

**YOUTHQUAKE
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YOUTHQUAKE YOUTHQUAKE

by *EZRA LEVANT*



The Fraser Institute
Vancouver, Canada

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Foreword

For the past two decades Canadian politicians of all stripes have told us that it's time to stop "mortgaging our future." They've talked about the unfairness of saddling future generations with a massive public debt, and they've talked about the need to correct the deep flaws inherent in our welfare state entitlements.

But talk is no substitute for action, and all of the hackneyed rhetoric about generational equity has not stopped Canadian governments from racking up debt and liabilities estimated at over \$1.7 trillion. That's real money that will have to be repaid by real people whose lives will be forever poorer because of it.

Those Canadians are only now coming of age, and they have hardly begun to realize the staggering volume of wealth that has been transferred, without their consent, from their own future to their parents' and grandparents' past. But sooner or later it will hit home, and when it does, the political consequences won't be pleasant.

This book is a bracing wake-up call to the generation born into debt, and is a warning salvo directed at those who have the power to change the course of public policy before it's too late. In *Youthquake*, Ezra Levant takes us on an entertaining tour of the decaying edifice of the Canadian welfare state, pointing out its cracks and flaws, all while challenging the political orthodoxies on which it was built.

While many of Levant's peers have a general sense of the fiscal disaster which they are set to inherit, few have a deep understanding of the fiscal and political causes and consequences of it. *Youthquake* probes those questions with humour and passion, making it a compelling introduction to issues that are too often the preserve of policy specialists. Simply put, those who want to know the bottom line won't have to pore through actuarial tables or academic jargon to learn that a Canadian born in the 1970s will end up paying \$200,000 more in taxes than he receives in services, or that the CPP premiums are set to triple over the next 20 years.

But even if they hear Levant's call to "stop the insanity," will members of the much maligned Generation "X" be moved to action before the demographic time bomb goes off? If recent experience is any indication, the answer is "no." Post-boomers were stereotypically somnolent during the 1996 round of the federal-provincial hearings on reform of the Canada Pension Plan, with only a handful bothering to air their views on an issue that will affect them far more profoundly than their grandparents.

While apathy and ignorance may still preserve a tenuous generational peace for now, Levant's "youthquake" is bound to happen sooner or later. The political tensions are building, and as the children of the welfare state start to raise children of their own, they will undoubtedly begin to wonder why they're the first generation in modern history to see its living standard decline from that of their parents.

It's not a question of *if* the tremors are felt, but *when*.

—Jason Kenney, President, Canadian Taxpayers Federation

Preface

This is an unusual book for The Fraser Institute to publish. Its author is not a well-steeped policy pundit drawing upon many years of experience in the policy topic addressed. The book's subject is not a tightly argued treatment of one public policy issue. Nevertheless, it is an important book.

It is written by one of the brightest student interns ever to work at The Fraser Institute. It is important because of the insights it provides into the mind-set of the next generation of Canadian leaders. For, certainly, Ezra Levant is going to be a leader.

Usually Fraser Institute books pass muster before a peer review process that should be avoided by the faint-hearted. This book is no exception. However, the litmus test for this book was not the assessment of technical experts. The hurdle we set for *Youthquake* was the assessment which Ezra Levant's own generation had of the central argument. The book passed the test with flying colours.

During the last year, we had the author present his findings to gatherings of students across Canada. In every case, Ezra and his forceful presentation were greeted with uniform adulation and support by the students. They were delighted to have him champion the attitudes which they shared but could not quite articulate in the way that Ezra does.

If you are of Ezra Levant's generation you will find this book helpful to crystallize your own thinking. If you are not, you will find it an indispensable guide to the thinking of his generation and the implications it will have for our future.

The Fraser Institute is pleased to publish this book as one of its student editions in the hope that it will be informative for all generations. The author has worked independently, however, and the views he expresses may therefore not correspond to those of the members and trustees of The Fraser Institute.

—*Michael Walker, Executive Director, The Fraser Institute*

Warning: PG 35

Readers over age 35 are advised to read this book in the company of their children.

The ideas contained in *Youthquake* may be unsettling to parents who think that the Canada they are passing on to the next generation is as prosperous as the one they inherited. They may be asked by their children to do some explaining.

About the author

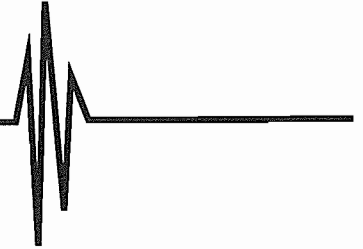
Ezra Levant is a 24-year-old articling student with the Edmonton law firm of Jackson, Arlette, MacIver. He is a weekly opinion columnist for the Calgary and Edmonton *Sun* newspapers, and appears often on radio and TV debates. In 1994, Ezra interned with the Washington, D.C. economic think-tank Citizens for a Sound Economy, and with The Fraser Institute in 1995, where he wrote *Youthquake*.

Ezra Levant has a Bachelor of Law degree from the University of Alberta and a Bachelor of Commerce degree from the University of Calgary.

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A Youthquake's coming



A Youthquake is coming, and it looks like a big one. Might be a seven on the Richter Scale, maybe bigger.... I think it'll be bigger.

Canada rests on dangerous ground—a generational San Andreas Fault.¹ And if our current social and political trends continue without major quake-proofing, we're in for a shakedown.

Our present way of running the country just isn't sustainable. Pressure is building. A Youthquake² is on its way.

¹San Andreas Fault: a) California phenomenon where two massive chunks of land squeeze against each other; b) Canadian phenomenon where two massive population groups—Baby Boomers and Generation Xers—squeeze against each other.

²Youthquake: the result of pressure building up within the generational San Andreas Fault.

Tremors



Tremor one: government the problem-maker

Government, supposedly the problem-solver of the '60s, has turned into the problem-maker of the '90s. Words like “uncaring,” “inflexible,” and “big” are adjectives that describe government rules and regulations—words that a generation ago were used to describe big business. Big business went on a diet. Government’s binge continues.

Today’s TV generation has seen a few too many debauched politicians to buy the line that governments work. Ask any university student—better yet, any high-schooler—to name a charitable person, and you might hear names

Big business
went on a diet.
**Government's
binge continues**

Government, supposedly the problem-solver of the '60s, has turned into the problem-maker of the '90s.

like Mother Teresa or the late Terry Fox. My hunch is that you won't hear a cabinet minister's name. The righteous indignation politicians emit when they're being charitable with other people's money just doesn't sell, not any more.

Call that Tremor Number One.

Tremor two: pensions

Most people don't want to deal with dire predictions. They don't want to hear the news that they live on a fault line, and so they don't prepare. They don't want to change the way they live. How else do you explain all those people still in California?

But here comes the big one. Baby Boomers are already thinking about retirement. Millions of Boomers will soon stop paying taxes and start collecting pensions. The trouble is there just isn't enough money in the pension kitty to keep those retirement promises.

The problem is \$800 billion big.¹ That's how much the Canada and Quebec Pension Plans are short. Add to that another \$25 billion shortfall for promised federal and provincial public

Baby Boomers: the generation of Canadians born between 1946 and 1965—you know, people like Anne Murray, Terry David Mulligan, Kim Mitchell, and Kim Campbell. They'll start turning 65 in 15 years.
Generation X: a) people born after 1965; b) that's you and me.

service pensions.² And tack on \$576 billion that's missing to meet Old Age Security promises.³ You're starting to talk some real cash, \$1,401,000,000,000 to be correct!

Any guess as to who's going to have to make up that shortfall—the difference between how much our politicians have promised to pay out and how much money we really have? That's right—you and I. Today's youth.

The first question is obvious: if we, today's teenagers and twentysomethings, won't collect Baby Boomer-sized pensions, why would we want to foot Baby Boomer-sized bills?

Tremor three: health care

Our government-run medical system, originally designed to cost the trifling sum of \$133 per person per year in 1996 dollars,⁴ now costs almost \$2,500 per person every year.⁵ That's not a crack in the status quo. That's a chasm.

As Canada's population ages, the strain on Canada's health system grows. Watch out for the real trouble, though, when the Boomers hit their sixties and seventies and their health care costs

You're starting to talk some real cash: over one trillion dollars (one trillion = 1,000,000,000,000 = one million million).

Instead of
helping people to
help themselves,
the government
CUDDLES
them to
death

skyrocket. It's today's teens and twenties who'll be paying the tab for those bills.

That's no run-of-the-mill fault line. That's the Grand Canyon.

Maybe today's seniors and Boomers will be able to count on "free" health care, but tomorrow's seniors—today's youth—can't. To keep running as it is, our Canadian health care system would need an injection of \$1,144 billion⁶—that's how much it would cost to keep things as they are now.

For most Canadians, "free" health care has become routine. We should savour the feeling while it lasts, because it won't last long.

Tremor four: pork-barrelling

It's not just the huge pension and medical bills that are about to jam our generation's mailbox with the Baby Boomers' running tabs. There's another tectonic shift, another problem that's growing: Canada's social safety net has turned into a hammock.

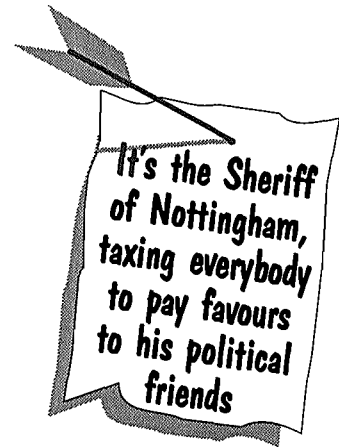
Pork-barrelling: a) when politicians give special favours to their special friends; b) Surprise! You and I aren't on that list.

Instead of helping people to help themselves, the government cuddles them to death. With the Boomers set to retire, it'll be us—our whole generation—who'll get stuck with the bill. And everybody knows it.

The cost of our social security hammock ran to \$85.8 billion in 1994-95 alone,⁷ and that amount is growing daily. Of course, a good part of it is being borrowed right now. Every year, the federal government has to borrow billions of dollars just to pay its current bills.

The irony about all this social security spending is that it's being justified in the name of "fairness" and "equity" for the "truly needy." But when you look at where government spending usually goes, it's not to the needy, but to the people with the most political clout: the Boomers. The Canadian government is not the Robin Hood of old, stealing from the rich to give to the poor. It's the Sheriff of Nottingham, taxing everybody to pay favours to his political friends.

