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A Fraser Institute review of public policy in Canada

Value for money in health care

Varying performances across Canada

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- Lessons for Canada from the US's Earned Income Tax Credit experience
- Leaving Canada for medical care
- Big gulp bans are misguided

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FRASER INSTITUTE

Your Philanthropy Plan

By Don Proteau

Billionaires Bill Gates and Warren Buffett have initiated a successful campaign called the Giving Pledge (givingpledge.org) to convince the super wealthy to ultimately give at least half their net worth to charitable causes. As of March 2013, 105 billionaires have signed on. Very Impressive.

On a more humble scale, most of us have recently completed our 2012 tax filing and, as part of that annual ordeal, completed the T1 Charitable Donations Schedule, or paper-clipped our past year's donation receipts for our tax preparer to deal with. If you are like most Canadians, those receipts probably reflect a potpourri of philanthropy: the campaign of a co-worker's child, the knock-on-the-door solicitations, the emails from previously supported charities, and perhaps monthly commitments paid directly from your bank account or credit card.

In my industry—financial planning—it is often said most Canadians spend more time planning their annual vacations than their financial future. I feel comfortable extending this illogical supposition to individual philanthropy, which probably commands less thought on average than where to go for dinner at the resort!

However, as one ages it is natural to spend more time and thought energy on the important things. Careers usually become more stable and financially lucrative, children grow and leave the nest (physically and, hopefully, financially), and eventually our legacy to society becomes a more important component of our financial plan.

If we are able and it is not yet done, each of us should ask ourselves: is it time to formulate a Philanthropy Plan?

I suggest a two-part process.

First, should I be more focused in my annual giving? Should I target a fixed dollar amount or a percentage of my income for charity each year? What causes are important to me? How should I allocate between them? What is my personal policy or budget for solicited or impromptu requests?

Once this ongoing philanthropy strategy is formulated, it makes sense as part of our estate plan to consider our final legacy to the causes that are important to us. After providing financially for loved ones, am I able to leave a legacy to others? What should this focus be? Are there ways to multiply the impact of this legacy over time and future generations?

Most of us will be making decisions about sums far less than those listed on the Giving Pledge website, but collectively our giving can have just as much impact. No answers or strategies are appropriate for all. Our personal Philanthropy Plans will be piecemeal or well planned, nominal or substantial, immediate or long-term, but each will be a unique reflection of those of us giving.

Perhaps it is time to spend some mental energy on a philanthropy strategy that reflects you.

Don Proteau is a Vancouver, BC-based financial planner and member of the Fraser Institute Foundation's Gift Planning Advisory Group. As part of his evolving Philanthropy Plan he has allocated a portion of his planned giving to the Fraser Institute.

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Fraser **Forum**

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From the editor

Provincial budgets for health care vary throughout Canada. Every province provides universal access health insurance but how this care is delivered and how much it costs varies. In *Value for money in health care: Varying performances across Canada* (p.22), senior economist Bacchus Barua and director of health policy Nadeem Esmail determine whether Canadians are receiving good value for their health care dollars. They have found that higher costs do not necessarily mean that performance in areas such as wait times, safety, and availability of medical professionals and technologies are superior to regions with lower costs.

An associated health care article contains the annual summary of those leaving Canada for medical care (p.17). In this article, Esmail finds that the number of patients travelling outside of the country for care is not insignificant.

This issue of *Fraser Forum* also looks south to two very different policy issues. In *Lessons for Canada from the US's Earned Income Tax Credit experience* (p.15), Fraser Institute president Niels Veldhuis and executive vice-president Jason Clemens discuss the change in the ratio of those paying income taxes in the United States. They suggest that tax credits lead to fewer individuals paying income taxes, which leads to uneven tax burdens. They argue that Canadians should pay attention to what has occurred in the US so that the same situation does not happen here. The second US-themed article comes from Joel Wood, who looks at the arguments for "Big Gulp" soda bans in New York City (p.31). He makes the point that placing limitations on consumer choice will not lead to a substantial drop in obesity rates, which is the main reasoning behind these bans.

You will also find articles on British Columbia's proposed prosperity fund (p.7), Canada's corporate welfare budget (p.10), Afghanistan's natural resources (p.26), and BC's return to the PST (p.13).

I hope you enjoy this issue!

— Emma Tarswell

Fraser Forum

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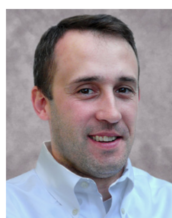

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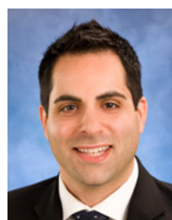

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Balanced budget
in BC comes with short- and long-term pain

Jason Clemens, Niels Veldhuis, and Milagros Palacios

On February 19th, the BC Liberals unveiled what is perhaps one of the more unconventional pre-election budgets in recent memory. Rather than the usual special-interest spending and boutique tax credits, the Liberals put enormous stock in balancing the budget. The balanced budget along with several other important advances are worthy of praise but, unfortunately, the tax increases included in the budget will impede BC's competitiveness.

First the good news. Returning to a balanced budget this year (2013/14) is a marked improvement over the $1.2 billion deficit recorded last year.[1] It means British Columbia is no longer borrowing to pay for current programs.

The BC Liberals also wisely and proactively raised the possibility of creating an endowment fund based on resource revenues, in part to avoid the vast mistakes observed in Alberta.[2]

And the Liberals have re-committed to constraining spending. Total ministerial spending will increase by a modest 1.4 percent in 2013/14. Most departments, however, will experience a freeze or a slight decline in spending with the exception of health, where spending will increase by 3.9 percent (British Columbia, Ministry of Finance, 2013).

The problem is that the Liberals chose to increase taxes as part of the deficit solution. Worse, the taxes raised will impair BC's competitiveness and, in doing so, reduce future economic growth and the jobs that come along with it.

Specifically, the Liberals propose to increase the corporate income tax rate to 11 percent one year ahead of schedule (effective April 1, 2013)[3] and to introduce a new top personal income tax rate of 16.8 percent on income over $150,000.

The Liberals have indicated that the new personal income tax rate is only temporary through to the end of 2015, though, as Nobel Laureate Milton Friedman used to say, there is nothing as permanent as temporary government programs.

Economic research both in Canada and internationally have consistently demonstrated that investment, work effort, entrepreneurship, and business development are sensitive to corporate and personal income tax rates.[4] By increasing both, BC has reduced the incentives for these beneficial activities in the province.

In addition, BC is now distinctly uncompetitive with respect to personal income taxes and to a lesser extent, corporate income taxes. British Columbia's top personal income tax rate, which affects skilled professionals like doctors and engineers, business owners, and investors—all people the province wants to attract—is now 68 percent higher than Alberta's comparable rate: 16.8 percent versus 10 percent.[5] In addition, BC's neighbour to the south, Washington State, with whom the province also competes, maintains no personal income tax whatsoever.[6]

The increase in the corporate income tax is relatively small except when combined with the return of the PST,[7] which applies to business inputs and therefore increases costs. The combination of both policies will impair BC's tax competitiveness.[8]

The tax increases were put into place to balance the budget and ensure that we are not burdening the next generation of British Columbians with increased debt. While the budget was "balanced," the provincial debt continues to increase unabated. The reason for this seeming contradiction is that BC separates its annual or operating budget from its capital budget.[9]

In 2013-14, for example, the BC government will balance its operating budget but increase its total borrowing by some $6.6 billion.[10] Government debt as a share of the economy will increase from 24.9 percent to 26.9 percent.

Indeed, over the course of the three years included in the budget plan, BC's total debt will grow to $69.4 billion in 2015-16 from $56.1 billion in 2012-13.

Beyond the longer term risk of accumulating debt, there is also a short-term risk of debt-servicing costs (i.e., interest). BC will spend $2.5 billion in 2013-14 on interest costs, which is money not spent on health, education, or infrastructure. The risk is that interest rates increase and the cost of maintaining existing debt also increases, which will squeeze spending on other priorities.

While the BC Liberals are rightly trumpeting a balanced budget, there are problematic aspects of the budget to recognize. The 2013 budget has made BC less attractive for investment, skilled and educated workers, and entrepreneurs. As a result, the province's economic future looks less bright.

Notes

1 Unless otherwise stated, the data cited in this article are from British Columbia, Ministry of Finance (2013).

2 For an analysis of the Alberta's Heritage Fund, see Murphy and Clemens (2013).

3 BC's government announced in Budget 2012 that the general corporate income tax rate would increase to 11 percent in April 2014 (British Columbia, Ministry of Finance, 2012: 6).

4 For a detailed literature review of the impact of taxes on economic growth, labour supply, investment, and entrepreneurship and risk-taking, see Palacios and Harischandra (2008).

