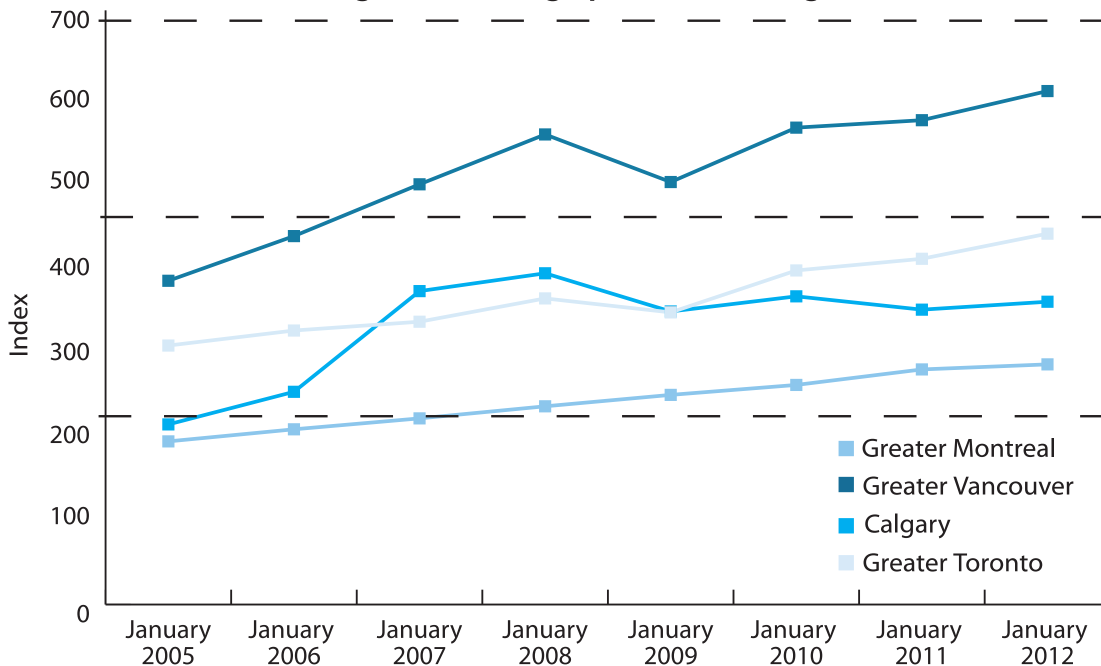
The downside of these rules and regulations is that they restrict the ability of property developers to respond to market signals, such as rising house prices. The rules and regulations can also impose monetary costs on developers that will be partially passed on to home buyers in the form of higher sale prices for new homes. Essentially, these rules and regulations restrict the supply of housing.

There is a wealth of empirical evidence suggesting that restrictive land use regulations increase the price of housing. Glaeser and Gyourko find that strict zoning regulations contribute to high housing prices in the states of New York and California (2003). These strict zoning regulations result in a large differential between construction costs and selling prices. When examining house price data from Manhattan, Glaeser, Gyourko, and Saks discovered that around half the price of a house is likely attributable to overly-restrictive zoning regulations (2005). Glaeser and Ward identify minimum lot size regulations in Boston as being associated with higher house prices, despite a large supply of developable land (2008). Furthermore, in a broader study of the 45 largest US metropolitan areas, Glaeser, Gyourko, and Saiz (2008) identify a relationship between the stringency of land regulation and housing prices. Clearly the link between land regulation and house prices is fairly well established.

There is another benefit to reducing residential land use regulations: it may help mitigate the effects of housing bubbles. Recent research suggests that US cities with looser residential land use regulations experienced less of a housing price boom leading up to the financial crisis, and experienced less of a price crash after the financial crisis (Huang and Tang, 2012). In contrast, the cities with stricter regulations experienced a larger boom and a larger bust (Huang and Tang, 2012). In other words, the stringency of residential land use regulations is correlated with the severity of housing bubbles. That's because residential land-use regulations inhibit how developers can respond to changing housing prices. When housing prices are rising, stricter regulations impose more costs on developers, which discourages them from providing sufficient new housing to slow price increases. This then amplifies the price drop during a housing bust since prices have further to fall.

The good news is that the dramatic increase in house prices may be forcing Canada's cities to get the message. Vancouver has set up an "Affordable Housing Task Force" and one of the associated working groups has identified

Figure 1: Average price of housing



Source: MLS, 2012.

a multitude of regulatory changes to be made that should increase the supply of housing (RBFD, 2012).

The draft report by this working group recommends changes to residential zoning, minimum parking requirements, minimum suite sizes, fire regulations, and accessibility standards. The report claims that these changes will reduce the regulatory burden on developers, encouraging them to provide more new supply.