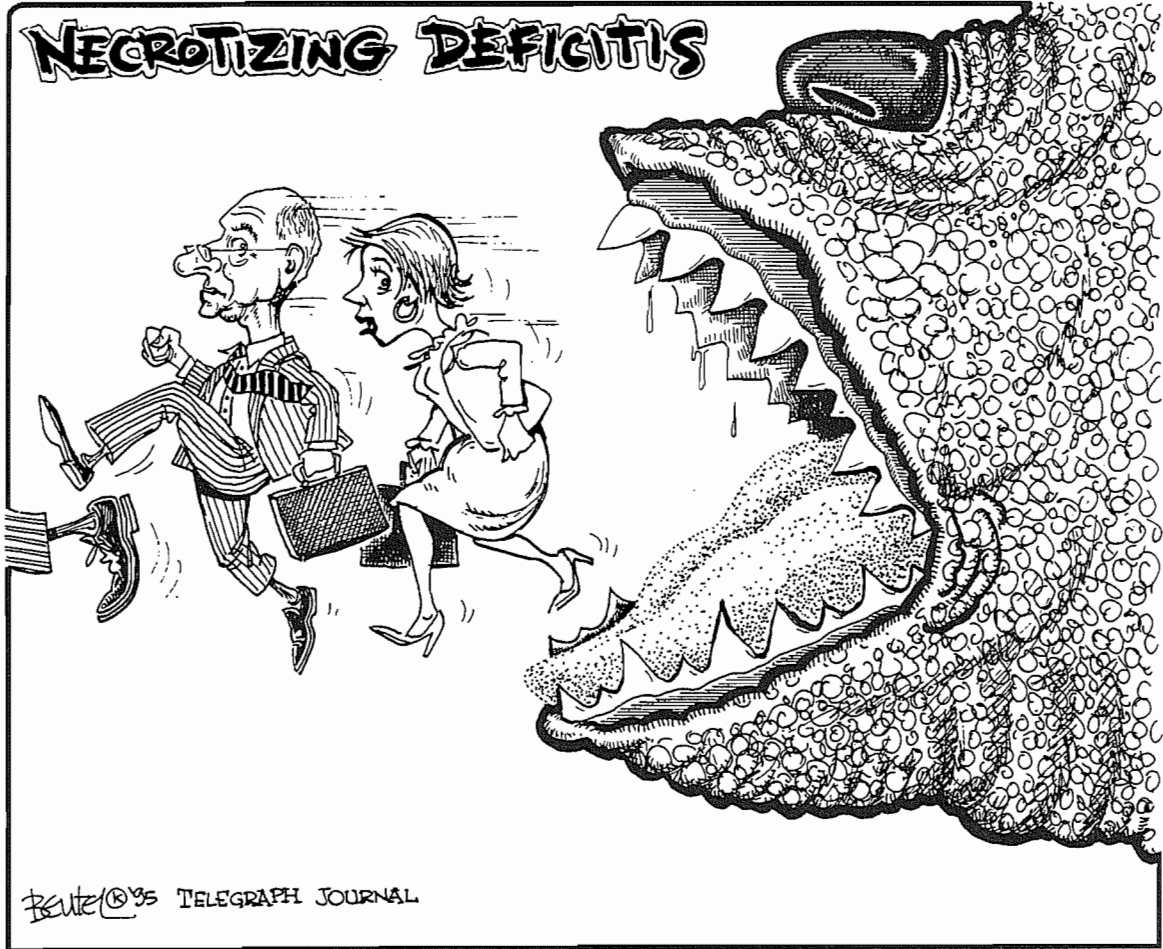
Let's take one area of government spending—cultural programs. The average wealthy family receives far more from government cultural spending than the average low-income family



Deficit: a) the amount the federal government had to borrow this year just to pay the bills; b) with each year's deficit rolling into our national debt, now at \$646 billion—that's more than \$81,000 per Canadian family.

THE SCOURGE of LATTER-DAY FINANCE MINISTERS...

NECROTIZING DEFICITIS



**We have to borrow to make payments on the payments...
\$42 billion a year just to keep our creditors at bay.**

does. By subsidizing opera or ballet, governments ladle out more than \$1,500 each to families making more than \$100,000 a year. Poor folk—those families earning less than \$20,000—receive only \$193 in cultural spending.⁸

A lot of spending done in the name of helping average folks is really just political pork-barrelling. Our generation knows that more than most. There's a big con happening.

Tremor five: credit, the big grab

Even in the worst cases of political patronage, government spending at least buys something tangible. Not so with the Canadian government's largest budget item: interest payments.

Just like someone with a credit card, governments can get away with overspending—for a little while, anyway. And just as with a credit card, the premium is our cost for living beyond our means. That premium is the massive interest payments we have to make on our accumulated debt.

In Canada, we don't even have enough money to pay this interest—we have to borrow more just to make the "minimum monthly payments." And

**The whole deal is raw. It was stacked against all of us—
but against young people in particular.**

then we have to borrow to make the payments on the payments. And so on, and so on...

Back in the early '70s, those interest payments ate up only one out of every nine tax dollars the federal government took in. Today, one out of every three dollars the government takes in goes straight to our lenders, just to sustain our current level of debt.⁹

The only plan they seemed to have was to get re-elected, even at the expense of future generations

That works out to \$50 billion a year just to keep our creditors at bay. This \$50 billion could be spent on real programs for real people—or better yet, left in the hands of the exhausted taxpayers.

The Canadian deal will be broken

These five tremors are all starting to shake at the same time. Because so many taxpaying Boomers are about to retire at once, governments will face a double squeeze. Tax income will fall, but demand for pensions and health care will rise.

If our politicians had planned for these pressures, we'd be OK. But they didn't. The only plan they seemed to have was to get re-elected,

The Canadian Deal, Boomer edition: pay taxes, get the benefits. The Canadian Deal, twentysomething edition: pay taxes, get the bills.

even at the expense of future generations. You and I are stuck with the mess.

It's unlikely that we'll have it as easy as our Boomer parents. We're not part of the original Canadian Deal. Pensions? We'll never collect them. "Free" health care? It won't be there when we grow old. And the massive social programs that have come to "define" Canada won't be able to survive the interest payment squeeze.

It's all adding up. The pressure's building. Something's got to give.

That something is the Canadian Deal, when it breaks in the face of the coming Youthquake. People know that the deal isn't working as it was supposed to. The give and take of big government seems to give less and take more. The Deal was so simple the Boomers all bought into it. "Give up some of your freedom and a lot of your money and the government will take care of you from cradle to grave." That's how it was supposed to be.

That's just not true any more—if it ever was. There isn't enough money to go around. But, like the

THE GIVE AND
TAKE OF BIG
GOVERNMENT:
GIVE LESS,
**TAKE
MORE**

OAS: Old Age Security, a "universal social program. Everyone gets it, whether they're poor or not—a great big birthday present for any Canadian reaching 65. GIS: Guaranteed Income Supplement paid to lower-income seniors. CPP: Canada Pension Plan. You have to pay into it through monthly deductions from your pay cheque: you lose 2.8 percent of your pay cheque and so does your boss.

happy Californians living in their quake zone, our politicians pretend that everything's OK.

It isn't.

I'm only 24 years old. I know that all the fancy programs and generous payments the government brags about won't be there for me when I grow old. And I'm not the only skeptic. In fact, a Gallup Poll released in 1994 found that only 29 percent of twentysomething Canadians were confident they'd receive Old Age Security or Canada Pension Plan benefits when they grew old.¹⁰ Thirtysomethings were even more skeptical. Nobody believes the promises any more.

There's no way there'll be any free plums left on the health care tree by the time I'm 60. And today's luxurious social services won't continue either. It's a mathematical impossibility.

The whole deal is raw. It was stacked against all of us, but against young people in particular. And looking at the trouble we're in, I'd almost rather drop back into ignorant bliss.

But I can't. Pretending the problem doesn't exist won't make it go away. Our national symbol is

**OPINION POLL:
PERCENTAGES CONFIDENT
OF RECEIVING OAS AND CPP**

18-29ers	29 percent
30-39ers	23 percent
40-49ers	29 percent
50-64- year-olds	47 percent
Age 65 and over	85 percent

Source: Canadian Institute of Actuaries, January 1995.

Like the happy Californians living in their quake zone, our politicians pretend that everything's OK.

the beaver, not the ostrich. Canada doesn't need another generation of wilful blindness.

Our governments have condemned our generation to indentured servitude. We already owe \$578 billion to our creditors just at the federal level.¹¹ And the spending still churns on.

Something's got to give, and the longer the pressure builds up, the bigger the quake will be when it happens. It happens in nature. It happens in life.

We've got two choices: run for cover, or try to fix things now.

**Our national
symbol is
the beaver,
not the**



Notes

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2 From Jason Clemens and Michael A. Walker, *Inside Canada's Government Debt Problem and the Way Out—1996 edition (Working Title)*, The Fraser Institute, Vancouver, 1996.

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4 Ernest Manning, *National Medicare: Let's Look Before We Leap: Telefacts*, 1968.

**We've got two choices:
run for cover, or try to fix things now.**

5 Health Canada, Policy and Consultation Branch, *National Health Expenditures in Canada 1975-1994*, Summary Report, January 1996. See also Statistics Canada, *Public Sector Finance 1995-1996*, Catalogue 68-212-XPB, 1996.

6 Jason Clemens and Michael A. Walker, *op. cit.*

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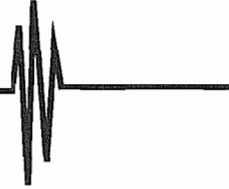
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9 Department of Finance, *Agenda: Jobs and Growth (Creating a Healthy Fiscal Climate: The Economic and Fiscal Update)*, Ottawa, 1994, p. 2. See also Department of Finance, *Budget 1996*, Budget Speech, March 6, 1996, p. 20.

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11 From Jason Clemens and Michael Walker, *op. cit.*

Entitlementania



Entitlementania: the official Canadian culture

How on Earth did we ever get into this mess? Who put us on this path? Didn't they realize it was headed towards a dead end?

I think all these questions have the same one-word answer: Entitlementania. For those of you who don't know yet, that's the official Canadian culture.

Other countries have their national birthrights too: the French have their fancy cuisine, the Italians have their high fashion, and the Germans love their automobiles. For Canadians, it's Entitlementania, with maple syrup running a distant second.

**For Canadians, it's
"Entitlementania"
...with maple syrup
running a
distant second**

Entitlementania: Canadian affliction characterized by an insatiable appetite for government handouts; symptoms include whining and making puppydog eyes so that politicians just can't resist spending money.

**Canadian
Culture
never used
to need a
government
grant
BUT
times have
changed**

It wasn't always this way—government intervention used to be a last resort. Canadian Culture™ never used to need a government grant. But times have changed.

What was once called “charity” and then “relief” became institutionalized as “Welfare.” Then the terminology changed again: government handouts were rechristened “Social Assistance.” And that, too, was altered: Assistance is now perceived to be an Entitlement. What was once a reliance on charity as a last resort is now a statutory right to demand funding from taxpayers.

Programs that began as honest attempts to alleviate critical problems have become rights owed to Canadians by virtue only of their citizenship. And that righteous language is the mother tongue in every province of Canada. Francophone or Anglo, Canadians are fluent in Entitlement.

Good intentions, bad results

When Canada's spending frenzy began, it was with the best of intentions—genuine concern for

These are rights: a) the right to own property; b) the right to free speech; and c) the right to a fair trial.

These aren't: a) the right to a free ride at someone else's expense; and b) the right to have the government buy me my very own pony.

the less fortunate and the desire for a more prosperous country. In the 1960s and '70s, when the bulk of government social programs were erected, grand-sounding ideals filled the air. And just so everybody would know what was going on, the whole deal was given a name. This wasn't just about more bureaucrats and more taxes. This wasn't just about more rules and more regulations. This was about the *Just Society*. You even had to pronounce it in italics.

I guess it was a product of the times. Pop songs like "La-la-la Live for Today" filled the air in the 1960s. John Lennon's "Imagine" was a hit in the 1970s. Groovy! There was a lot of feeling going on, and not a lot of thinking. Oh well, just put it all on the credit card. Let the kids pay for it.