5 For current personal income tax rates, see the Canada Revenue Agency's website **http://www.cra-arc.gc.ca/tx/ndvdls/fq/txrts-eng.html.**

6 See **http://dor.wa.gov/content/FindTaxesAndRates/IncomeTax/** for more on Washington State's tax policies.

7 See page 13 in this issue of *Fraser Forum* for more on BC's return to PST.

8 Lammam et al. (2012) estimated that moving from the HST to PST would increase the overall tax rate on investment in BC from 20.3% to 27.3%.

9 See Table A8 and A14 from the 2013 BC Budget.

10 Total provincial debt is forecasted to increase from $56.1 billion in 2012/13 to $62.7 billion in 2013/14 (British Columbia, Ministry of Finance, 2013: 140).

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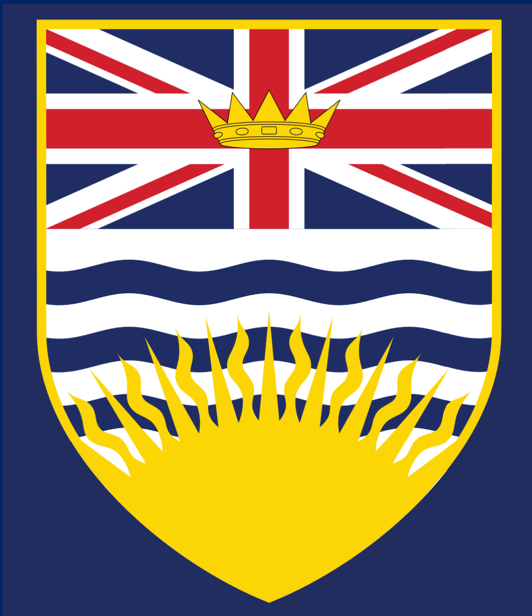

BC's Prosperity Fund: A good idea if designed properly

Jason Clemens and Niels Veldhuis

BC's governing Liberals presented on February 12 the 2013 Throne Speech that included an unexpected announcement: the creation of a BC Prosperity Fund similar in concept to Alberta's Heritage Fund.[1] BC's fund is meant to capitalize on the future opportunities from natural gas development. If done correctly, the Prosperity Fund could be a huge benefit to both current and future British Columbians. As with many things though, the devil is in the details.

Thankfully, there are lessons to be learned, and avoided, from BC's neighbours. Specifically, Alberta provides stark lessons on what not to do when establishing such a fund while BC's other neighbour, Alaska, provides an equally plain positive lesson.

The first and most important lesson is that the rules of the fund will to a large degree determine its success.

With respect to contribution requirements, Alberta has none. Contributions are completely at the discretion of the current government.[2] And unfortunately for Albertans, the government has unwisely used this discretion. For example, the government has made no resource-related deposits into the fund since 1987 (Alberta Heritage Savings Trust Fund, 2011: 19).

In contrast, Alaska has a constitutional requirement to deposit at least 25 percent of specified non-renewable resource revenues into the fund. The state government increased that requirement, albeit legislatively, to 50 percent of revenues from new oil and gas fields.

A key lesson for British Columbia in establishing the Prosperity Fund is to remove, or at least limit, the discretion of the provincial legislature with respect to contributing to the fund from designated resource revenues. More specifically, the legislation for the Fund should specify the contribution rates for royalty income as well as leases, and any other revenues directly linked to non-renewable resource extraction.

A second difference between Alberta and Alaska that is arguably more important than the contribution rate is how the earnings of the Fund can be used.

Alberta's Fund provides the province with almost complete discretion on how earnings can be used, which explains why, since its inception, almost all of

Another key difference is how the Fund benefits citizens. In Alberta, citizens benefit indirectly because the Fund provides revenues to the province to support spending (it's debatable that the spending itself has actually benefited Albertans). In Alaska, however, citizens benefit directly via dividend payments from the Fund.

Each year, eligible Alaskans receive a direct payment from the Permanent Fund based on the fund's five-year average earnings. These payments cannot reduce the principal or the earnings retained to protect against inflation. Since the fund began, the Alaska Permanent Fund has distributed dividends totaling $19.2 billion or 46 percent of the Fund's total earnings (Murphy and Clemens, 2013). In 2011, for instance, it meant an average payment of roughly $1,000 (US) per eligible citizen (Murphy and Clemens, 2013; US Census Bureau, 2013).

If BC's Prosperity Fund were to consider such payments, it should only be implemented after the Fund has eliminated the province's substantial debt.

The key to the success of the Prosperity Fund, however, is inextricably linked with its rules. Alaska and Alberta provide stark performance differences over time based almost exclusively on widely differing rules. Getting the rules right for BC's Prosperity Fund could establish the foundation for enormous benefits for both current and future British Columbians.

the earnings have been removed from the Fund and transferred to the government to finance spending. Since 1977, when the fund was created, it has earned a net income of $31.3 billion but the government has withdrawn $29.6 billion (95 percent of the earnings) to support spending (Alberta Heritage Savings Trust Fund, 2011). It's worth noting that over the same time period, less than one percent of Alaska's Permanent Fund earnings (cumulative) have been transferred to the government to finance spending (Murphy and Clemens, 2013).

This is the key reason why the value of the Alberta Heritage Fund is comparatively low. In 1988, when the government ceased making contributions from resource revenues, the Fund's value stood at $12.6 billion. As of 2011, some 23 years later, the Fund's value was $14.2 billion (Alberta Heritage Savings Trust Fund, 2011). In other words, the nominal value of the fund hasn't changed in almost a quarter of a century.

Alaska, on the other hand, requires a sufficient amount of the earnings of the fund to be retained to protect against inflation. Since its inception, also in 1977, Alaska's Permanent Fund has retained 31 percent of its earnings to protect against inflation. This in part explains the much higher value of Alaska's Fund ($40.1 billion as of 2011) compared to Alberta (Murphy and Clemens, 2013).

Notes

1 A full text of the BC's *Speech from the Throne* could be found at **http://www.leg.bc.ca/39th5th/Throne_Speech_2013.pdf**.

2 Unless otherwise stated, the information regarding the structure of the Alberta's Heritage Fund and the Alaska Permanent Fund are from Murphy and Clemens (2013).

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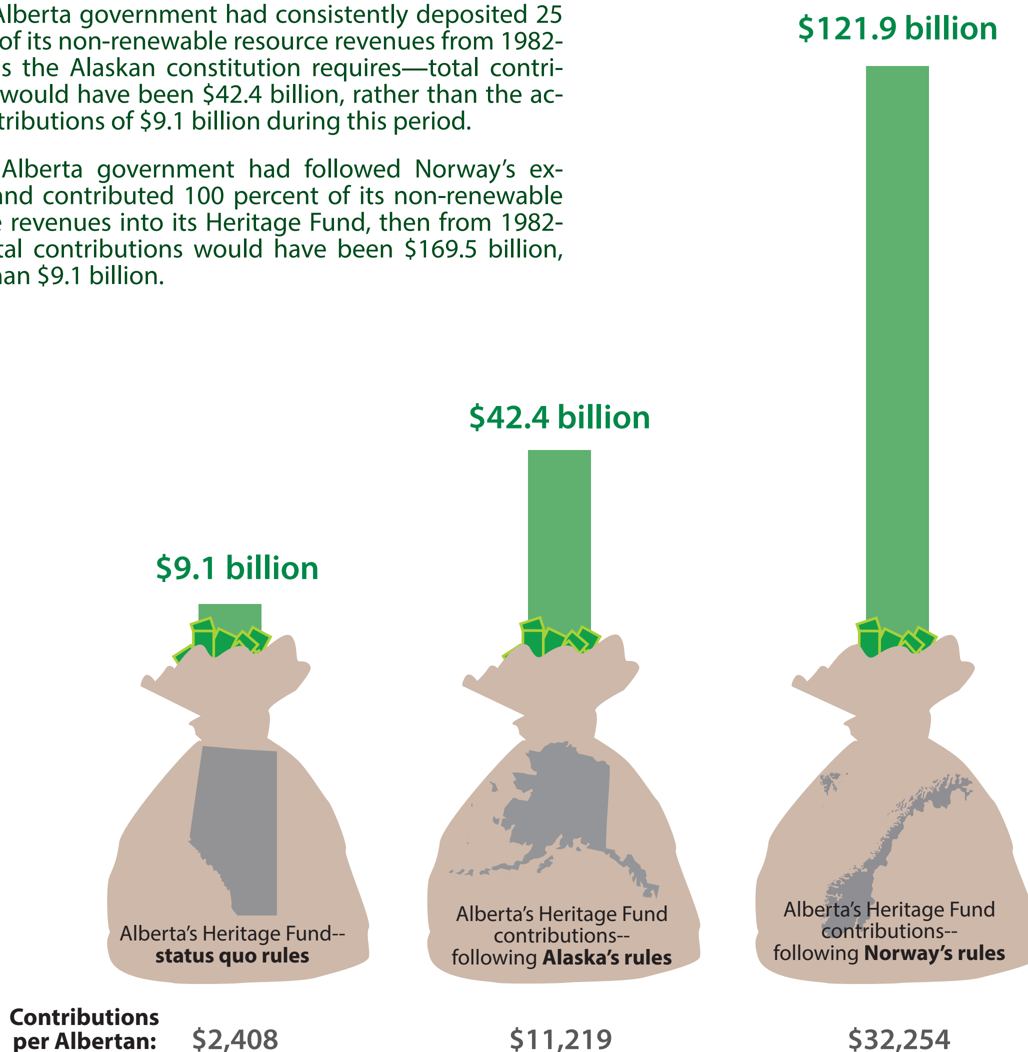
How much would Alberta's Heritage Fund be had it followed Alaska's or Norway's rules?