For example, many residential neighbourhoods in Vancouver have minimum lot sizes and prohibitions on multi-unit buildings beyond duplexes. Cutting the minimum lot size in half allows residents to tear down their house and subdivide their property into two. By removing prohibitions on multi-unit buildings, residents can then convert their house into a multi-unit building. If these types of supply increases can occur on a large scale there will likely be an effect on house prices.

It is unclear if the reforms suggested by the working group will be sufficient to significantly increase the supply of housing, or whether these reforms will even be implemented. However, just proposing the loosening of land-use regulations is a huge step forward for a Canadian city. Other Canadian cities should follow Vancouver's lead and begin discussions around relaxing the regulatory burden on property developers.

References

Glaeser, Edward L., and Joseph Gyourko (2003). The impact of building restrictions on housing affordability. *Economic Policy Review* 9: 21-39.

Glaeser, Edward L., Josephy Gyourko, and Raven E. Saks (2005). Why have housing prices gone up? *American Economic Review* 95, 2: 329-333.

Glaeser, Edward L., Joseph Gyourko, and Albert Saiz (2008). Housing supply and housing bubbles. *Journal of Urban Economics* 64, 2: 693-729.

Glaeser, Edward L., and Bryce A. Ward (2008). The causes and consequences of land use regulation: Evidence from Greater Boston. *Journal of Urban Economics* 65, 3: 265-278.

Huang, Haifang, and Yao Tang (2012). Residential land use regulation and the US housing price cycle between 2000 and 2009. *Journal of Urban Economics* 71, 1: 93-99.

Ministry of Community, Sport & Cultural Development [MCSCD] (2012). *Zoning*. Government of British Columbia. <**http://www.cscd.gov.bc.ca/lgd/planning/zoning.htm**>, as of May 17, 2012.

Multiple Listing Service [MLS] (2012). *MLS Home Price Index*. MLS. <**http://homepriceindex.ca/hpi_tool_en.html**>, as of May 11, 2012.

Roundtable on Building Form and Design [RBFD] (2012). *Preliminary findings of Roundtable on Building Form and Design*. City of Vancouver. <**http://vancouver.ca/ctyclerk/civicagencies/housing/PrelimRptFormDesign.pdf**>, as of May 17, 2012.

Statistics Canada (2012). *Table 326-0020Consumer Price Index (CPI), 2009 basket, monthly*. <**http://www5.statcan.gc.ca/cansim/a05?lang=eng&id=3260020**>, as of May 11, 2012.

The Locavore's Delusion

Pierre Desrochers and Hiroko Shimizu

A summary of:
The Locavore's Dilemma: In praise of the 10,000-mile diet
Public Affairs, 288 pages

In the last two decades, an increasing number of people have promoted the alleged benefits of replacing imported food with items produced within a 100 mile radius. "Locavores" tell us that doing this will heal the planet, create jobs, ensure a more reliable and nutritious food supply, and improve physical, spiritual, and societal health.

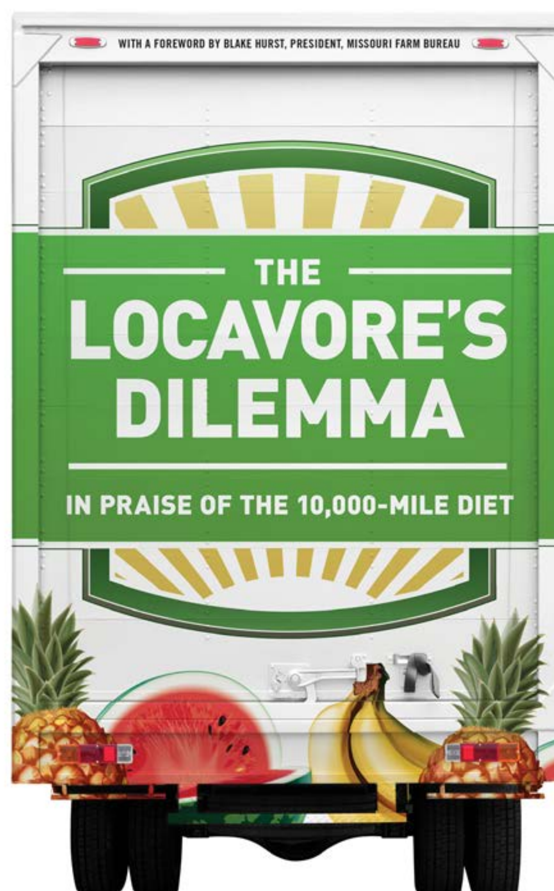
Locavorism, however, begs an obvious question: If things were so great in the past, why was the globalized food supply chain developed in the first place?

In our new book, *The Locavore's Dilemma: In praise of the 10,000-mile diet*, we explain why the current local food fad if taken to extremes can only deliver the world our ancestors were glad to escape. Indeed, the closest example today of our ancestors' way of life is in sub-Saharan Africa, where subsistence farmers grow and consume mostly local crops and livestock due to prohibitively expensive modern agricultural inputs and poor transportation. Far from being thriving sustainable communities, their world is one in which average cereal crop yields are at best one-fifth those of advanced economies, average incomes hover around $1 a day, the probability of being malnourished is approximately one in three, and hundreds of thousands of people die every year from food- and water-borne diseases.