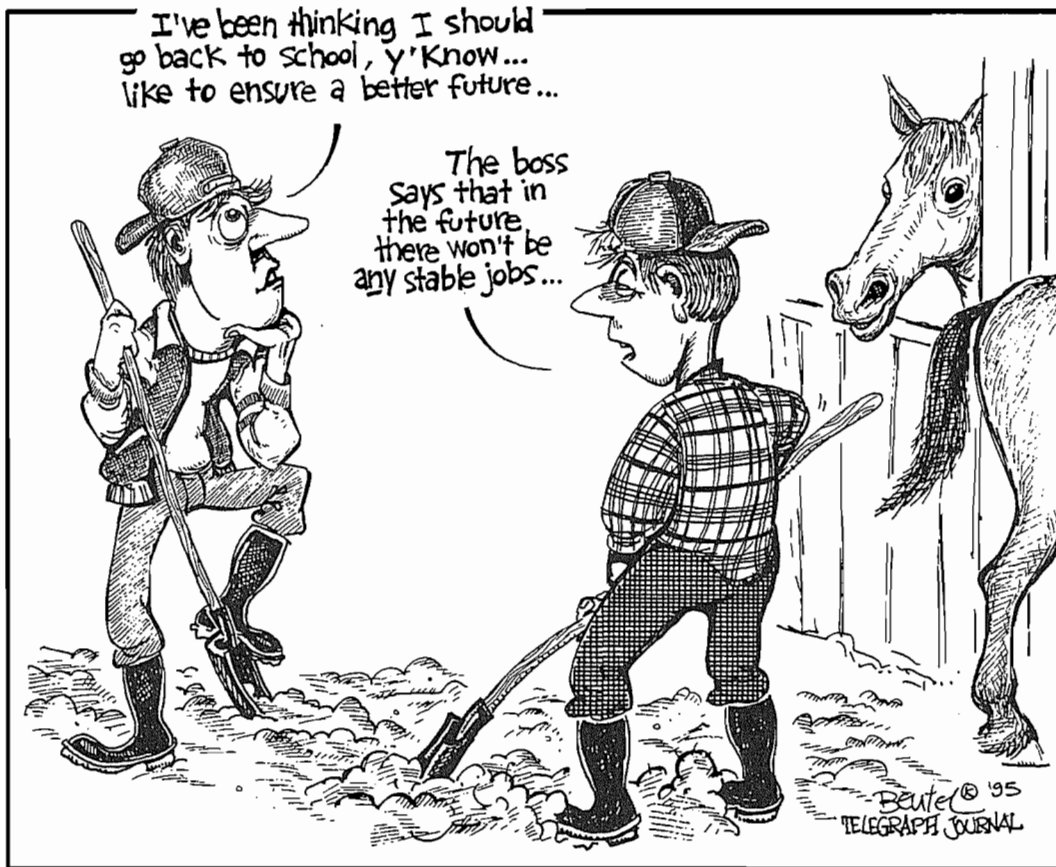
Funny how a few decades of imagining and living for today can really add up. Nowadays it's the defiant sound of rap and grunge rock that fills the air; the naive hopefulness of Woodstock has been replaced by the modern mosh-pits of gritty reality.

When they were kids, Boomers shunned reality. Today's youth can't avoid it. We don't worship blindly at the altar of sex, drugs and rock &

**Francophone
or Anglo,
Canadians
are fluent in
ENTITLSE**

Just Society:

- a) the shining Utopia Canada could be;
- b) an excuse for an awful lot of pork-barrelling.



roll—we can't afford to. By the time we got that hand-me-down slogan it wasn't sex, drugs, and rock & roll, it was AIDS, crack, punk and rap.¹ Responsibility—shunned as square in the '60s—is in, whether we want it to be or not. We've seen the fallout of the anything-goes '60s and '70s. And while good vibes may have placated voters in the past, they don't seem to work on

**1960s: Sex, drugs and rock & roll;
1990s: AIDS, crack, punk & rap.**

Canada's foreign creditors—the people who own 44 percent of Canada's debt.² Japan's Fuji Bank and Germany's Deutsche Bank don't seem to be buying into the Age of Aquarius thing. Times have changed.

It's not that today's youth aren't hopeful—we are. It's just that we're a lot more cynical, too. We've seen political idols smashed and sacred cows barbecued. When Gallup asked 18 to 29-year-olds to explain why people are poor, "lack of effort" was the answer given by 45 percent of us—one third higher than what the older generation said. When asked if we agreed with the statement that people "prefer to stay on welfare," young people again were more likely to agree, far more so than our older counterparts.³

That's the twentysomething zeitgeist—government's a con, so you either get in on the game or become the mark. We recognize Entitlementia for what it is. You can translate these sentiments into economic jargon if you like: welfare programs are a disincentive to work.

But what happens when people no longer believe that government handouts actually help anybody? What happens when people start regarding

Zeitgeist: general spirit of an era.

entitlements as merely spoils of an unfair system? How long can they be expected to keep paying for such a system?

Notes

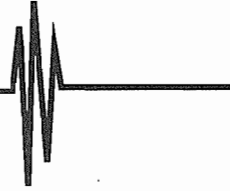
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2 Dominion Bond Rating Service, *Canada's Foreign Indebtedness Position*, Toronto, November 1994.

3 *Op. cit.*, p. 164.



How we got here



Sloganeering—the first symptom

The religion of the welfare state was built on slogans, and it is the chanted repetition of these slogans—especially the Medicare Mantra—that keeps Canadians in line.

Repeat after me, say the Entitlemaniacs: “This is about fairness. It’s about justice. It’s about helping people who fall on hard times.”

It’s about fairness for the people who built this country, we’re told. So don’t you dare question the universal, inflation-indexed old age security system.

But did the older generations—the people who built the country—really build Canada simply as



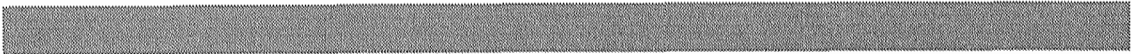
an economic investment, something for which they must be repaid over and over again with the coin of their children's indenture?

Were the patriotism and nation-building of the past exerted in exchange for the expectation of a retirement payoff? Of course they weren't.

Young Canadians are grateful to those who came before. They built this country: that's true. But our genuine thanks do not translate into a wholesale intergenerational transfer of resources from tomorrow's workers to today's retirees. Today's seniors and Boomers have saved for their golden years—or at least they should have. Those who haven't will not be neglected. But nor should they be lavished with borrowed dollars.

What about the supreme sacrifice? What about those Canadians who fought for this country in wars? Do we not owe them this welfare state?

The politically correct answer is "Of course!" To disagree is to be two terrible things: an ingrate and a traitor. Yet I am neither, nor are other young taxpayers. Canada spent more than \$1 billion last year on veterans' pensions and nearly



\$2 billion in total veterans' benefits—none of them taxable.¹ That's a 7.6 percent spending increase over the previous year, even though we have fewer vets than ever—the Korean War ended in 1953 and the Second World War was over in 1945.

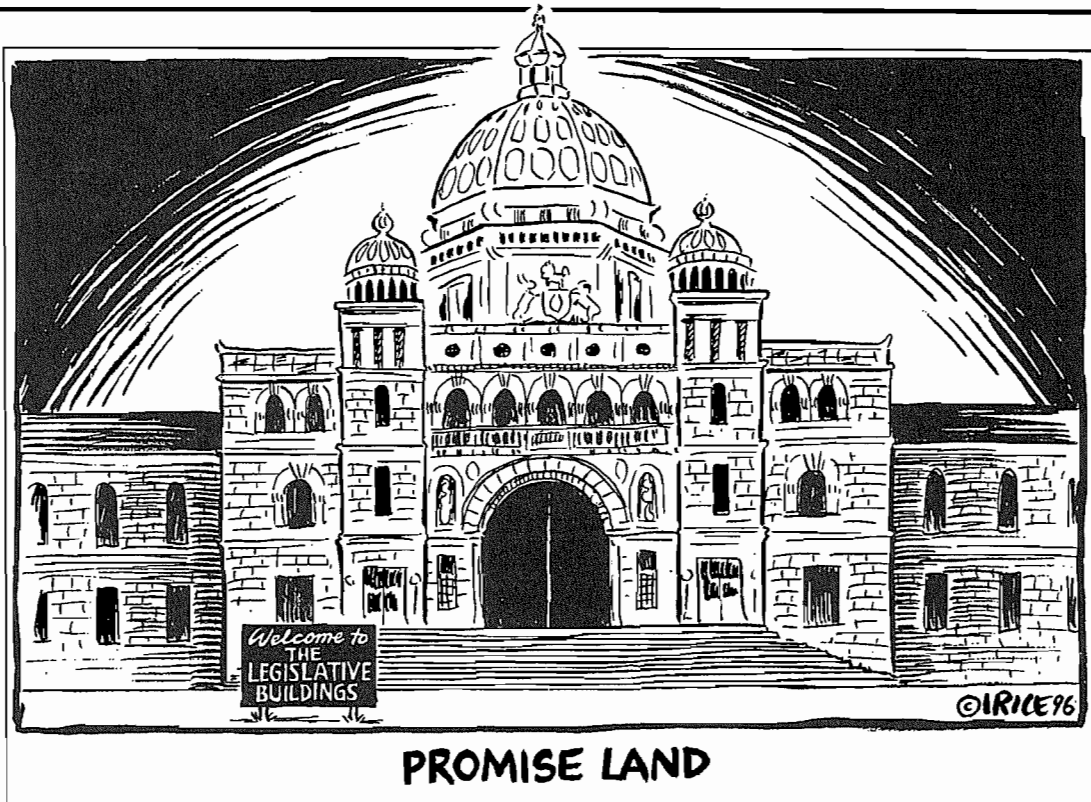
But retired veterans are not the problem. People who lived through the Depression and “built this country” are not a significant drain on the national treasury and they are not the ones mortgaging our tomorrow. That's being done by Baby Boom politicians operating in the name of senior citizens.

There is a certain sick irony when Boomers tax and borrow and spend for themselves in the name of senior citizens. It was those same seniors who fought Japanese and German military onslaughts only to watch Canada's economic sovereignty given away through debt to foreign lenders. The seniors who lived through the austere age of the Depression know the importance of living within one's means. Boomer politicians obviously don't.

What bitter trickery—to fight for Canada's freedom only to have it sold away; to fight for a better quality of life only to see it squandered; and then to be held up as the reason for it all.

**What bitter
trickery —
to fight for
Canada's
freedom
only to have it
SOLD
AWAY**





PROMISE LAND

An excuse: shaken faith in free enterprise

One of the reasons why we let government get out of control was that we were told government was necessary. The free market needed guidance, said the politicians. Business needed correction from time to time. It needed security. Government would step in where the market failed. It would be our guardian. Yeah, right.

“Neither a borrower nor a lender be; for a loan off loses both itself and a friend.” —Shakespeare, *Hamlet*, Act I, Sc. 3.

The Great Depression proved this, we were told. Government had a heart when the free market didn't. A crop of socialist economists jumped to the microphones to explain everything. If only we planned things centrally everything would work out better. It all made sense, they said—and after all, they had graphs and charts to prove it. They were wrong.

They told us that Shakespeare's age-old warning—"neither a borrower nor a lender be"—was out of sync. Living beyond one's means could be a good thing, said an economist named John Maynard Keynes.

And though the masters of central planning have been tossed out of Moscow and Warsaw, their minions in Western academia trudge on, apologizing and explaining why things didn't work but could have.

It seems now that only our Canadian politicians are sticking to the big-government program. Russia and even Vietnam have embraced the free market. Would the last socialist to leave please turn out the lights?

What Keynes actually said: governments could run deficits when the economy was weak, only if they ran surpluses when the economy was strong. Of course, Canada hasn't run a surplus since before I was born. What Keynes didn't say: spend as much as you can, as fast as you can, and stick the kids with the tab.

Most of all: no visible downside

But overspending isn't a problem, claim the debt-mongers. After all, Canada's been in hock before. We went \$13 billion into debt to fight the Second World War, and that was 110 percent of our national income—about the same as our current level of debt.² We handled that just fine, they claim; there's no need to sound the alarm. Besides, everybody's doing it. The U.S. has a large debt too, they tell us, and they're doing OK.

I guess you could say some people are in denial.

Though these tempting voices on the left may be soothing to the ears of the public, they do us a disservice. Like those who chose to appease our military enemies sixty years ago, they make the crisis far worse by delaying action.

There's something stealthy about the busybodies who operate the disinformation mills of the overspenders. People like pop economist Mike McCracken and tabloid author Linda McQuaig claim fears about the debt are mere hysteria. But there's a whiff of dishonesty in their approach. While they claim to be interested in

**Would the
last socialist
to leave
please
turn out**

**the
lights...**

Mike McCracken: a left-wing economist who thinks taxes are too low; Linda McQuaig: a reporter who wrote a book claiming that our \$578 billion federal debt isn't a problem at all.

Surprise! They're both Boomers!

the future of the country—a noble calling—they are in fact desperately trying to shore up the crumbling status quo.

All I want to know is this: when the bill for the party finally comes due, will it be paid by the reckless talking heads who incessantly pushed for unsustainable consumption?

When we finally hit the wall—when our national credit card is cut up—will the diners at today's feast help cover the tab?

Of course not. My friends and I will be paying it off for the rest of our lives. And so will our children.