The governments of Alberta, Alaska, and Norway have all created funds in which to deposit some of the revenues they receive from non-renewable natural resource activities. Despite Alberta's rich natural resource endowments, the Alberta Heritage Savings Trust Fund is smaller than others because of its relative underfunding and chronic withdrawals of most income from the fund. Alaska and Norway offer clear lessons for the future management of the Alberta Heritage Fund.

The advantages to future generations of Albertans from a higher contribution rate are plain:

- If the Alberta government had consistently deposited 25 percent of its non-renewable resource revenues from 1982-2011—as the Alaskan constitution requires—total contributions would have been $42.4 billion, rather than the actual contributions of $9.1 billion during this period.
- If the Alberta government had followed Norway's example, and contributed 100 percent of its non-renewable resource revenues into its Heritage Fund, then from 1982-2011 total contributions would have been $169.5 billion, rather than $9.1 billion.



As the above figures indicate, the present value of the Alberta Heritage Fund would be vastly higher had the legislature made larger contributions during the fund's history. In order to fulfill its mission of preserving Alberta's rich resource wealth for future generations, the government should seriously study the lessons from Alaska and Norway laid out in *Reforming Alberta's Heritage Fund: Lessons from Alaska and Norway*, found at **fraserinstitute.org**.

Canada's $6.4 billion corporate welfare budget

Images from top left to bottom right: Bigstock, iStock, Bigstock, iStock

Mark Milke

When the recent federal budget was released, a plethora of coverage and commentary focused on exactly what the federal government might wish for. What most people missed was this theme: how chock full it was with new corporate welfare.

Crony capitalism is deeply entrenched in the 2013 budget.[1] For example, on page six, Ottawa promises $1 billion to the aerospace sector over five years through the Strategic Aerospace and Defense Initiative; that's the main government program for disbursing taxpayer cash to the aerospace sector.

In addition, the federal government promises a new program for aerospace companies with an initial cost to taxpayers of $110 million over four years and then $55 million every year after that. So, over the next five years, Canada's aerospace sector will receive almost $1.2 billion in new corporate welfare money.

That's only the start of the subsidy list from taxpayers. Ottawa will deposit $920 million into the Federal Economic Development Agency for Southern Ontario, a corporate welfare slush fund, and spend $92 million on forestry businesses.

The Venture Capital Action Plan is promised $60 million (in addition to $400 million announced in January), $37 million for granting councils to help business commercialize their products, and $325 million will go to so-called green technologies.

Buried more deeply in the budget, Ottawa announced it will "partner" with the provinces to deliver $3 billion to the agricultural sector (Government of Canada, 2013a). It's not clear how much will come from the federal government and how much from the provinces. It hardly matters. All such money originates with taxpayers anyway, or future taxpayers, given Ottawa still runs red ink budgets.

The budget also re-announces the federal Conservatives' earlier plans to give $250 million to the automotive sector through the Automotive Innovation Fund. Another $145 million is promised for the Automotive Partnership Canada fund.

Add it all up and Budget 2013, in conjunction with a few announcements from earlier this year and re-announced in the budget, provides $6.4 billion in new corporate welfare, courtesy of Canadian families.

Bizarrely, in a related example of picking winners and losers, the government announced an extension of the accelerated capital cost allowance to manufacturing companies investing in equipment.

While the ability to write off equipment more swiftly is not corporate welfare per se, the sector-specific picking is curious. After all, Budget 2013 notes how investment in machinery and equipment in the Canadian manufacturing sector has seen stronger growth than similar investment in that sector in the United States.

Also, by sector, the government notes how research and development is already strongest in manufacturing, with over $7 billion invested in 2012. That compares to the category of mining, oil, and gas extraction at less than a billion dollars last year.

Favouritism aside (and neither sector should be favoured) such accelerated write-offs are at least not a transfer of tax dollars. That is unlike the political act of corporate welfare that promotes the illusion of "doing something" for the economy but comes at the expense of taxpayers in general.

Budget 2013 makes the usual defences for such handouts: jobs are created with the help of a micromanaging federal government. Thus, in his budget speech, the Finance Minister asserted the Conservative budget reflects a belief of Canadians that "their government will be a benign and silent partner in their enterprise" (Government of Canada, 2013b).

Three questions for the Finance Minister: How do you know Canadians want you to use their tax dollars to be a "silent partner" with business? And why must government be a "partner" in any business enterprise through loans and grants? Lastly: Why not just let corporations compete without dragging taxpayers into the ring?

Corporate welfare is a politically created illusion with no visible means of support. Economists who study crony capitalism are clear about why it fails: money is taken from taxpayers and from productive businesses (Buss, 1999). In the case of businesses, such money is sometimes transferred to businesses in the same sector at the expense of the "giving" business.

This is why the "we're-creating-jobs" argument from the federal Conservatives as it concerns business subsidies is wrong: if that money were left with individuals and businesses, it would have been spent elsewhere or saved and invested. Instead, the federal Tories are addicted to the political picking of corporate welfare winners and losers.

The official title of Budget 2013 was *Jobs, Growth, and Long-Term Prosperity*. It should have been *Grants, Subsidies and Eternal Business Handouts*. It should also have had a price tag attached: $6.4 billion in new corporate welfare.

... the political act of corporate welfare promotes the illusion of "doing something" for the economy...

Note

1 Unless otherwise noted, all data comes from the Government of Canada (2013a).

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Comprehensive review of the Investment Canada Act desperately needed

Fotolia

Niels Veldhuis

If you're confused about Canada's rules with respect to foreign takeovers of Canadian companies, you're not alone. The recent decisions by the federal government to approve the takeovers of Nexen by China's state-owned-enterprise (SOE) CNOOC and of Progress Energy by Malaysia's state-owned-enterprise Petronas while disallowing the takeover of Potash Corp. by the privately-owned Australian mining company BHP Billiton is, at a minimum, confusing. It's no wonder Canadians were left scratching their collective heads about why some deals and not others were approved.

Under the Investment Canada Act, which is actually intended to encourage investment in Canada and review investments by foreigners, an automatic review of significant foreign takeovers is undertaken by the federal government to determine if the takeover provides a "net benefit" to Canada.

While the criteria for determining whether an investment provides a "net benefit" is explicitly set out in the Act (i.e., the effect of the investment on economic activity, the degree of participation by Canadians in the business in question, the effect of the investment on productivity, efficiency, technological development, product innovation and product variety in Canada, etc.), whether a foreign takeover provides a "net benefit" is not objectively measured.

As Western Washington University Professor and Fraser Institute Senior Fellow Steve Globerman noted in his paper, *An Evaluation of the Investment Canada Act and its Operations*, commissioned by the federal government, many criticisms have been levied on the "net benefit" test. These include the fact that "there are no weights attached to the individual criteria," there is "no option to claim trade-offs among the criteria," there is "a lack of transparency," and there are "concerns about consistency in the application of the criteria."

Professor Globerman notes that the main economic benefit of foreign investment comes through increased competition in Canada and the spillover of new technologies which ultimately improves existing Canadian firms. Unfortunately, the government can use the "net benefits" test to pressure the foreign investors to agree to undertake specific actions (i.e., increase head office employment and production in Canada) which ultimately reduces the efficiency of the foreign company and therefore the benefits associated with increased competition.

Professor Globerman ultimately concludes that there is no strong economic justification for the "net benefits" test and that the government's screening of foreign takeovers should be limited to national security issues.

The reality is that overwhelming evidence from the academic research shows that foreign business activity is of tremendous benefit to countries that welcome it.

When efficient foreign companies with superior management, processes, and technologies outbid others for relatively inefficient Canadian companies, the result is better managed companies and a more dynamic economy. That is why foreign business activity has been overwhelmingly found to increase investment, innovation, and the introduction of new technologies, all of which ultimately translate into lower prices, higher wages, and better quality goods and services.

While this certainly applies to most takeovers by privately run companies, those by SOEs are entirely different. SOEs are backed by government support and may not have superior management, processes, and technologies. In addition, SOEs are typically guided by political goals rather than pursuing economic or business objectives. Instead of allocating capital where it garners the highest economic return, SOEs can allocate capital for a host of other reasons.