These figures shouldn't surprise us. Whatever the time or location, subsistence farming—which is ultimately what locavorism boils down to—only ever delivered poor nutrition and food insecurity. Humanity's lot only began to improve with urbanization (and its ever more complex division of labour) and long-distance trade. That the former could never occur without the latter was obvious to Plato when he observed in his Republic that to find a city "where nothing need be imported" was "impossible." In time, better production, transportation, and preservation technologies, along with productivity differences and timing of harvests between locations, made distance increasingly irrelevant. With distance no longer a factor, productivity differences and timing of production (harvest) became more important. The results were large monocultures that delivered an ever more abundant, diversified, affordable, and nutritious food supply. Turning back the food clock can only result in a more expensive, less varied, and less nutritious diet. Higher prices, in turn, will also destroy many non-agricultural local jobs as local consumers and former foreign food exporters no longer have the means to purchase other goods produced in the locavores' community.

Another fact lost on locavores is that economic efficiency and sound environmental practices go hand in hand. For one thing, producing food in the most suitable locations and delivering it over long distances is much greener than manufacturing dairy products or growing vegetables near final consumers where these operations require large volumes of animal feed to make up for less productive pastureland, energy-guzzling heated greenhouses instead of natural heat, and massive amounts of water for irrigation rather than abundant rainfall. Large-scale monocultures also deliver a lot more food on a lot less land than more diverse but less efficient small local operations. Overall, we argue in *The Locavore's Dilemma*, the smaller the total area in active human use on the planet, the more environmentally friendly the landscape.

Locavores state that all other things being equal, local food is riper when it is picked, ensuring that it tastes better



In some farmers' markets, resellers have been peddling distant and conventional products under false pretences.

Bigstock

and has more value than food that has traveled long distances in various forms of storage. However, for most of the year many local products are not in season. Eating fresher food for a few weeks and preserved food during the remainder of the year cannot deliver a more pleasant and nutritious diet overall. Another consideration rarely addressed by locavores is that the fortification of food ranging from milk to flour can be accomplished much more effectively and cheaply (especially if vitamins and minerals are produced in large volumes) through large-scale facilities that serve a significant customer base.

Many locavores question food produced in countries with lower overall health, safety, and environmental standards. Paradoxically, however, export operations established by producers from advanced economies in poorer parts of the world typically implement state-of-the-art technologies and undergo significant scrutiny along the food supply chain, something that is often not the case for the small operators who sell their products at local farmers' markets. The issue is especially worrisome in light of the real dangers to our health that can be traced back to completely "natural" pathogens, such as E. coli and listeriosis, which are all around us. There are economies of scale in food safety, both in the production and the processing phases, which is why the food supplied by "agri-business" is safer now than at any other time in human history.

Another frequent complaint of locavores is that we do not know who produces our food and that direct purchases from local producers will improve a community's social capital. Unfortunately, local food activists seem unaware that the development of food brands and grades was largely motivated by the need to assure customers that their purchases had not been adulterated (say, by adding water to milk). In fact, by contrast, a not insignificant number of small operators at farmers' markets have turned out to be resellers who peddle distant and conventional products under false pretenses (calling them "organic" and "local") because they can get away with it.

In some communities, consumers can agree to advanced seasonal purchases for pick up at times and locations determined by the farmer. By doing this, consumers "share the risk" of agricultural productions by accepting whatever is sent their way, including pest- or weather-damaged produce or inconsistent volumes of product. This further reminds us of the benefits of wholesalers and large retailers. For instance, when the kids are gone for a few days or extra guests show up, participants must either throw produce away (or compost it), or make additional purchases at the local grocery store. Gathering, inspecting, sorting, packaging, and delivering food items where and when they are sought after, it turns out, is actually a service worth paying for, because it reduces waste and ultimately saves consumers money, leaving them better able to build local social capital in other ways.

The most preposterous claim of locavores is that their prescription increases food security. Yet, no local food system can ever be completely protected from insects, plant and animal diseases, drought, floods, earthquakes, and other natural catastrophes. Fortunately, trade liberalization insures that the surplus from regions with good harvests can be channeled to those with shortages. In the long run, good and bad harvests cancel each other out. Locavorism, by contrast, puts all of one's agricultural eggs in one regional basket. With food security as with many other forms of risk management, there is safety in numbers—in this case, multiple and geographically dispersed suppliers.

Locavorism is at best a marketing fad. At worst, it is a recipe for widespread human misery and ecological disaster. Higher standards of living and better environmental stewardship are only possible through ever greater specialization and long distance trade.

Reference

Plato. *The Republic, Book II*. <**http://classics.mit.edu/Plato/republic.3.ii.html**>, as of June 14, 2012.