There's a huge irony here, the kind that makes for either a good laugh or a good cry. It's as if our parents threw a big party, ran up a tab, and then proceeded to trash the whole venue. The next morning it was us—the kids—who were stuck with the bills, the cleanup job, *and* the hangover.

Funny how we always ended up in big trouble when the roles in that scenario were reversed. When the spending party's finally over, I think there'll be a lot of angry young Canadians looking for some answers from those "mature, responsible adults," our fearless leaders.

“A politician thinks of the next election; a statesman, of the next generation.” —James Freeman Clarke

Nancy Reagan and Mila Mulroney told us to “Just Say No.” I guess they never really believed that particular slogan when it came to spending.

An object in motion tends to stay in motion

So here we are—a huge government apparatus sucking up money and spitting out goodies. Except, of course, that we’re a few hundred billion dollars short of covering the bill. You’d think we’d change things...

But change is often the hardest thing in the world to accomplish. Wherever there’s an establishment, you can bet that the people entrenched in it want to defend their turf. And in this case, the establishment is pretty easy to spot: politicians, government bureaucrats, the spendthrift media pundits—anybody with a stake in keeping things the way they are. They’re not going to give up without a fight. And they’re good at fighting, too.

The next morning
it was us
→ **the KIDS** ←
who were stuck
with the bills,
the cleanup job,
and the
hangover

Unsustainable consumption: when government spending is so out of control that it can’t be kept up without causing a Youthquake.

They're good at marketing

One of the things that makes change so hard is the way the current system is marketed. It's dressed up in the maple leaf and tastes as good as Saskatoon berry pie.

At first glance, the Canadian Deal looks pretty enticing. And a first glance is all it usually gets.

Who could argue against a system that promises health care for the sick and alms for the poor? Not that Canadians are particularly sick or poor,³ but it's nice to have the warm security blanket of cradle-to-grave promises anyway: that's how the Deal is sold.

The welfare state our politicians peddle to us is a world without risk—we'll never become a violent and hopeless nightmare like the U.S., or at least the U.S. we see on TV shows like *NYPD Blue*. In Canada, we're told, people don't fall through the cracks, and that's comforting.

But the rhetoric propping up the Deal has become more than just a soothing lullaby in recent years. It is now chanted to the tune of righteous

Hitting the wall: a) when lenders refuse to give Canada any more money for deficit spending; b) the event that could trigger a Youthquake.

entitlement and sung in the language of ultimatums. Just look through the shopping list of the welfare state: the *Guaranteed* Income Supplement, *Old Age Security*, the *Canada Pension Plan*, *Employment Insurance*...

Except that they aren't guaranteed any more, and there's nothing secure about them at all. The pension plans certainly don't meet any known definition of a plan. Judging by the government's accounting tricks, it doesn't appear to have planned things at all. Even *Employment Insurance* is not insurance—many seasonally employed recipients get benefits every year while steady workers pay, pay, and pay again. And all too often, this fund has to be topped up by Parliament to keep things going.

Don't w😊rry, be happy

It's all about marketing, of course—advertising and politics are kissing cousins. *Old Age Security* sounds a lot better than the alternative: the *Old Age Handout* cheque. *Employment Insurance* may not be truth in advertising, but it has a dignity lacking in “the dole.” If a private businessman advertised like a campaigning

Who spends the most money advertising in each country?

In the U.S.: Proctor & Gamble.

In Canada: the Canadian government.

politician, he could well land in court on fraud charges.

Big government sales are like any slick advertising campaign. People linger lovingly over the benefits and gloss over the downside of their product. Gaggles of politicians can be spotted at the opening of any new public building or at any tax-sponsored festival or parade. Government public-relations spots constantly remind us how great we are as a nation, even quoting favourable United Nations reports as incorruptible proof.

Less prominent in all this talk, however, are costs. Where the rewards of the welfare state are real and visible, the costs are often hidden and diffuse. It's hard to get excited about a tax you can't see, or the dull pain of government regulation. Take gasoline as an example: depending on your location, provincial, federal, and other taxes can add up to 34 cents a litre—half the cost you pay at the pump: the gas-station owner is lucky to make 3½ cents on that litre.⁴

Or liquor: fully 82 percent of the retail cost of distilled spirits is taken up by taxes. That's more than \$16 out of a \$20 bottle.⁵

**Old Age Security
sounds a lot
better than the
alternative:**

**the Old Age
Handout cheque.**



**If a private
businessman
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on fraud charges**

But even as the roots of the tax tree spread and grow deeper, spending grows faster still. Every year, it becomes more obvious that current economic practices cannot be maintained. But that's where the marketing team kicks into overtime. In fact, watching politicians talking about spending is a lot like watching junior high-school kids talking about cigarettes.

"Come on. Everybody's doing it!"

"Join the team! It's cool! You'll be popular!"

"What's the matter, you chicken?"

And every Canadian celebration is imbued with the government stamp, Canada Day on the First of July being the most heavy-handed. Where the American Fourth of July holiday glorifies that nation's anti-tax revolt, Canada celebrates the bounty of big-government spending.

But the real chutzpah of the welfare state salespeople is their claim to be so progressive, so concerned about the future—though all their efforts are aimed at maximizing the take of today's generation.

For Entitlementania to flourish, entrepreneurialism must falter.

The special cases of children and immigrants

Baby Boomers on the verge of retirement may have a stake in overspending. People who have passed their productive years without planning or saving may have an interest in entitlements. But this is not true of Canada's two most energetic communities: young people and new immigrants. Obviously, a plan had to be hatched to solve this one.

By nature, young people don't want security: they don't need it. For big government to succeed, this instinct has to be rooted out.

Security is for people who think things will only get worse: it's for the weak or the worried, not the young and the strong. Young people are optimistic. Risk and reward beckon to youth, and we have a name for that economic excitement: "entrepreneurialism."

For Entitlementia to flourish, entrepreneurialism must falter. Someone who is willing to forgo the bounty of bureaucracy might be reluctant to foot the bill for it. If some can succeed without a

**Watching
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cigarettes.**

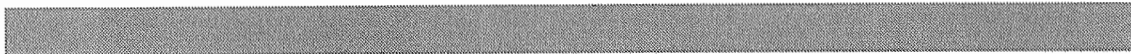
government grant, others might consider opting out as well. Yes, the entrepreneurs have to be saved from themselves.

Canada's vigorous, energetic, hopeful youth must be cured of their vigour and energy and hope. And the first step is to convince them that post-secondary education is a right of citizenship that only government can deliver.

Call it a loss leader or call it a free sample. The kids have got to be hooked. They've got to be initiated into the world of entitlements, for if debt and consumption were the sole domain of the elderly, the welfare state wouldn't last long. The young have to be co-opted.

It's the same with Canada's immigrants. Most have an industrious work ethic: they're not shy about earning their keep. And few have come from countries with as lavish a welfare state as ours. This, of course, presents a problem. How can these taxpaying newcomers be weaned from their old-fashioned belief in entrepreneurialism and self-reliance?

Like the students, they have to be bought with their own money. For students, the bribe is



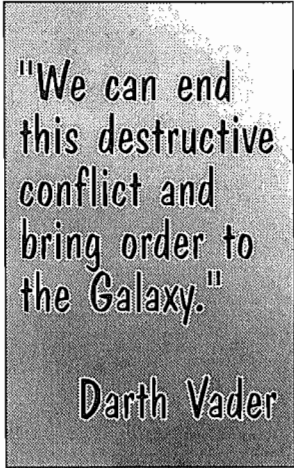
schools. For immigrants, the pork is in tax-funded ethnic festivals and community centres—multicultural slush funds.

The schoolyard debt pusher

Getting young people to buy into the system is crucial. For one thing, youth carries a lot of weight—not just young people themselves, but the *thought* of young people. If Boomers can be convinced that something is for the good of the future (not to mention the young), they might even go for it.

Ageing socialists in the welfare state must regenerate their numbers too. Recruit, recruit, recruit! Young people may not vote now, but one day they will. If they can be brought over to the Dark Side of the Force, big government can be in remission for at least a few more years.

The indoctrination starts young. It's the oldest marketing trick in the book. Just as teenage drug pushers hook schoolyard kids by giving them free "starter" samples of crack, so the middle-aged debt pushers hook young people on government handouts.



"We can end
this destructive
conflict and
bring order to
the Galaxy."

Darth Vader

"How subject
we old men are
to this vice of
lying!"

Shakespeare,
I Henry IV, v.

Costly university programs were once the preserve of motivated students. Either by scholarship or by working part-time or with parental support, they used universities for career preparation—a means to their ends. Through the language of entitlement, these institutions have been transformed into destinations—ends in themselves.

Despite massive public funding, universities still remain the preserve of Canada's upper crust. Government spending on education is more than twice as likely to benefit families earning more than \$100,000 a year than families earning under \$20,000.⁶ In other words, most education spending is just pork.

Inside our universities

A step inside Canada's universities demonstrates that there is a lot more going on than just old-fashioned education. A whole Entitlementiac apparatus is being built up.

In Ontario, for example, students pay hundreds of thousands of dollars in forced dues to something called OPIRG—the Ontario Public Interest Research Group. OPIRG sponsors



conferences and writes studies that invariably call for more government initiatives, more taxes, and more spending. It is a political entity that survives on fees extracted from university students of every stripe.

Even in grade school, pupils are regaled with examples of how government is the solution, government is good. Well, government is good if you're a member of a rich teachers' union with a government-granted monopoly. The picture changes somewhat, however, if you're a student piled high with debt—not to mention the absurd pension demands that your teachers' union will exact from you for the rest of your working life.

I'll give it credit. The public sector has co-opted today's youth. Or has it?

Meet the OYPs: Official Young People

"You know, young people today really love big government," say the politicians: "Just ask 'em!"

Well, actually, you're not supposed to ask just *any* of us. You'll be referred to Canada's Official Young People (OYPs). Call the Youth Minister and he'll

Entrepreneurialism	vs.	Entitlementania:
What can I earn?	vs.	What can I take?
I've got a great idea!	vs.	Got any bright ideas?
Time for action!	vs.	Time on my hands...

give you the phone numbers of all the OYPs in your area. They've been properly briefed with the official line.

To start with, they'll put you in touch with the youth wings of the big political parties. You'll find two kinds of OYPs here—the ones serious about the party and the ones serious about partying.

If you talk to party hacks of the first kind, you're really interviewing baby politicians. They may sport Doc Martens and the occasional nose-ring, but they'll give you the party line verbatim.

So check in with the other young party hacks. They'll give you a picture that's a touch more realistic. Swept along by free booze and access to celebrity politicians, they're really a metaphor for every co-opted interest group out there. They may not like the process of patronage and influence peddling, but it sure beats life as a regular teen.

Meet the OOPs: Official Old People

Just as youth have self-appointed spokesmodels, so do Canada's seniors. Any time the

**OYPs: a) fine young Entitlemaniacs,
b) usually pocketing some sort of government funding—
c) in other words, baby politicians.**

topic of discussion turns towards spending restraint, the Official Old People—the OOPs—jump to the microphones.

“We built this country, young man, and we fought a war for you!” goes the knee-jerk retort. Here I assume they’re talking about WWII and not the Gulf War fought by twentysomethings. What’s so odd though, is that most of these Official Old People are in their fifties and sixties—the closest they got to the Big One was drilling for inspection as cadets.

Not that I don’t appreciate all that earlier generations have done just as they must have appreciated the nation they were bequeathed in their youth.

It’s only that you can’t get blood from a stone. There is no more money in Canada and there hasn’t been for a long time. Stacking piles of bills on the younger generation in the name of sentimentality won’t work any more.

The whole OOPs phenomenon reminds me of a song about political insanity written near the end of the Cold War. In the 1980s, pop star Sting sang *I Hope the Russians Love Their Children Too*. His

OOPs: They look like your grandparents; they sound like your grandparents; the difference is that your grandparents don’t force you to pay off their billion-dollar credit card bill.

idea was that if the generals in the Kremlin didn't care about lives in the West, maybe their own sense of self-preservation and protection for their children would avert the fatal conflict we were all frightened of then. Maybe the fact that they cared about their own kids would be enough to save ours.