This is why Prime Minister Stephen Harper recently announced tougher guidelines for SOE takeovers of Canadian companies going-forward, especially those in the oil sands. As Prime Minister Harper noted, "Canadians have not spent years reducing the ownership of sectors of the economy by our own governments, only to see them bought and controlled by foreign governments instead."

While discouraging takeovers of Canadian businesses by foreign SOEs is a positive development, the federal government will continue to use the subjective "net benefits" test to review takeovers by foreign SOEs and all other significant takeovers by private foreign businesses. This will result in the continued politicization of foreign takeover decisions which reduces Canada's ability to attract investment. In addition, while takeovers by SOEs will receive greater scrutiny, the increased influence of sovereign wealth funds and state-owned investment funds, has not been fully considered.

What Canada needs is a comprehensive review and debate about the merits of the Investment Canada Act and a transparent, objective way to deal with takeovers by state-owned enterprises and investment funds. ■

Return of the PST darkens the BC economy

Bigstock

Charles Lammam and Hugh MacIntyre

It was no joke: on April 1st, BC officially scrapped the Harmonized Sales Tax (HST) and in one fell swoop, restored the old Provincial Sales Tax (PST) system.

But moving back to the PST will cause harm to the provincial economy and BC families will lose out on the increased prosperity and jobs that the HST would have encouraged (Mintz, 2010). Since the province will be poorer with the PST, it falls on BC's political leaders to take action to lessen the impact.

To understand why the switch to the PST is so harmful we must first highlight the key difference between the two sales taxes (Lammam et al., 2010).

Under the HST entrepreneurs do not pay sales tax on business inputs including equipment, materials, energy, and other goods or services they purchase and use to produce what they sell to their customers. In other words, the HST only taxes the final consumption of goods and services, not the items used for production.

The HST exemption for capital inputs is especially important because investments in things like machinery, equipment, and technology give BC workers the tools to be more productive. And more productive workers can command higher wages.

With the PST, however, business inputs are subject to sales tax. So as of April 1st the cost of investing in the province will increase dramatically, making it more expensive for BC businesses to operate, expand, upgrade, and innovate. In fact, BC's overall tax rate on new investment will go from approximately 16 percent (with HST) to the highest rate in the country at 27 percent (with PST) (Expert Panel, 2012). In a world where jurisdictions are competing for mobile investment dollars, the PST means less investment, weaker economic growth, and fewer jobs in BC.

But there was a glimmer of hope that tax reform to offset the PST might be on the government's agenda

when it appointed the Expert Panel on Business Taxation in early 2012.[1] Made up of a cross-section of people from business, academia, and government, the Expert Panel sought input from British Columbians as it examined ways to make BC's business taxes more competitive for attracting investment given the PST's return.

Our submission to the Panel offered many reform options but the most important was to enact a complete PST exemption for business inputs, especially machinery, equipment, and technology (see Lammam et al, 2012). Doing so would remove the sales tax penalty on capital goods and retain a key advantage of the HST.

Fortunately, the Expert Panel agreed and a version of this policy appeared in its final report (Expert Panel, 2012). Specifically, the Expert Panel's key recommendation was to introduce a refundable investment tax credit equal to the PST paid on machinery and equipment including computers and software (the final report contained a total of 38 recommendations, not all of which we agree with).

Although positive, the Panel's key recommendation would not fully offset the impact of the PST—it eliminates the PST on capital goods but not other inputs such as building materials. For this reason the Expert Panel also recommended a more comprehensive solution that would see the PST replaced with a sales tax system that more closely mirrors the HST.

Unfortunately, the Expert Panel's final report and recommendations failed to spark much debate about BC's tax competitiveness. Worse, neither the governing Liberals nor the opposition NDP have shown any public support for the Expert Panel's recommendations or talked about the importance of reducing the damaging impact of returning to the PST.

Instead, the BC Liberals delivered a pre-election budget in February proposing a series of economically damaging tax increases including a one percentage point increase to the corporate income tax rate and a new top personal income tax rate on upper-income British Columbians (Ministry of Finance, British Columbia, 2013). These tax increases could not come at a more inopportune time; they will further discourage investment and entrepreneurship in BC precisely when tax policy improvements are most needed.

The NDP's tax plan would also discourage investment as it proposes to raise corporate and personal income taxes and reinstate the capital tax on financial institutions. Here we have tax policies from the province's two main parties that would exacerbate, rather than mitigate, the PST's negative impact.

With the provincial election in May, we don't expect any change on the PST front in the immediate term. But after the dust settles, whoever forms the next BC government should dig up the Expert Panel's report and seriously consider taking action to cushion the PST's adverse economic effects. After all, the prosperity of BC families is at stake.

PST means less investment, weaker economic growth, and fewer jobs in BC

Note

1 Details on the appointment are available here: **http://www.fin.gov.bc.ca/experts_panel_tax.htm**.

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Lessons for Canada from the US's Earned Income Tax Credit experience

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Niels Veldhuis and Jason Clemens

With economic growth slowing and a goal of balancing the budget by 2015, Finance Minister Jim Flaherty had little fiscal room for major new initiatives in the 2013 federal budget. The risk is that the Conservatives continue with their fondness for new and/or expanded tax credits which have been sprinkled through federal budgets over much of the past five or six years (i.e., Working Income Tax Credit, and tax credits for family caregivers, children's arts and fitness, and volunteer firefighters, to name but a few).

While some of these credits are fairly targeted at low-income households, there is an increasing risk that expansion of these credits will result in an increase in the percent of Canadians exempt from personal income taxes. For example, the percentage of tax-filers who faced no income tax has already increased from 32 percent in 2000 to 37.7 percent in 2010.

The trouble with removing individuals from the income tax rolls through credits or other means (i.e., increasing exemptions) is that it establishes the foundation for ever-increasing demand for more government programs and services irrespective of their benefits. Indeed, one of the explanations for the dysfunction of US politics, which is often ignored or dismissed, is the marked change in the balance of Americans who contribute to taxes compared to those exempted from such burden.

Canadians should take note of what's happened down south as the building blocks of such changes are a rising threat to Canada.

The data for the US in terms of who pays taxes and who doesn't is fairly clear. In 2011, according to the left-leaning Tax Policy Center, 46.4 percent of American tax units—individuals or households—paid no income tax. Further, 27.6 percent paid neither income nor payroll taxes.

A key reason such large percentages of Americans are exempt from these two key taxes is tax credits,

which reduce the tax liability for certain people. In particular, the US's Earned Income Tax Credit (EITC) has served to shelter a considerable number of Americans from paying either income or payroll taxes.

This has not always been the case. When the EITC was first introduced in 1975, about 9 percent of American families were eligible. In 2009, the latest year for which data is available, almost 24 percent of American families received EITC benefits.

Another change of note is the share of EITC benefits that are refundable, which means they not only reduce or eliminate income taxes but can also result in a refund that offsets other taxes such as payroll taxes. In 1975, 72 percent of EITC benefits were refundable while in 2009 a little over 91 percent of EITC benefits were refundable.

The result of these changes is that the US now relies more on top earners for revenues than any other industrialized country.

Simply put, when all federal taxes are considered, the top 20 percent of earners in the US shoulder almost 70 percent of the total tax burden while earning 54.6 percent of total income. They are the only group in the US where their share of income is less than their share of taxes. For example, the bottom 40 percent of earners pay 2.9 percent of total federal taxes while earning a little over 12 percent of total income.

This data only accounts for the cost side of government, namely taxes. It is does not adjust for the nature of government spending financed by taxes. Such adjustments result in an even more concentrated burden for high-income earners because so much of what government does is either targeted for low- and middle-income families or spent broadly across the economy on things like defense.

This change in the distribution of who pays and who gets has had a profound effect on the functioning of the US political system. The traditional framework for political decision-making, which is simplified here, is that citizens are offered competing views regarding the efficacy of government action and decisions are reached through elections.

This democratic decision-making process has fundamentally been distorted in the US in a number of ways including the large and increasing portion of American households not contributing to taxes in any meaningful way. Put colloquially, a large and growing number of US households have no skin in the game, which fundamentally changes their decision-making. Given the real absence of costs to these households for government services, even bad services make economic sense because they bear no cost in their provision.

Citizens make decisions about the advisability of a new or expanded government program based on the expected benefits versus the expected costs. The reality of elections is that they are terribly more complicated and almost always based on a broad spectrum of issues rather than a single issue, however, this simple framework allows us to understand the democratic risk that emerges from such highly concentrated tax burdens.

The top 20 percent of earners in the US shoulder almost 70 percent of the total tax burden while earning 54.6 percent of total income.

The experience of the United States is a cautionary tale for Canadians as we potentially begin down a similar path. Specifically, Canada has introduced two tax credits that parallel programs in the US that are credited with increasingly sheltering middle-income households from the burden of taxes: the Working Income Tax Benefit (WITB), which is almost exactly identical to the US' EITC, and the Child Tax Credit (CTC), which actually shares its name with its US counterpart.