With the Russian threat fading, domestic issues now occupy centre stage as the focus of the decade. The political muscle of today's seniors and Baby Boomer retirees will in large part determine whether we can wrestle government spending under control.

Like Sting, I'm hopeful. The mass of senior citizens in Canada don't care about me, but my grandparents and parents do. And maybe every grandparent loves his or her grandchildren. And, just maybe, that irresistible biological drive to protect one's young will overcome the siren song of the OOPs. *I Hope the Boomers Love Their Children Too.*

WHAT YOUR GRANDPARENTS GOT	WHAT YOU'LL GET
A generous Canada/Quebec Pension Plan at age 65	No chance—we're \$800 billion short of our commitments
Old Age Security, even if they weren't poor	No chance—we're \$576 billion short
Free health care	No chance—we're \$1,144 billion short

—The system's broken, and we're broke!

Notes

1 Department of Finance, *Agenda: Jobs and Growth* (op. cit.), p. 73.

2 Department of Finance, Table 1: Summary Statement of Transactions Consistent with 1989-90 Accounting Revisions, 1991.

3 Christopher A. Sarlo, *Poverty in Canada, 2nd ed.* (Vancouver: The Fraser Institute, 1996), p. 227. Professor Sarlo estimates the Canadian poverty rate in 1993 was 3.25 percent, or only 1 in 29 families.

4 Isabella Horry, Filip Palda, and Michael Walker, *Tax Facts Nine*, The Fraser Institute, Vancouver, 1994, pp. 16-17. See also the March 1996 Gasoline Price Report issued by the Petroleum Communications Foundation.

5 Rounded off from figures issued by the Association of Canadian Distillers.

6 Education spending figures in Isabella Horry and Michael Walker, *op. cit.*, p. 146.



Government charity

and other bad ideas

—*Tremor on e*

Government involvement has made us poorer

Canada's economy has changed since the 1960s, but not for the better. From 1961 to 1994, for example, the cost of living rose 446 percent. But Canadians' average cash incomes grew even faster: 830 percent growth in the same period. Sound great?

Well, it could have been. Enter the government. Over that same period, government taxes grew by a whopping 1,167 percent. If you factor in deficits—which are actually just deferred taxes—the amount sopped up by government grew by 1,440 percent.¹

If you were going to give \$1000 to the charity of your choice... would you cut a cheque to the government?



In other words, Canada's politicians took a thirty-year boom and turned it into a bust. Thanks, guys.

If government spending really solved any problems, you'd think we'd have things licked by now. But really, if you were going to give \$1,000 to the cause or charity of your choice, would you pick a grassroots, voluntary community organization—or would you cut a cheque to the government? No one actually believes that governments are more effective at distributing charity than charities themselves, even though government programs have more fanfare.

Not only do families have less income to give after taxes, but charity itself has become a domain of government. Where once people felt a social obligation to get involved in local charitable efforts, there now is an "official" program that removes the need for personal participation. According to the Canadian Centre for Philanthropy, the average reported charitable donation in Canada has actually declined over the past ten years.² In effect, people in a community are let off the hook for taking care of their families, friends, and neighbours.

Canada's
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30-year
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a bust.

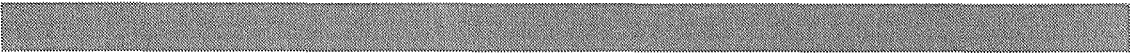
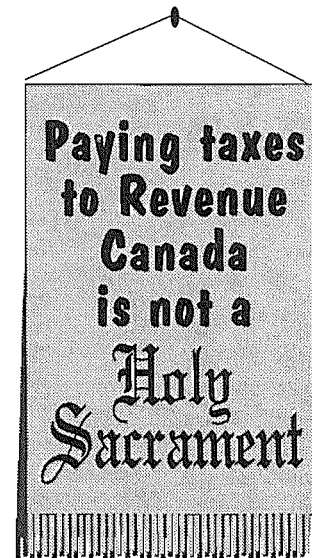
Thanks,
guys.



How absurd to think that political operatives can fulfil a charitable role! How naive to think that the instrument of political power could play a song of good deeds! How can we really be expected to believe that another faceless, nameless government bureaucrat is working in our best interest and not just in his or her own? That's the problem with state-run charity.

There is nothing charitable in forcing citizens to participate in a government spending adventure. The idea that it is good to share with others is very different from the idea that government should confiscate your wealth and redistribute it according to a political formula. Paying taxes to Revenue Canada is not a holy sacrament.

Come to think of it, though, big government has become something of a state-imposed religion in Canada. Read from the holy Red Book. Give a tithe to the Church of Big Government, and don't dare criticize the Gospel that government is good. Submit and be saved from yourself. If you resist you are an unpatriotic apostate. Or worse—a capitalist devil!



<i>How We See Government</i>	<i>vs.</i>	<i>How Politicians See Government</i>
Big spending promises	vs.	Red Book bible
Taxes	vs.	Tithes
Tax form	vs.	Confession
Revenue Canada	vs.	The priesthood
Political opportunism	vs.	Divine inspiration
Re-election	vs.	Reincarnation

**The past 30 years
have seen the
clear fountain of
public goodwill
sullied by the
algae of state
misadventure**

Government charity, jumbo shrimp and other oxymorons

The whole excuse for the *Just Society* programs was to help the helpless, but the fact is that, in attempting to legislate charity, government has actually smothered it. The past thirty years have seen the clear fountain of public goodwill sullied by the algae of state misadventure. As tax rates were jacked up to fund increasingly expensive programs, private charities and church-based giving were caught in the squeeze.

Nothing shows this process more clearly than our charity towards developing nations.

GENERATIONAL ISSUE #1: FOREIGN TRADE, NOT FOREIGN AID

PROBLEM: Even though Canada gives hundreds of millions of dollars in handouts to less developed countries (LDCs), much of the developing world still lives in crushing poverty.

WHY IT'S A PROBLEM: If simply throwing money at a problem could solve it, LDC poverty would be pretty much eradicated. But the



trouble with Canadian aid handouts is that, much of the time, the money is used up by bureaucrats in Canada and the recipient country. The money that does manage to get through, however, often has the exact opposite effect to the one intended.

When free foreign wheat flooded into northeast Africa during the last famine, it provided temporary relief to starving people in Ethiopia and Sudan. It also put a lot of local farmers out of business: who would buy their grain when wheat was available for free? The world media soon moved on to the next hot story, and the food shortage continues, though with fewer farmers.

The plight of a few bankrupt farmers, though, pales next to the destructive results of massive foreign aid projects. According to Patricia Adams, executive director of Probe International: “80 percent of foreign aid involves transfers from government to government for international pork-barrel projects.” In a guest editorial in the *Globe and Mail*, provocatively titled, “Slash foreign aid, save the Third World,” Adams argues that many foreign aid projects have actually fostered poverty.³

“80 percent of foreign aid involves transfers from government to government for international pork-barrel projects.”

In India, for example, “authorities are pushing 240,000 people off their farms and leaving them in dread” just to build a politically important dam. “Neither the World Bank, which helped start it, nor the Indian government, which is finishing it, could find replacement land,” Adams writes. “Most of these ‘oustees’ face poverty and alienation in the city slums, bereft of their land and communities that once provided livelihoods and support systems.” Because of bureaucratic boondoggles like this, “groups throughout India have launched a ‘Quit India’ campaign...the Indians want to rid the subcontinent of the World Bank, the world’s largest aid agency.”

WHAT’S THE SOLUTION? The real question for caring Canadians is this: how can we help people in LDCs help themselves? How can we get the economies of the developing world going?

Adams quotes Nigeria’s Claude Ake, a Fellow at the Brookings Institution. “Aid,” he says, “is not the answer.” If aid disappeared, Africa would “have to take the idea of self-reliance more seriously...and when you take the idea of self-reliance more seriously, you cannot ignore democracy.” Handouts allow LDC kleptocracies to stay in control. And foreign aid impoverishes

Handouts allow Less Developed Country kleptocracies to stay in control.

nations by allowing these despotic governments to pursue harmful statist policies which retard economic growth. Tanzania, for example, had become one of the most heavily aided nations in the developing world by the early 1970s. Today it is the world's second poorest country, worse off than it was at the time of its independence.⁴

In the end, getting the economic system right may be the biggest problem faced by poor countries. The presence of natural resources isn't a requirement—agriculturally barren Hong Kong and Singapore are well off despite having to import most of their food.

It turns out that, regardless where in the world a country is located and regardless of its natural resources, the freer the economy, the better that country tends to do.

In 1995, economic think-tanks in 11 different countries got together and developed a global index called "Economic Freedom of the World."⁵ These 11 research groups—including Ghana's Institute of Economic Affairs, Guatemala's Centre for Research on the National Economy, and Israel's Centre for Social and Economic Progress—found

Regardless of its natural resources, the freer the economy, the better that country tends to do.

that the freer an economy was, the wealthier its citizens would be.

Take the two South American countries of Chile and Venezuela, for example. According to the think-tanks: “While Chile moved toward economic liberalism, Venezuela moved in the opposite direction. During the last decade Chile’s annual growth of GDP per capita was 4.8 percent compared to 0.2 percent for Venezuela.” In other words, the best way to help poor South Americans is to deregulate their economies and not simply cut them a cheque out of pity.

Compare two other LDCs: Honduras and Costa Rica. From 1975 to 1985, both countries had pretty high taxes and tons of government regulation. The “freedom rating” of the two countries fell, and their economies stagnated. So Costa Rica’s government took a chance.

Costa Rica decided to stop printing money, and inflation was eased. It cut the top tax rate from 50 to 25 percent, thereby encouraging small businesses to form. And, most importantly, Costa Rica decided to open itself up to international trade.

“It costs nothing to permit citizens to engage in economic activity but it costs a country plenty in terms of foregone growth when they are not permitted to do so.”

—Michael Walker, The Fraser Institute.

So what has been the result? The income of the average Honduran continues to fall, while Costa Rica has boomed—average income up 2.1 percent per year over this past decade. Similar comparisons in Africa, between government-run Ivory Coast and free-market Ghana, tell the same story: giving LDC entrepreneurs a chance can make all the difference.

So what should we really do if we want to help? As the ancient saying goes, you can give people a fish and they'll eat for a day; teach them to fish, and they'll eat for a lifetime. I choose the second option.

Canada should encourage developing countries to embrace the free market. More specifically, we should enter into free trade agreements that will spawn industries around the world. If we really wanted to help Africans, we'd lower our import duties on their goods. That's a hand up, not a handout. For Canadians who care, the answer is foreign trade, not foreign aid.

It's ironic how all the fancy government programs with all their bells and whistles haven't managed to make the LDCs' problems go away. You'd think that if high taxes and big government made the

**You'd think if
high taxes and
big government
made the world
a better place,
we'd all be
living in
~~UTOPIA~~
by now**

Economic Freedom = Wealth
Six Most Economically Free Countries in the World

- | | |
|------------------|----------------|
| 1. Hong Kong | 4. Singapore |
| 2. United States | 5. Switzerland |
| 3. New Zealand | 6. Canada |

Source: Gwartney, Lawson, and Block, *Economic Freedom of the World 1975-1995*, The Fraser Institute, 1996.

world a better place, we'd all be living in Utopia by now.

The fact is that the costs of failures both abroad and at home are adding up—and young people are left with the bills.

GENERATIONAL ISSUE #2: WELFARE ISN'T

PROBLEM: Too many programs designed to be social safety nets turn out to be hammocks: they trap people instead of getting them back to work.