The risk is that like their US equivalents they grow over time and increasingly become programs for the middle-class. Indeed, WITB has already been expanded significantly once in 2009, just two years after it was introduced. The cost of WITB went from $480 million in 2008 to $1.025 billion in 2009.

The key to avoiding the problems observed in the US is restraint and continued targeting of tax programs like WITB. Let's hope that Minister Flaherty avoids the mistakes of the United States with respect to these tax programs, which would allow Canada to enjoy the benefits of these programs without incurring the costs the US has experienced. ■

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's *Waiting Your Turn* survey 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 2012, a significant number of Canadians—an estimated 42,173—received treatment outside of the country.[2] This is a decrease from the estimated 46,159 in 2011. Increases between 2011 and 2012 in the estimated number of patients going outside Canada for treatment were seen in Saskatchewan (from 1,221 to 1,380), Quebec (4,600 to 6,308), New Brunswick (526 to 997), and Newfoundland & Labrador (433 to 649). Conversely, British Columbia (from 9,180 to 8,132), Alberta (9,267 to 6,661), Ontario (18,172 to 15,725), Nova Scotia (1,271 to 858), and Prince Edward Island (54 to 28) saw a decrease in the estimated number of patients who received treatment outside Canada. The estimate for Manitoba was roughly the same in both 2011 and 2012 (1,436 to 1,435).[3]

At the same time, the national median wait time for treatment after consultation with a specialist decreased from 9.5 weeks in 2011 to 9.3 weeks in 2012. Among the provinces, wait times from consultation with a specialist to treatment

Table 1: Estimated number of patients receiving treatment outside Canada, 2012

	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL	CAN
Plastic surgery	112	69	—	0	121	169	9	—	0	3	482
Gynaecology	242	168	42	163	882	323	68	48	0	0	1,936
Ophthamology	902	549	142	0	1,223	1,349	118	55	0	255	4,594
Otolaryngology	25	262	—	76	924	17	10	51	4	0	1,370
General surgery	901	722	282	178	1,259	126	35	294	0	0	3,797
Neurosurgery	112	103	0	—	367	26	0	7	0	—	615
Orthopaedic surgery	713	1,331	286	120	1,072	10	79	17	0	0	3,628
Cardiovascular surgery	57	18	12	3	220	193	36	0	0	0	539
Urology	1,035	374	—	33	998	391	74	0	0	0	2,906
Internal medicine	737	96	22	89	1,245	1,155	11	18	0	81	3,453
Radiation oncology	7	1	0	0	32	3	54	0	0	0	97
Medical oncology	74	85	0	0	206	115	5	4	3	0	491
Residual*	3,216	2,883	595	771	7,177	2,431	497	365	21	310	18,265
Total	8,132	6,661	1,380	1,435	15,725	6,308	997	858	28	649	42,173

* 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: Barua and Esmail, 2012; calculations by author

increased in seven provinces, falling only in Saskatchewan, Manitoba, and Ontario (Barua and Esmail, 2012).

METHODOLOGY

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 and Esmail, 2012: table 11). In 2012, 0.9% of all patients in Canada were estimated to have received non-emergency medical treatment outside Canada, compared to 1.0% in 2011.

Combining these percentages[4] 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. Two data-related issues must be noted. First, the number of procedures performed in Canada is not readily available from the CIHI. Notably, Quebec does not provide complete hospital care discharge abstract data 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 prorated estimate of procedures to fill in for the actual number of procedures in Quebec.[5]

Second, there is a temporal mismatch between the timing of the Fraser Institute's *Waiting Your Turn Survey* and the CIHI's annual data release. Specifically, procedure counts data used for *Waiting Your Turn* are typically one year behind (e.g., the 2012 edition of *Waiting Your Turn* used procedure counts from 2010/2011). While the calculations 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

In 2012, a significant number of Canadians—an estimated 42,173—received treatment outside of the country.

affect the trend witnessed in the overall count of Canadians. However, it does, as expected, affect the actual counts of Canadians (Esmail, 2007).[6]

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[7] 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 2012, an estimated 42,173 Canadians received non-emergency 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 Quebec, which does not provide comparable data to the CIHI.

2 The products of the percentage of patients receiving non-emergency treatment outside of Canada and the number of patients treated in Canada as estimated in *Waiting Your Turn* are shown in table 1. See the "Methodology" section for a more detailed explanation of the patient count.

3 Estimates from 2011 are from Esmail (2012).

4 Readers should note that exact values, not the rounded values that appear in table 11 in Barua and Esmail, 2012, are used for this calculation.

5 In 2011, this estimation process was used for both Alberta and Quebec. Alberta now submits complete data to the CIHI, which means a complete non-estimated dataset for Alberta was available for use in 2012. This refinement in the methodology may (as in last year's report) limit comparisons with estimates from previous years for Alberta, Quebec, and Canada as a whole. As this refinement is expected to have a much smaller impact than the revision made in 2011, it is not discussed separately here.

6 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, 2007).

7 In 2012, the national median wait time between referral by a general practitioner and consultation with a specialist was 8.5 weeks (see Barua and Esmail, 2012).

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Kenneth P. Green and Joel Wood

Recently, federal NDP leader and Leader of the Opposition, Thomas Mulcair, has been berating Canada's environmental performance as he travels in the United States: "In the US people know how to read," he said, "They know that Canada is the only country that has withdrawn from Kyoto. They know that the Conservatives can't possibly meet their Copenhagen targets [on greenhouse gas emissions] precisely because of the oilsands. They have to stop playing people for fools" (*National Post*, 2013). In another presentation, Mr. Mulcair said: "I don't think we are applying the basic rules of sustainable development in Canada right now, we've been clear about that," he says when asked why he won't give a simple "yes" or "no" on whether he backs Keystone XL. The Conservative government "is not enforcing our own federal legislation, we're not protecting the groundwater, we're not protecting the eco-systems, we're not protecting First Nations' health," he added (Koring, 2013). According to an article in the *Globe and Mail*, "He criticized Stephen Harper's Conservative government and said its willingness to gut Canadian law and flout international treaties must be reversed. Mr. Harper has created a Canada that is "unrecognizable to a lot of the countries we have worked with closely over the decades and it's no longer recognizable to ourselves" (Koring, 2013).

Alas, Mr. Mulcair seems to have a rather poor grasp of the facts regarding the environment. First, Canada is not the only country to turn their back on the Kyoto Protocol as Russia and Japan have refused to commit to another round of emission reduction targets and the US never ratified the protocol to begin with (Astrasheuskaya, 2012).

But more importantly, contrary to Mulcair's assertions, environmental quality in Canada has been improving for decades in almost every meaningful category.

As documented in the study *Canadian Environmental Indicators—Air Quality*, in most instances, Canadians currently experience significantly better air quality than at any other time since continuous

Contrary to Mulcair's assertions, environmental quality in Canada has been improving for decades in almost every meaningful category

monitoring began in the 1970s. Concentrations of nitrogen dioxide and sulfur dioxide, for instance, have decreased sharply in the vast majority of locations in Canada over the past 30 years (Wood, 2012). The decrease is especially apparent in our major urban centres. Concentrations of carbon monoxide, a potent toxic emission, has decreased everywhere in Canada and since the mid-1990s there have been no exceedances of the strictest provincial air quality objective at any of the 156 monitoring locations across the country (Wood, 2012).

Most notably, concentrations of two of the air pollutants of greatest concern—ground-level ozone and ultrafine particulate matter—have generally decreased across Canada since 2000 (Wood, 2012). Air quality in Canada has improved and is improving.

And it's not simply air quality that has improved. As previous reports have documented, water quality in Canada is generally quite good, and forests are not harvested beyond levels that are considered environmentally protective (Brown et al., 2004). More and more waste water is subject to high levels of treatment before being released to the environment, more solid waste is being diverted to recycling, soil quality has improved, and the size of protected areas has increased in recent decades (Brown et al., 2004). The current federal government, demonized by Mulcair as environmental laggards, has implemented Canada's first nation-wide regulations on treated and untreated wastewater, Canada's largest source of water pollution (Environment Canada, 2013).

We would never suggest that Canada is free of environmental challenges—it certainly isn't, Canada is a natural resource powerhouse that faces unique environmental challenges. And as the world of energy production is changing quickly with regard to things like shale gas and oil sand production it is certainly prudent to be alert to the potential for environmental harms. But an objective view of Canada's environmental trends hardly justifies the kind of catastrophic environmental destruction that Mr. Mulcair would have the world believe that Canada is enduring. And to so badly distort Canada's record, particularly while travelling abroad, is unseemly in the Leader of the Opposition, who, in theory at least, serves as the "government in waiting."