WHY IT'S A PROBLEM: Now and then, a lot of people will fall on hard times—some because they make bad decisions, others through plain hard luck. But the common thread is that Canada's welfare and unemployment solutions have actually become part of the problem. In a 1995 book, *The Rock in a Hard Place*, Atlantic policy analysts Doug May and Alton Hollett describe how programs designed to help people have actually smothered them.⁶ May and Alton write that Atlantic Canadians may have adapted to the welfare and Employment Insurance (EI) scheme in place but still "resent the fact that it makes them dependent on Ottawa and destroyed their traditional cultural values in which

The fact is that the costs of government failure both abroad and at home are adding up—and young people are left with the bills.

independence and survival through hard work were esteemed.” The authors cynically describe an unemployment system that pays 42 weeks of benefits after only 10 weeks of work. It’s the “10-42 syndrome,” they say, because government handouts in the Atlantic provinces are so pervasive that there is “a great disincentive to working more than the minimum qualification period.”

They call it a “syndrome” and they call it an “addiction,” and they’re right. Even the proudest of people can have their initiative sapped if not working pays as much as working. “Getting out of an addictive trap is never easy,” write May and Hollett, likening EI to a drug. “Treatment is always a slow, costly process that demands tough remedies applied with understanding.” If this sounds like Handouts Anonymous, it should. “The young must be convinced not to succumb to the addiction,” May and Hollett insist.

WHAT’S THE SOLUTION? Although this may sound harsh, welfare has to be made less attractive. The point of welfare—and other temporary solutions like EI—is to help people get back on their feet and start working again. No one in Canada should starve or go without the basics. But we must break the welfare trap.

Even the
proudest
of people
can have
their
initiative
sapped
if
NOT working
pays as much
as working



When you check the statistics, you can see that welfare is often more attractive than work. In 1983, at the tail end of a recession, only 52 of every 1,000 Ontarians were on welfare. By 1993, after successive governments had boosted the welfare handout, more than 120 of every 1,000 Ontarians were on the dole.⁷ Incredible!

While the incomes of people on welfare continue to climb, people who work for a living are doing worse off because of all the taxes. According to 1996 Alberta budget documents, for example, the average “non-elderly family” earned 11 percent less in 1993 than in 1981 after inflation was taken into account.⁸ Single-parent families where the parent worked for a living lost ground too. But single moms who didn’t work—who were on welfare and other public benefits—saw their after-inflation incomes jump by 47 percent. By rewarding people on welfare and punishing workers with high taxes, the government makes handouts look pretty attractive. That’s got to stop.

How do we know welfare is attractive to Ontarians?

1983	Benefits lower	52/1,000 Ontarians on welfare
1993	Benefits higher (most generous in Canada)	120/1,000 Ontarians on welfare

Source: Brown, “Caseload Trends in Canada,” pp. 59-60.

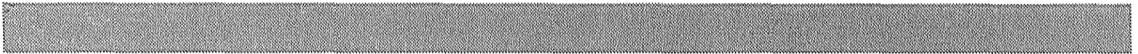
Case study: welfare versus aboriginals

One Canadian who hasn't been fooled by government masquerading as charity is Mike Cardinal, the aboriginal cabinet minister who implemented welfare reform in Alberta.

"When the welfare system was introduced back in 1950 or so, intentions were good," says Cardinal.⁹ But the system was a corrupting influence, and was devastating to the native population in particular." Before 1950, he notes, native communities "were independent from government, and were completely self-sufficient."

"Everybody worked, there was no welfare system, we had our own health care system, alcoholism was very limited, family breakdowns were very limited, people practised their culture, and lived off the land in a traditional way." But then the government welfare-crats sent out some promise-the-earth sales reps.

Because of "good intentions," says Cardinal, "within 15 or 20 years, 80 to 90 percent of the





members in those communities had moved onto the welfare system completely.”

When Cardinal was appointed Alberta’s minister in charge of welfare, he knew he had to break with the past: “I realized that it was so easy to add more money to deal with poverty. The easy way was more welfare, but it was not the right way.”

Cardinal started practising what he calls “tough love.” Poorly educated welfare recipients were encouraged to finish high school. Young, healthy employables were booted off the dole altogether.

“In the future, Alberta will be different,” concludes Cardinal, who has trimmed Alberta’s welfare rolls by 45 percent. “In the future,” he says, “government will get out of the way and let ‘the community’ plan and deliver charity.”

“All aboriginal leaders in Alberta...know that [welfare] kept people in poverty and still does.” Right on, Mike.

Cardinal wasn’t just fighting socialism—he was also fighting against a paternalistic approach to racial minorities. As Canada continues to lurch down the road of group rights, it seems that the colour of your skin, not the content of your character, is what counts. And that’s a shame...

GENERATIONAL ISSUE #3: MARTIN LUTHER KING, WHERE ARE YOU?

PROBLEM: Racial and gender quotas for employment and universities are threatening the equality of all Canadians.

Cardinal wasn’t just fighting socialism—he was also fighting against a paternalistic approach to racial minorities.

WHY IT'S A PROBLEM: Canada has always been a world leader on issues of equal rights. During American slavery, hundreds of runaways found refuge in Canada through the "underground railway." Canada was the first country in the British Commonwealth to recognize women as "persons" under the law. We used to pride ourselves on laws that afforded equal treatment to people from different backgrounds.

In recent years, though, that idea of meritocracy—judging people by their skills, not their skin colour—has come under attack. A decade ago, Canada passed the *Employment Equity Act* that required the federal government to classify employees by race, count the numbers of each race, and then hire more or less of each group depending on their racial representation. Women and men were to be judged on gender, too.

Shortly thereafter, the federal government started requiring any company that did more than \$100,000 worth of business with the government to bring in a program of racial and gender set-asides to match. And now Canada's universities have got in on the game. In 1993, for

Meritocracy—judging people by their skills, not their skin colour

example, the University of Alberta adopted a hiring code that required 88 more women and six more aboriginals to be taken on as professors.¹⁰

Once, our social activists rallied in favour of a colour-blind society. Today, that's all been reversed: political activists are trying to re-entrench race as a factor in Canadian political life.

WHAT'S THE SOLUTION? In the end, I believe this problem will solve itself. Canadians are simply opposed to racism, no matter how it's whitewashed as "employment equity" or rebaptized as "reverse discrimination." In fact, according to a Gallup Poll published in December 1993, 74 percent of Canadians oppose so-called employment equity programs. They are going to fail sooner or later.

I think we have to make it sooner. Canada should pass an anti-discrimination law that forbids government—or any government-funded university—from hiring, firing, or selecting anybody, including students, based on any criterion other than merit. Right now, Canada's constitution forbids government to discriminate based on race, but it makes an exception for

Equality Rights

15.(1) Every individual is equal before and under the law and has the right to the equal protection and equal benefit of the law without discrimination and, in particular, without discrimination based on race, national or ethnic origin, colour, religion, sex, age or mental or physical disability.

(2) Subsection (1) does not preclude any law, program or activity that has as its object the amelioration of conditions of disadvantaged individuals or groups including those that are disadvantaged because of race, national or ethnic origin, colour, religion, sex, age or mental or physical disability.

—From the *Canadian Charter of Rights and Freedoms*

**GOOD
intentions
don't count for
much when
you get
BAD results.**

reverse discrimination.¹¹ That exception has to be removed.

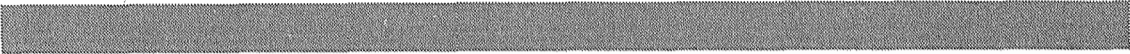
Canada can no longer be viewed through a racial lens. Every day, hundreds of new Canadians arrive on our shores from every country in the world. I believe they wish to be treated as individuals—as equals—and not forever tainted with the brush of tokenism. No more affirmative action.

However, this and other government programs are defended for having “noble goals”—but good intentions don't count for much when you get bad results.

GENERATIONAL ISSUE #4: A PERVERSE ENVIRONMENTALITY

PROBLEM: Canada's earth, water, and air are being polluted, and this dirty payoff will last for generations.

WHY IT'S A PROBLEM: There's a certain special, comfortable feeling people get by saying the words “public property.” But when you think about it, it's public property that is most likely to be polluted.



It's rare to see someone's front lawn strewn with garbage, but litter on "public" roads and parks is a common sight. Same thing with, say, salmon or cod. Nobody personally owns the fish off Canada's coasts, so the resource is plundered. No one has a personal stake in making sure that there is some left for tomorrow, so Canada's major fisheries have all but disappeared. Private fish farms and resort lakes don't have that problem, though: it's in their own self-interest to protect their natural resources.

It's simple, really. As Lawrence Solomon of Environment Probe says: "Save the forests—sell the trees." Environment Probe, the Toronto-based eco-watchdog, argues that trusting governments to protect the environment just hasn't worked. What's more, says Solomon, governments often actually engage in anti-environmental activities for quick political or economic gain.

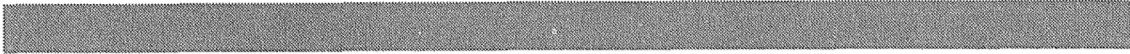
"Wherever trees grow on private land," writes Solomon, "forest owners seem to draw the ire of their governments."¹² Everywhere around the world—Canada, the U.S., Sweden—governments view trees solely as sources of income: "In Third World countries too, the state encourages the plunder of the forest while the traditional owners of the for-

Nobody personally owns the fish off Canada's coasts, so the resource is plundered. No one has a personal stake in making sure that there is some left for tomorrow, so Canada's major fisheries have all but disappeared.

est—whether individual property owners or, more often, small village or tribal communities—vainly attempt to stave off remote governments.” Government policies and not private landowners have felled the Brazilian Amazon, Solomon holds. What is more, “Subsidies of various kinds have deforested other regions of Latin America, several Asian countries, and much of Africa, often after decentralized forest holdings fell under central government control.”

WHAT'S THE SOLUTION? What would happen if Canada decided to have an auction for its trees? Right now, most Canadian forests are owned by government, and cutting rights are simply leased to logging companies. Since they don't own the land, they have no incentive to care for it. What would happen if loggers—and environmentalists— could buy the trees forever?

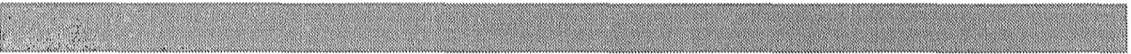
That's exactly the idea suggested by Terry Anderson and Donald Leal of the Political Economy Resource Center in Bozeman, Montana. In their *Global Pollution, Trade & Aid Resource Book*, they suggest what they call “a healthy dose of free market environmentalism.”¹³ For example, they write, “short of privatizing the national forests, timber leases could be put up for competitive bid



with no requirement that timber be harvested. Environmentalists could then bid right along with timber companies. They could lease the most critical owl habitat and allow no logging there.” Of course the forests could be sold forever. Why not?

Anderson and Leal ask: “Why are the spotted owl and Columbia River salmon in trouble? The simple answer is that since no one owns them or their habitat, no one has the incentive to protect them. In both cases, their habitat is controlled by the federal government.” If that “public” land was put up for sale, it would give environmentalists a chance to protect something they cared deeply about.

The environment wasn't the only government do-good project. In the '60s and '70s, dreamy bureaucrats tried to love their way through growing problems like crime. The result: a justice system that leaves many Canadians afraid to go out at night.



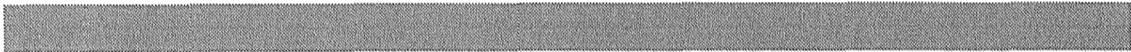
“Why are the spotted owl and Columbia River salmon in trouble? The simple answer is that since no one owns them or their habitat, no one has the incentive to protect them.”

GENERATIONAL ISSUE #5: CONTEMPT OF COURT

PROBLEM: Crime in Canada is a \$24-billion-dollar-a-year problem,¹⁴ and young people are more likely to be its victims than anyone else.

WHY IT'S A PROBLEM: No matter where people are on the political spectrum, they tend to agree that one of the most important roles of government is to protect citizens from crime. Now this is just not happening. And young people are feeling the worst of it. Canadians between 15 and 24 years old are almost twice as likely to be victimized by crime as those aged 25 to 44.¹⁵

WHAT'S THE SOLUTION? One solution is to implement so-called "truth in sentencing" laws that require convicted criminals to serve their entire sentences. Although this generally means increased prison costs, studies from the U.S. show that keeping criminals in jail actually saves money by reducing the number of repeat offenses those criminals commit.