There is still progress to be made in protecting Canada's environment, but hysterical pronouncements of iminent environmental Armageddon do not contribute much to the process of deriving environmental policy that balances environmental protection with economic growth. Striking that balance based on sober facts and sound judgment should be the goal of Canada's government, both those currently in power, and those who would like to be.

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Value for money in health care: Varying performances across Canada

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Bacchus Barua and Nadeem Esmail

It was with the goal of enabling policymakers and taxpayers to discern whether they received good value for their health care dollars, that we began exploring the notion of "value for money," in the context of provincial health care systems across Canada.

Measuring and reporting the different ways in which Canada's provinces have struck a balance between the amount of money spent on and the value provided in their health care system is of great importance. First, such measurement and reporting is vital for ensuring accountability and transparency. Such measurement is also valuable for identifying areas for improvement. Moreover, comparing the performance of health care systems among jurisdictions provides an opportunity for policymakers and the general public to determine how well their respective health care system is performing relative to their counterparts in other provinces.

What is measured, and why

Every province in Canada provides universal access health insurance to the population under the restrictions imposed by the Canada Health Act.[1] However, the delivery of timely access to quality health care varies across provinces, as does the amount of money spent doing so.

The recently published *Provincial Healthcare Index 2013* (Barua, 2013) seeks to measure the different balances Canada's provinces have struck between these two facets of publicly funded health care: value for those in need of health care and cost for those (taxpayers) funding that care. The study assesses cost using provincial government health expenditures per capita. The assessment of value is completed using four sub-indexes measuring the quality of health care: availability of resources, use of resources, access to resources, and clinical performance.[2]

The availability of adequate medical resources is perhaps one of the most basic requirements for a properly functioning health care system. Due to its integral nature, along with the availability of comparable data, indicators of medical resources available are frequently examined by researchers, especially in the context of health expenditures. In this study, availability of resources encompasses per population measures in three areas: human resources (including physicians and nurses), technology resources

(including diagnostic imaging equipment), and drug resources (the share of drugs approved by Health Canada that are eligible for public reimbursement by the province).

While measurement of the availability of medical resources is valuable, it does not provide us with information about their use. Importantly, medical resources are of little use if their services are not being consumed by those with health care demands. A similar observation is made by Figueras et al., who note that "the number of units provides no information about the efficiency with which they are operated (utilization rates)" (2004: 136). In this study, use of resources encompasses per population measures in two areas: medical services (provided by family medicine physicians, medical specialists, and surgical specialists) and technology (MRI and CT examinations). While we would have liked to include measures encompassing the use of pharmaceutical resources, such data was not available comprehensively across provinces.

Although both the level of medical resources available and their use can provide insight into accessibility, it is also useful to measure accessibility directly. One important interpretation of accessibility, particularly in the Canadian context, is the timeliness of care. While this dimension of accessibility is often included with indicators measuring the "responsiveness," "patient-centeredness," or "client-orientation" of a system, it is undoubtedly an important aspect of health care performance and delivery. In this article, the accessibility index focuses on three groups of indicators: those measuring the wait for medical services (including measures of wait times to see a specialist, and to receive treatment after seeing a specialist), those measuring the wait for diagnostic services (including wait times to receive MRI or CT scans), and those measuring delay between Health Canada's approval of a drug and its approval for reimbursement by a provincial government.

When assessing indicators of availability of, access to, and use of resources, it is of critical importance to include as well some measure of the quality of clinical performance.[3] Importantly, this analysis does not use health outcomes (such as life expectancy) in order to measure the value for money from a health care system as these indicators can be affected by a number of factors outside the purview of government health care policy. Instead it incorporates measures of the quality of clinical performance, including rates of short-term in-hospital mortality, rates of readmission, and measures of patient safety (including adverse events, obstetric trauma, and in-hospital injury)—factors that can reasonably be assumed to be directly indicative of the quality of health care services provided.

Two important qualifications apply. First, the value side of the "value for money" equation in this article is constructed as an equal-weighted index, which means each of these four areas of system performance is given equal consideration in the overall measurement. While we accept that this is not necessarily a universally accepted approach, and that some researchers and individuals may value some areas more than others and thus desire a differentially weighted approach, such desires are also not universal and it is not obvious which measures should be weighted higher and by how much. Thus, this analysis takes a straightforward and conservative equal-weighted approach, while publishing the details of all measurements in order to allow interested researchers and individuals to revise the analysis based on their differential weighting approaches.

Second, while we recognize the lack of a consensus about ideal levels of the availability of, use of, access to, and clinical performance of medical goods and services, it is assumed in this study that superior levels are preferred for any given amount of money spent by the provincial government on them.

Results: Overall value

The overall value index, the composite index of the four value sub-indexes discussed above, finds important differences in provincial performances (table 1). The scores are presented on a scale of 0 (worst) to 10 (best).

Quebec ranks first among the provinces, with a top-ranked performance in availability of resources, a middling performance in use of resources, and high-ranking performances in the two other sub-indexes. Ontario is second with top-ranking performances in use of and access to resources, a middle-ranking clinical performance, and a lower-middle ranking performance in availability. New Brunswick, with middling performances in most sub-indexes and a higher-ranking performance in use of resources, rounds out the top three. On the other end of the spectrum fall British Columbia, Saskatchewan, and Prince Edward Island.

Importantly, no province manages a top-ranking performance in all measures. Quebec is top ranked in availability. Ontario is top ranked in use of and access to resources. Alberta manages the top ranking in clinical performance. The same is true at the bottom of the value scale, with Manitoba, Prince Edward Island, and Saskatchewan all managing bottom-ranking performances in a sub-index. A deeper examination of the separate components of the sub-indexes shows similar variations in provincial performance: no province outperforms or underperforms all others within any of the four sub-indexes.

Results: Value for money

Of course, value must be set against the cost of providing health care. Rovere and Skinner argue that "it is incorrect to define higher national levels of spending on health as negative without considering the benefits" (2012: 15), but the opposite also holds true: it is incorrect to define a health

Table 1: Scores for components, overall value, cost, and value for money

	Components						
	Availability of resources	Use of resources	Access to resources	Clincial performance	Overall value	Cost	Value for money
British Columbia	1.75	3.95	3.71	3.53	2.50	8.52	4.12
Alberta	3.06	7.88	7.75	10.00	7.71	2.15	3.35
Saskatchewan	0.55	5.22	5.42	0.00	1.92	4.61	1.17
Manitoba	0.00	7.53	5.13	9.33	5.49	4.83	3.66
Ontario	3.46	10.00	10.00	7.11	8.32	7.75	7.43
Quebec	10.00	7.36	8.95	9.33	10.00	10.00	10.00
New Brunswick	6.81	9.10	5.94	7.21	7.83	5.86	5.87
Nova Scotia	5.96	5.89	4.40	6.46	5.73	6.22	4.73
Prince Edward Island	1.13	0.00	0.00	4.23	0.00	5.47	0.48
Newfoundland & Labrador	6.68	5.70	3.41	3.92	4.74	0.00	0.00

Source: Barua (2013)

system as having higher levels of benefits without considering the costs. Thus, in our analysis, value is assessed against an index of provincial health expenditures per capita. The two indexes (value and cost) are considered together to create a final overall value-for-money index for provincial health care systems. The final value-for-money performance of the provinces is also given in table 1.

Both Quebec and Ontario maintain their positions, with their higher-performing health care systems being the least and third-least expensive health care systems in the country respectively. Once more, New Brunswick rounds out the top three in terms of value for money. Newfoundland & Labrador, Prince Edward Island, and Saskatchewan take up the bottom three positions in the value for money ranking.

Discussion

What lessons can be taken from this measurement? While this study does not assess government policies governing health care, leaving the assessment of the relationship between value for money and specific provincial health care policies for future research, it is nevertheless possible to draw some important conclusions.

First, this article reveals how provinces have struck different balances between health expenditures and health system performance. For example, Quebec is able to offer its residents a relatively high-value health care system at a lower cost, while Newfoundland & Labrador does its residents a disservice by providing only average value at a very high cost (table 2). Low-cost, low-value BC and high-cost, high-value Alberta fall in the middle of the pack in terms of overall value for money.

Second, one of the study's key insights is that higher health spending does not lead to superior health system performance in Canada. To the contrary, two of Canada's highest performing health care systems (Quebec and Ontario) are also among the least expensive. At the same time, Canada's most expensive universal access health care systems rank last, seventh, and eighth overall.

This finding is reflective of a number of other studies of value for money in health care in Canada. A series of studies finds for example that higher health expenditures are not related to shorter waits for health care in Canada, and may even be related to longer waits (Zelder, 2000; Esmail, 2003; Barua and Esmail, 2010). In addition, Zelder (2000) also found that those provinces spending more had no higher rates of surgical specialist services (consultations plus procedures) and had lower rates of procedures and major surgeries.