In a February 1995 report called “The Economics of Truth in Sentencing,” Steven Twist, the former chief assistant attorney general of Arizona looked at the rate that criminals let out of jail early on parole committed crimes again. Twist added up the costs of these new crimes, including the cost to the victims and the cost of the justice system. His conclusion: “Cost-benefit ratios range from 2-1 to 17-1 in favor of keeping felons behind bars.”¹⁶ Twist even cited a study from the *British Journal of Criminology* which found that “increasing the length of imprisonment for FBI index crimes by 10 percent is estimated to decrease the index crime rate by 5 percent.” In other words, making prisoners serve just a few more months of their sentence can put a huge dent in crime—and the costs of crime. For violent crimes, “increasing the certainty of punishment averts about twice as much in losses for victims as the costs of the additional prison capacity; for rape, the benefits are six times greater.”

These lessons can apply to Canada. Although, for example, Canada has only one-fourth of the U.S. per-capita murder rate, we have practically the identical rate of theft, according to the international police agency Interpol.¹⁷

Making prisoners serve just a few more months of their sentence can put a huge dent in crime—and the costs of crime.

losses and then estimate what courts would award for psychological damages and “shattered lives,” the cost of Canadian crime comes to \$24 billion a year—nearly \$1,000 for every man, woman, and child in the country.¹⁸ But as we saw earlier, it’s young people who are hurt the most.

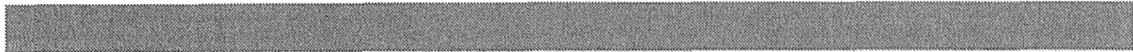
**Only 4% of
Canadians
said they
respected
their elected
representatives.**

**That’s less than
the number of
people who
believe in
UFOs...**

It’s time we got tough with Canada’s toughs. After all, there’s only so much failure Canadians will tolerate.

With all of the shortcomings in Canada’s public policy initiatives it’s no wonder politicians have lost the respect of the electorate. A 1994 Angus Reid poll found that 48 percent of Canadians had “a great deal of respect” for doctors and police officers; 30 percent felt the same way about clergy. Journalists checked in at 15 percent and lawyers at 11. But even the lowly lawyer had the politician beat; only 4 percent of Canadians said they respected their elected representatives. That’s less than the number of people who believe in UFOs....

I wonder how many people believe we’re on the verge of a Youthquake.



Notes

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- 2 Michael H. Hall, "Trends in Individual Donations: 1984-1992," *Research Bulletin*, Canadian Centre for Philanthropy, October 1994, p. 2.
- 3 Patricia Adams, "Slash foreign aid, save the Third World," *Globe and Mail*, April 1, 1993, p. A15.
- 4 Kim R. Holmes, "Focus on Free Markets: How to Cut Foreign Aid," *Committee Brief: A Special Report to the Appropriations Committees*, The Heritage Foundation, Washington, No. 3, February 15, 1995, p. 3.
- 5 James Gwartney, Robert Lawson and Walter Block, *Economic Freedom of the World: 1975-1995*, The Fraser Institute, Vancouver, 1996.
- 6 Doug May and Alton Hollett, *The Rock in a Hard Place: Atlantic Canada and the UI Trap*, C.D. Howe Institute, Toronto, 1995, p. 118.
- 7 David Brown, "Welfare Caseload Trends in Canada," in *Helping the Poor: A Qualified Case for "Workfare,"* John Richards and William Watson, eds., C.D. Howe Institute, Toronto, 1994, pp. 59-60.
- 8 Premier's Council in Support of Alberta Families, "Family Income—Alberta 1981 to 1993," excerpted from *Family Structure and Family Economic Security in Alberta: Implications for Tax and Benefit Policies*, 1994.

9 The Honourable Mike Cardinal, "Welfare Reform in Alberta," *Fraser Forum*, The Fraser Institute, Vancouver, June 1995.

10 "Opening Doors," University of Alberta Office of Human Rights, 1993.

11 *Canadian Charter of Rights and Freedoms*, s. 15(2).

12 Lawrence Solomon, "Save the Forests—Sell the Trees," *Wall Street Journal*, August 25, 1989.

13 Terry L. Anderson and Donald R. Leal, "Free Market vs. Political Environmentalism," in *Global Pollution, Trade & Aid Resource Book*, Political Economy Resource Centre, Bozeman, Montana, 1993, pp. 40-47.

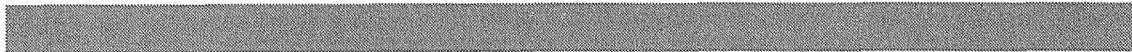
14 As reported in Paul Brantingham and Stephen T. Easton, "The Crime Bill: Who Pays and How Much?" *Fraser Forum Critical Issues Bulletin*, The Fraser Institute, Vancouver, February 1996, p. 25.

15 R. Gartner and A.N. Doob, "Trends in Criminal Victimization 1988-1993," in *Juristat*, vol. 14, no. 13, 1994, p. 6, table 2.

16 Steven J. Twist, "The Economics of Truth in Sentencing," in *The World & I*, February 1995, p. 76.

17 Paul Brantingham and Stephen T. Easton (op. cit.), p. 9.

18 *Ibid.*, p. 25.



Pensions: the make-believe piggy bank

—*Tremor two*

There's a sense of dread that comes about two seconds before a car accident. Time seems to slow right down. You see the impact coming but there's nothing you can do to avoid it—you're helpless.

That's how young people feel about the Canada Pension Plan (CPP).

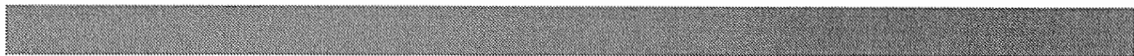
Like a car crash, you can see this one coming. The first Boomers are just getting into their fifties. Within fifteen years they'll stop contributing to their pensions and start drawing them down.

That in itself is no problem: many Boomers have saved long and hard for their retirement. But a collision over the government-backed CPP is inevitable—demographically and politically.

That's not a car crash. It's a train wreck.

**That's not
a car crash.**

**It's a
train wreck.**



**The Boomer
ice-cap is
melting
and the
demographic
sea-level
is moving up**

One of the out-of-control locomotives is called Government Promises. It's built out of the fluffy yarn politicians spin—impossible expectations of government. Headed at the same speed on the same track, but on a collision course, is another locomotive called Reality. Reality's tougher. And the reality is that the CPP can't fulfil people's expectations.

Boomers soon retirees

I turned 24 in 1996 as the first of the Boomers turned 50. By the time I hit 40, we'll be awash in sixtysomething Boomer retirees. The Boomer ice-cap is melting and the demographic sea level is moving up.

It didn't used to be this way. In 1966, for example, for every Canadian over age 65 there were 5.5 Canadians under 20.¹ That kind of ratio made a rich pension plan like the CPP look plausible. There would be lots of workers supporting a few retirees: no problem.

Let's compare those rosy stats with today's numbers. We now have only 2.3 young people for every senior. Now look ahead a generation as

"The Case of the Missing Piggy Bank"

You might think that the 5.6 percent the government takes off you and your employer every week for the CPP is put safely away in a giant piggy bank with your name on it in some vault in Ottawa. Nope: that piggy bank is being emptied as fast as it's being filled, like a bathtub with the drain unplugged.

actuaries do. By the time my friends and I turn 60 and start looking for our own pensions, seniors will outnumber youth 1.1 to 1.

But who's kidding whom? If we keep up the generous payout plan, our national treasury will be empty long before then. We are already borrowing from tomorrow.

8 million voters can't be wrong

That's not likely to change just yet. Because the more retirees there are, the more political clout they'll have. And the more political clout they have, the harder it will be to change things.

Right now, the median age for voters in federal elections is 44.² As the Boomers age, that average will jump to 50 in the year 2015 and keep on rising after that.

Those numbers are already beefier than they should be because seniors vote more often than young adults. Fully 88 percent of people over 50 turn out for federal elections, but only 63 percent of 18- to 21-year-olds do. In our lifetimes, seniors will statistically outnumber young adults. They are already clobbering us politically.³

**We are
already
borrowing
from
tomorrow**

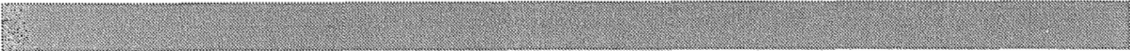


Of course, workers have always supported dependents in human societies. Since the dawn of time, breadwinners have shared with their families. It's just never been the case that productive workers have had to support everyone else's dependents too, even those who are quite well off.

The numbers of these dependents are going to grow dramatically over the next generation. In the next 35 years, the number of Canadians under age 20 will move from 7.9 million to 8.6 million—a 9 percent gain—while the over-65s will shoot from 3.5 million Canadians to 8.0 million, an increase of 130 percent.

Let's do some quick math on that one.

When you add up all the government spending on today's seniors—pensions, health care and all the other transfers—and subtract the \$9 billion or so that seniors pay in income taxes, you can see a net transfer to the over-65s of \$45.4 billion each year.⁴ And that's with only 3.5 million of them: what is going to happen when their numbers balloon by 130 percent while the worker pool stagnates?



No wonder we twentysomethings aren't counting on a government retirement.

CPP—Crazy Political Promises

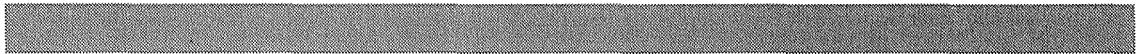
You can tell a lot about a society by how it treats its elders. Are they set adrift on ice floes, removed from burdening the community as the Inuit used to do? Or are they revered as treasures of experience and leadership? In Canada, we've got a funny blend of the two extremes.

On the one hand, the responsibility for elder care has been largely usurped by government. We have abundant state-funded nursing and retirement homes to institutionalize seniors physically. It's a modern-day convenience—an ice floe without the sheen.

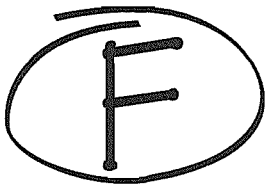
Yet the reverential aspect remains. Today's seniors are bold trail-blazers—the first generation in history to collect fat pensions they didn't pay for. This anomaly is the Canada Pension Plan: for every dollar today's seniors once put in, they're now getting \$7 out.⁵

Now this luxuriant lifestyle raises another question, for while we judge a society by how it

**While we judge
a society by
how it treats
its old,
we also
judge it by
how it treats
its young**



In the
Planning for
Tomorrow
Department
we rate an



treats its old, we also judge it by how it treats its young. In Canada, working young people, no matter how poor, are subsidizing pensioners, no matter how rich. We get an A on our report card for “Taking Care of Seniors.” But in the “Planning for Tomorrow” department, we rate an F.

In their charmingly dispassionate prose, the International Monetary Fund (IMF)—those nice people who bail out bankrupt countries—have offered this comment on the situation: “In the absence of policy adjustments—possibly including increases in retirement age—existing debt levels and unfunded liabilities will continue to grow and will require costly policy adjustments in the future when benefits are paid, in the form of either higher taxes or sharp cuts in expenditures and benefit levels.”⁶ In other words, we can’t keep running this fast.

But seriously, who listens to such dry actuarial language? Remember, we’re Canadians. We prefer Entitlese.

The IMF drones on: “The projected need for many governments to borrow heavily in the future to fulfil pension obligations clearly reinforces the perception that current budgetary trends are





unsustainable.” In other words, young people, don’t be counting on it...

But is this fair? Can we expect today’s workers to pay into a plan from which they’ll receive far less than promised? Would you pay for something you didn’t expect to get? Something’s got to give.



CPP is DOA

"It wasn't supposed to happen this way"

That phrase—"it wasn't supposed to happen this way"—could be Canada's motto, because it's true. The CPP was designed in the 1960s as a pay-as-you go plan. That meant people could begin drawing pensions from a make-believe fund. There wasn't a huge pool of dollars waiting for seniors; the fund was merely topped up every year.