Table 2: Characteristics of health care systems in Canadian provinces

	High value	Average value	Low value
High cost	Alberta	Newfoundland & Labrador	
Average cost	New Brunswick	Manitoba Nova Scotia	Saskatchewan Prince Edward Island
Low cost	Ontario Quebec		British Columbia

Source: Barua (2013)

Of course, these findings must be taken in context. Internationally, Canada's health care system ranks among the developed world's most expensive universal access health care systems yet provides relatively poor access to satisfactory-quality health care services (Rovere and Skinner, 2012). While the national value-for-money picture is quite poor, it is nevertheless clear that some provinces perform better than others when it comes to providing the most bang for the buck in health care.

Conclusion

Numerous indicators of health system performance show differences among the provinces in wait times, patient safety, the availability of medical professionals, and the availability of medical technologies among others. An index assessing these performances in light of provincial health expenditures finds that some provinces do a better job than others at providing value for money in health care. Equally importantly, the measurement shows clearly that higher health spending does not lead to superior health system performance in Canada.

Notes

1 It is important to recognize that the Canada Health Act does not (and cannot) set provincial health policy. Rather, the Act provides requirements the provinces must meet in order to receive their full federal cash transfers for health and social services. In some cases, the requirements are clear and come with clearly defined penalties (for user fees and extra billing for example). In other cases, the requirements are much less clear. For more on the Canada Health Act see Clemens and Esmail, 2012 and Boychuk, 2008.

2 All indexes in the article use a min-max approach to comparing performances, where the top-ranked province will receive a 10.00, the bottom ranked province a 0.00, and the other provinces are distributed between these values. Further, all data in the study are for 2010 or the most recent year available.

3 Importantly, the Provincial Healthcare Index 2013 makes no attempt to assess any relationships between medical inputs and health outcomes or outputs. Instead, this analysis uses health expenditure to represent inputs and the various facets of availability, access, use, and clinical performance as outputs. Clinical performance, therefore, is one of the four characteristics of a health care system toward which health care expenditure may be directed.

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Silver Lining in Afghanistan?

Alan W. Dowd

After more than a decade of war and nation-building, members of the International Security Assistance Force (ISAF)—the multitasking army of armies that has tried to transform Afghanistan into a healthy, or at least harmless, nation-state—are heading for the exits. Although ISAF will leave behind a better country than what was there in 2001, Afghanistan remains a battered land.[1] However, that land may hold a silver lining.

Mapping Afghanistan's future

Afghanistan is veined with copper, cobalt, iron, barite, sulfur, talc, chromium, magnesium, mica, lead, silver, zinc, niobium, and 1.4 million metric tons of rare-earth elements (USGS, 2007; Gardner, 2010). US government agencies conservatively estimated Afghanistan's mineral deposits to be worth $900 billion in 2009 (Task Force for Business and Stability Operations 3, 2011). That figure does not include estimates for the value of Afghanistan's "industrial-scale lithium deposits" (Brinkley, 2010).

Of course, the fact that Afghanistan is rich in minerals is not necessarily new information. The Soviets, for instance, explored and identified mineral deposits in Afghanistan during their decade-long occupation in the late 1970s and 1980s (Medlin, 2010). What is new is the volume and precision of mineral-related information about Afghanistan.

Afghanistan is the first country to be fully mapped using what's known as "broad-scale hyperspectral data"—highly precise and highly sensitive technologies deployed by aircraft that, in effect, allowed US military and geological experts to peer beneath Afghanistan's skin and paint a picture of Afghanistan's vast mineral wealth (USGS, 2012). "These maps clear-

ly show the enormous size and variety of Afghanistan's mineral wealth and position the country to become a world leader in the minerals sector," according to Jim Bullion, who heads a Pentagon taskforce focused on postwar development and stability (USGS, 2012).

There's another set of factors at work today that were not present during the Soviet period: These minerals are in high demand in the global marketplace; the dependability of the rare-earth element (REE) supply chain has been called into question; and Afghanistan's mineral wealth may be able to help knit the country back together after decades of war.

Supply chain worries

Let's look first at the demand for REEs and Afghanistan's other latent mineral stores. The importance of REEs to the global economy cannot be overstated. REEs are essential to the manufacture of a range of modern technologies, including cell phones, televisions, hybrid engines, computer components, high-efficiency light bulbs, lasers, industrial magnets, batteries, fiber optics, and superconductors. Although lithium[2] is technically not a rare earth, as a key component in today's rechargeable batteries, it serves some of the same purposes as rare earths. Indeed, the American Physical Society calls lithium, REEs, and other elements "that have the capacity to transform the way we capture, transmit, store, or conserve" energy, "energy critical elements" (APS).

In short, the supply of REEs and like minerals is critical to the technology-dependent global economy of today, which makes a dependable supply chain critical. Regrettably, the main supplier of REEs has proven itself unreliable.

China produces 97 percent of the world's REEs and has begun to manipulate the global REE market by dramatically slowing and, in some cases, even halting export of these materials (GAO 18, 20). In fact, after a maritime dispute with Japan, China stopped supplying REEs to Japanese customers, reduced overall global exports by 72 percent in the second half of 2010, and then cut export quotas for the first half of 2011 by 35 percent (Wall Street Journal, 2010). Beijing claims its actions were a function of plans to cut pollution (Bloomberg, 2012).

Although Beijing has resumed delivery of REEs, China's actions have prompted the United States, Japan, and Europe to explore alternative sources. The good news is that market forces are already at work diversifying the REE supply chain. Australia has new REE mines coming online this year (Taylor). Mines in Brazil, Canada, Vietnam, and the US could start producing REEs by 2015 (Canadian Chamber of Commerce, 2012; Humphries, 2012: 13).

Strategic stockpiles

Afghanistan can be part of the long-term solution to this REE-supply problem. Just as important, Afghanistan's mineral wealth could help the people of Afghanistan. To underscore the impact that perhaps $1 trillion in REE development could have in Afghanistan, consider that its entire GDP is just $33.5 billion today (CIA, 2013).

Even so, if rebuilding the rare-earth mining and manufacturing base in the United States, Canada, and Australia—among the richest, most developed, most stable countries on earth—is going to take time, then building a rare-earth mining system from scratch in one of the most broken countries on earth is not going to happen overnight. There's a reason Afghanistan is not even mentioned in the Institute's latest Survey of Mining Companies, which evaluated 96 jurisdictions worldwide.

To be sure, the conditions are anything but ideal in Afghanistan: Corruption remains a challenge; stability and security exist only in pockets; and the ingredients that encourage foreign investment—the rule of law, human capital, infrastructure—are in short supply. For instance, political dysfunction is plaguing efforts to build rail lines considered crucial to transporting Afghanistan's mineral wealth (Nissenbaum, 2012).

Yet what Afghanistan lacks in infrastructure—both institutional and public—it makes up for in rare-earth riches, which explains why foreign governments are willing to look past the many impediments to development. Of course, those impediments are significant, and removing them will require time and a commitment within Afghanistan to embrace economic freedom.

Aiming to build up what the US Department of Energy calls "sizable stockpiles" of REEs—and no doubt exploit its supply advantages—Beijing is eager to develop Afghanistan's mineral riches (Department of Energy 66). China has won exploration rights for copper, coal, oil, and lithium deposits across Afghanistan (Associated Press, 2013). There are reports that Beijing won the rights to develop the Aynak copper mine south of Kabul by bribing Afghan mining officials $30 million (Risen, 2010).

Make no mistake: China can play an important and constructive role in Afghanistan. Development in Afghanistan can be assisted by foreign investment, and Beijing has the resources to make crucial invest-

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ments in Afghanistan's future. In addition, beyond the financial side of the ledger, Beijing has promised to train 300 Afghan police officers, thus contributing to efforts to stabilize Afghanistan (Associated Press, 2013). Before they end their mission, ISAF nations should use their considerable leverage with the Afghan government not to secure sweetheart deals for Western investors and developers, but to ensure a level playing field for any firm willing to take a risk on developing Afghanistan's mineral wealth.

To encourage this process, some observers have proposed the creation of an Afghan Mineral Fund—"an independent agency run like a public-private investment fund," in which private investors and Afghan government agencies would contribute resources and "collect and direct extractive revenues" in a transparent manner, thus helping to promote shared development as well as economic growth (Tucker and Khanna, 2010). Similar efforts have been employed in Norway, Kazakhstan, and Mongolia (Tucker and Khanna, 2010).

Another policy solution might be found in the Millennium Challenge Account program (MCA).

Launched by the United States in 2003, MCA offers support to developing countries as they build institutional and physical infrastructure—everything from irrigation projects to roads to property-rights initiatives (Millennium Challenge Corporation, 2013). The MCA program is by no means perfect. Indeed, there are limits to what foreign aid programs can achieve. But one important distinctive of the MCA program is that, at least as it was conceived, MCA applicants are supposed to prove their commitment to good governance, economic freedom, and investing in their citizens to earn an MCA grant (Millennium Challenge Corporation, 2013). Thus, an MCA-type aid program could have the effect of fighting corruption and promoting economic freedom in Afghanistan because proving a commitment to economic freedom and good governance are prerequisites for MCA grantees. This is important given that Afghanistan languishes at the bottom of a global index of corruption (Transparency International, 2012).

Several economic, governance, and security indicators are pointing in a positive direction:

- ISAF has built an Afghan security force of some 340,000 troops, key to a stable environment after ISAF's withdrawal in 2014 (O'Hanlon and Livingston, 2013: 6). The US is planning to maintain a force of several thousand trainers and advisors in Afghanistan after 2014, as a backstop against chaos and as a check against interference from neighbouring countries (Bumiller and Schmitt, 2013). Equally important, Washington and Kabul signed a long-term strategic partnership agreement in 2012, committing the US to Afghanistan's stability well into the 2020s (White House).

Removing the impediments to rare-earth mining will require time and a commitment within Afghanistan to embrace economic freedom

- Insurgent attacks are down and trending lower (O'Hanlon and Livingston, 2013: 10).
- US/ISAF casualties are at their lowest level since late 2001 (O'Hanlon and Livingston, 2013: 11).
- GDP is growing at a vibrant pace—an average of 9.6 percent per year since 2008 (O'Hanlon and Livingston, 2013: 23).
- There are now more than 8 million students attending school in Afghanistan, including some 3 million girls—up from a total of 2 million in 2002, when just a handful of girls were in school (O'Hanlon and Livingston, 2013: 26).

Of course, these represent only some of the pillars of a stable and healthy Afghanistan. The foundations of economic freedom—personal choice, voluntary exchange, freedom to enter and compete in markets, property rights (Gwartney, et. al 1)—have yet to fully take root in Afghanistan.

Curse or blessing?

Some observers warn that if Afghanistan's mining sector does take off, the country could succumb to the so-called "resource curse"—the notion that natural-resource wealth can actually hinder economic growth by diverting investment away from other sectors and encouraging high levels of government spending. Supposed examples include Nigeria after oil discoveries and the Netherlands after natural gas discoveries.

There are two ways to answer the resource-curse naysayers: First, on a very practical level, the world should be so lucky if the resource curse becomes the main concern for Afghanistan—a country that has endured and caused so much heartache.

Second, the resource curse may be a bit overblown. A 2009 Fraser Institute report, for instance, found that early studies into the resource curse "overlooked the role of economic institutions and the possible interaction between natural resources and the quality of institutions. Nations with economic institutions of higher quality are more capable of managing their resource revenue and turning it into positive economic growth" (Karabegović, 2009: 1-3). This underscores the importance of the aforementioned policy prescriptions.

Moreover, Stephen Haber and Victor Menaldo, political scientists specializing in the research of mineral booms, note that "roughly twice as many countries have been blessed by resource booms as cursed by them" (2010). "Until its late 19th century oil and mineral boom, Mexico was not a whole lot different from Afghanistan," they note, citing poor infrastructure, a largely illiterate population, and a weak central government hampered by warlordism. Oil and mineral discoveries did not cure all of Mexico's ills, of course. To this day, Mexico remains one of the more corrupt countries in the world, ranking 105th out of 174 nations measured on the corruption index (Transparency International, 2012). However, natural-resource wealth did help stabilize Mexico's political system and legitimize the state.

Similarly, there are too many challenges—Afghans are still learning about economic freedom; political corruption runs high in Kabul; Afghanistan's geographic remoteness will always be an issue; Afghanistan's neighbours to the east and west are mischievous, to put it politely—to think of REEs and other minerals as a panacea. But if something akin to the Mexico model can take root in Afghanistan, then the world can help solve Afghanistan's instability problem and Afghanistan can help solve the world's rare-earth supply problem.

Notes

1 For measures and examples of improvements in Afghanistan, see Ian S. Livingston and Michael O'Hanlon's *Afghanistan Index*, February 28, 2013, and Peter Bergen's "What Went Right?" *Foreign Policy*, March/April 2013.

2 Although lithium is technically not a rare earth, as a key component in today's rechargeable batteries, it serves some of the same purposes as rare ear

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BIG GULP BANS ARE MISGUIDED

Joel Wood

New Yorkers got lucky when a judge recently struck down Mayor Bloomberg's ban on soft drink cups larger than 16 ounces just days before the regulation was to come into force (Howard Saul, 2013). The proposed restriction of drink sizes was a misguided and potentially ineffectual attempt to reduce obesity.

Canadians and Americans are regularly bombarded with news articles and public health campaigns about the rising "obesity epidemic." A recent study found that over a third of Americans can be considered obese (Flegal et al., 2012). In response to concerns over obesity, the mayor of New York City, Michael Bloomberg, proposed to limit soft drink sizes to below 16 ounces at any establishment regulated under the New York City Health Code.

The general theory behind the mayor's plan is that restricting soft drink sizes makes consuming more pop slightly more costly and inconvenient to the consumer. Establishments subject to the regulation would not be allowed to sell a 32 ounce soft drink, but would be allowed to sell you two 16 ounce soft drinks or offer free refills. Having to buy two 16 ounce servings rather than one 32 ounce serving is generally costlier to the consumer. Furthermore, having to get up and obtain a refill is also inconvenient. The logic follows that if obtaining 32 ounces of soft drink is costlier and more inconvenient, presumably some consumers will choose to forego the additional 16 ounces; though many will still choose to consume 32 ounces.

However, restrictions on soft drink sizes may not have much of an impact on obesity for several reasons. First, the rule ignores substitution by consumers. Since a consumer can no longer obtain a 20 ounce soft drink, they may choose a different unhealthy beverage option not subject to the restrictions, such as a latte, milk shake, or fruit juice. A 20 ounce latte from Starbucks is equal in calories to a 20-ounce Coca Cola, but a 20-ounce White Chocolate Mocha has more calories than a 40-ounce serving of Coca Cola (Coca Cola, 2009; Starbucks, 2013). Substitution by consumers is

New York recently struck down a ban on soft drink cups larger than 16 ounces.

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likely to reduce any impact on caloric consumption of the regulation.

Second, soft drinks are far from the only food item identified by epidemiological studies to be a contributor to obesity. Dremowski (2007) reviews the literature and concludes that "the low cost of dietary energy (dollars/megajoule), rather than specific food, beverage, or macronutrient choices, may be the main predictor of population weight gain." A policy targeting only the size of soft drinks ignores all the other energy dense foods people at risk of obesity eat.

To summarize, when facing drink size restrictions, many consumers may continue to consume more than 16 ounces of soda by buying two or getting a refill, some may substitute to higher caloric options, and some may only drink 16 ounces of soda but remain obese due to their relatively energy dense diets. These factors suggest that restrictions on drink size would arguably have a minimal to negligible effect on obesity. Indeed, a recent behavioural experiment conducted at the University of California, San Diego finds that drink size restrictions have no effect on the soft-drink consumption (and thus obesity) of the experiment's participants (Wilson et al., 2013).

At the same time, the restrictions would require significant enforcement effort by city health inspectors who would be tasked with measuring drink sizes to ensure compliance. Either more inspectors would be needed, or existing inspectors would be required to reduce the time they spend looking for other health code violations.

If obesity is indeed driven by the low cost of energy dense foods relative to nutrient dense foods, as suggested by Dremowski (2007), then a much better policy solution is to focus on why energy dense foods are so cheap. Subsidies to corn producers in the United States are estimated to be more than $4.5 billion in 2011 and over $80 billion since 1995 (EWG, 2012). Corn receives by far the most government subsidies compared to other agricultural commodities in the US (EWG, 2012). These large corn subsidies in turn artificially lower the price of energy dense foods, such as soft drinks, that use high fructose corn syrup as a major ingredient (called glucose/fructose in Canada).

Although the judge struck down Mayor Bloomberg's restrictions on soft drink sizes for procedural reasons (they were not presented for approval to City Council) not on the merits of the policy, New Yorkers should still consider themselves lucky. The regulation was likely to require extensive monitoring effort while providing minimal to negligible health benefit. If politicians are concerned about obesity, they may be better served to focus on the subsidies that make energy dense foods so cheap.

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First Nations reserves: The land private property forgot

May 16, 2013

Underpinning the general plight of Canada's native population is the lack of private property rights — the bedrock of our society's wealth and economic stability — on reserves.

"The collectivist model for Canadian reserves is based on the noble-savage myth that natives — because of some mystical, inveterate attachment to the land — are somehow immune to the economic principles that govern the rest of humanity," argues Jonathan Kay, eminent newspaper columnist and *National Post* opinion page editor.

"That lie has done hideous damage to native communities all across Canada for generations, and it is time that it be put to rest. All Canadians, of whatever skin colour, should get the same property rights the rest of us have enjoyed for centuries."

What must be done to achieve property rights and economic engagement for First Nations? Are Indian chiefs ready to loosen their grip over reserve lands and housing?

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