**"It wasn't
supposed
to happen
this way"
could be
Canada's
motto**

Back when the CPP was set up, the contribution rate was fixed at 3.6 percent of income and expected to max out at around 5.1 percent in the year 2025.⁷ Of course, we're paying more than that right now. Employer and employee payments already add up to 5.6 percent thirty years before planned.

"It wasn't supposed to happen this way."

The CPP's Chief Actuary explains this difference quite casually. In 2025, workers were supposed to pay only 5.1 percent of their incomes to the CPP. Fatter benefits, however, tacked on another 4.3 percent. The fact that birthrates dropped—



making you and me part of the “Baby Bust”—added another 1 percent to the bill. Economic changes like interest and inflation have added another 2 percent. In other words, demographics plus old-style politics have made the pension tax more than double what it was planned to be.⁸

“It wasn’t supposed to happen this way.”

GENERATIONAL ISSUE #6: THE CASE OF THE MISSING PIGGY BANK

PROBLEM: Some young people think Canada’s pension plan will be “there for them” when they grow old and retire. Are they ever in for a rude wake-up call! Forecast over the period, our national pension piggy bank is missing \$800 billion!⁹

WHY IT’S A PROBLEM: Canadians of all ages have been promised cradle-to-grave security by big government. That includes programs like the government-run Canada Pension Plan (CPP) set up a generation ago.

The problem is a pretty big one: Canadians are retiring earlier than ever and pension payouts are higher than ever before. According to a 1995 report by the Canadian Institute of Actuaries, for

Our national pension piggy bank is missing \$800 billion!

example, 80 percent of Canadian men in the 1960s used to work until age 65; by 1990, this was down to 50 percent.¹⁰ And not only are today's pensioners getting their pensions earlier, but they are realizing huge returns on what they put in!

Take a Canadian born in 1911. When that person turned 65 in 1976, he got so much money out of the CPP that it was as if he had invested his pension deductions in a bank account that paid 30 percent interest each year! Canadians born in 1929—in other words, people who are 67 years old today—made out like bandits too. They earned more than 16 percent compound interest on their pension contributions.

That's a huge drain on the system, and it means there won't be much for us twentysomethings when we retire. Today's pensioners are getting the goodies while the getting is good!

As economist William Robson of the C.D. Howe Institute noted in early 1996: "In 30 years' time, meeting those obligations will require contribution rates almost triple today's levels—a burden that future workers will not have voted for and will seek to avoid."¹¹ Canadians in their

"In 30 years' time, meeting those obligations will require contribution rates almost triple today's levels—a burden that future workers will not have voted for and will seek to avoid."

—William Robson, C.D. Howe Institute

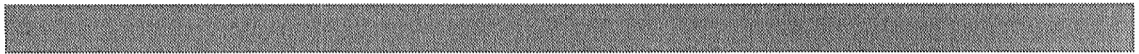
teens and twenties won't even get back what they paid in.

The Canadian Institute of Actuaries asks: "Will future generations of Canadian workers be satisfied with a real rate of 1½ percent...and will they be willing to continue contributing when total employee/employer contribution rates reach 13¼ percent?"¹²

WHAT'S THE SOLUTION?

Other countries have also tried to avoid dealing with their pension problems. But when pressures intensified, all eventually had to realize that they were out of cash and had to stop borrowing from the future. Right now, every major industrialized country in the world is raising the retirement age for public pensions. In the U.S., for example, the retirement age is being raised from 65 to 67 over the next 30 years. Japan is talking about raising its retirement age by a full five years. Both Australia and the U.K. are hiking the retirement age for women by five years. We're all broke.

But the South American country of Chile seems to have the real answer. Instead of simply being stingier with pension benefits, the Chilean model



allows individual citizens to choose how their pension deductions are managed. Every worker is still required to pay into a pension plan—just as in Canada—but in Chile each worker can choose where to invest his or her own money. This means that Chile's pension plan is “fully funded”: there actually is a giant “piggy bank” with each citizen's name on it.

No one knows more about fixing bankrupt pension plans than Luis Larrain, an economist with Chile's Instituto Libertad y Desarrollo. Larrain was at a Toronto pension conference in November of 1995, and he explained how Chile's system works.¹³


Chile twenty years ago was like Canada today, Larrain said. They were facing the same mystery of the missing piggy banks. Their pension plan was out of money—by the year 2000 pension payouts would have cost more than the country's entire annual budget. Faced with such costs, the Chileans took action. In 1980, every worker was given a choice between sticking with the existing Chilean pension plan—like Canada's bankrupt CPP—and switching over to a privately managed retirement fund. Everyone would still be required to save; but now private, professional money

Today, more than 5 million Chilean workers are investing their pension savings in one of 18 privately managed funds. These funds have helped to jump-start investment in Chile's economy—half of the pension money is invested in stocks, mortgages, or private bonds.

managers could replace the political money managers. Workers who had paid into the government plan were given a “recognition bond” equal to the amount they had contributed. From then on though, people would direct their own savings. It has worked.

Today, more than 5 million Chilean workers are investing their pension savings in one of 18 privately managed funds. These funds have helped to jump-start investment in Chile’s economy—half of the pension money is invested in stocks, mortgages, or private bonds. Altogether, these funds manage \$25 billion in savings, equivalent to 40 percent of Chile’s GDP. That’s like Canadians having \$300 billion in retirement bank accounts.

Chile’s successful model has caught the eye of a lot of people. In the 1996 U.S. presidential primaries, for example, several candidates, including Republican Steve Forbes, promoted Chilean-style reform of the U.S. social security system. To his surprise, Forbes learned that both senior citizens and young Americans found the Chilean solution better than the U.S. status quo. Considering that Canada’s pension plan is in worse shape than the American scheme, we’d better get moving.



OAS

Where the Canada Pension Plan is contributory—you have to pay into it to collect it—Old Age Security is pure gravy. You get it just for being old. It's like a giant birthday present for every Canadian turning 65.



Nice gig if you can get it.

When Prime Minister Mackenzie King brought in Old Age Pensions in 1927, they didn't kick in until age 70—and the average life expectancy at that time was only 61. To qualify, recipients had to meet a strict means test: their kids did too. In effect, Mackenzie King's pension plan was designed simply to save seniors from abject poverty. It worked.

How a few decades can change things! Instead of raising the pensionable age to keep up with growing life expectancy, we've reduced it: had we only indexed the age requirement, today's pensioners wouldn't be collecting until they were into their 80s.



Each year OAS doles out \$20 billion to seniors. Trouble is, OAS is still paid to 330,000 families with household incomes greater than \$50,000.¹⁴ That's an incredible subsidy to a group of people who already own their own homes and cars, have no kids to pay for, and have life's savings stashed away. Call it welfare for seniors, if you like, or call it a political slush fund. I call it irresponsible.

Why is it that we Canadians continue to subsidize people who don't need subsidizing? And why do we do it with tax dollars paid by Joe Average at his McJob? Chalk it up to Entitlementania.

Public sector pensions: the great train robbery

If seniors' pensions seem inordinately generous, public service pensions are downright extravagant. How could it be any other way? When big government and big unions get together, it's the Gen-X taxpayer who picks up the bill!

The price of government-labour collusion is staggering, with more than \$40.3 billion in unfunded pensions at the provincial level alone. Add to this our CPP bill and we're starting to talk real money.¹⁵

If there is a political or economic shake-up on the horizon, we'd better start preparing for the crunch now...rather than wait until the crisis reaches seismic proportions.

Unlike Canadian businesses—which, by law, must meet rigorous accounting standards—most provincial governments like to hide the bad news about their public service pensions by relegating these statistics to budget footnotes or appendices. Out of sight, out of mind...

In Italy, for example, the overextended state pension plan wasn't dealt with for the same reasons we are ignoring ours—austerity is never popular. But the result for Italians was certainly worse than any preventive medicine: they suffered emergency change in their system in 1993 as the retirement age was postponed by a full five years. Benefits were also dramatically reduced, breaking the pension promise to an entire generation.¹⁶

That's just plain trickery: if there is a political or economic shake-up on the horizon, we'd better start preparing for the crunch now....rather than wait until the crisis reaches seismic proportions.



Notes

1 *Troubled Tomorrows*, *op. cit.*, p. 1.

2 *Troubled Tomorrows*, *op. cit.*, p. 1.

3 *Troubled Tomorrows*, *op. cit.*, p. 1.

4 *Troubled Tomorrows*, *op. cit.*, p. 1.

5 Isabella Horry and Michael Walker, "January's solution: some principles to guide spending cuts," *Fraser Forum*, January 1994, p. 19.

6 International Monetary Fund, *World Economic Outlook*, 1994, pp. 56-57. Cited in Robin Richardson, "Inside Canada's Debt Problem and the Way Out," *Fraser Forum Critical Issues Bulletin*, Vancouver, May 1994, p. 19.

7 Paul McCrossan, "Federal Government Retirement and Healthcare Programmes and Their Longterm Sustainability," *Hitting the Wall*, Fraser Institute Conference, November 30, 1994, p. 4.

8 *Ibid.*, p. 5.

9 Calculations based on "Federal/Provincial Information Paper on the CPP," Annex D, Ottawa, February 9, 1996, p. 62. The Canada Pension Plan is \$600 billion in the hole, and the Quebec Pension Plan's debt is one third as large, or \$185 billion.

10 *Canadian Retirement Income Social Security Programs: Supplement to November 1993 Report*, Canadian Institute of Actuaries, Ottawa, February 1995.

11 William B.P. Robson, *Putting Some Gold in the Golden Years: Fixing the Canada Pension Plan*, Commentary No. 76, C.D. Howe Institute, Toronto, January 1996.

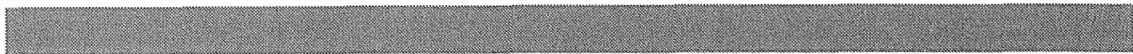
12 *Canadian Retirement Income Social Security Programs* (op. cit.), p. 12.

13 Luis Larrain, "Social Security Reform in Chile," Instituto Libertad y Desarrollo, 1995.

14 Department of Finance, *Agenda: Jobs and Growth*, op. cit., p. 70.

15 From Jason Clemens and Michael Walker, op. cit.

16 OECD, *OECD Economic Survey: Italy*, OECD, Paris, 1995, p. 47.



Health care is sick

—*Tremor three*

Universality? Huh?

“Our health care system is sick.” In some parts of the country uttering these words in public is political blasphemy if not downright suicide. But as any doctor knows, denying you’re ill won’t make sickness go away: in fact, delay in treatment can be fatal.

Our health care system is sick, though it was never supposed to be this way. Early Canadian moves toward government-run health care were chock-full of 1960s-style promise and hope—big plans with bigger budgets. And those plans worked.



They worked for the politicians, that is. What the American military base was to the U.S. congressman, so the hospital became to the Canadian parliamentarian—a goodie to be doled out in return for political loyalty.

But the quality and cost of Canadian medical care for people like you and me...well, that's another story.

What was supposed to have happened?

Government-run health care was supposed to be the crown jewel of the welfare state. It would be diamond-class service at cubic-zirconia prices. It was going to be the symbol of the new Canada—sort of a national hood ornament.

For one thing, it wouldn't cost a lot—only \$133 per person at first, easing gently upward for a few years.

For another, it was supposed to be, well, perfect. According to the *Canada Health Act*, medical care is free to everyone, available everywhere in the

Government-run health care... was going to be the symbol of the new Canada-- sort of a national hood ornament.

What the American military base was to the U.S. congressman, so the hospital became to the Canadian parliamentarian—a goodie to be doled out in return for political loyalty.

country, run by selfless bureaucrats, and covers every medically necessary service.

Sounds like a list for Santa: "I want free health care everywhere, all the time, plus peace on Earth and my very own pony." Sounds great, Virginia. But even Entitlementania has its limits.

Unfortunately, Santa and his parliamentary elves couldn't quite make the dream come true. A pony, maybe. But free, unlimited, all-you-can-consume health care? Nope. That buffet is closed.

But has that ever stopped a politician before?

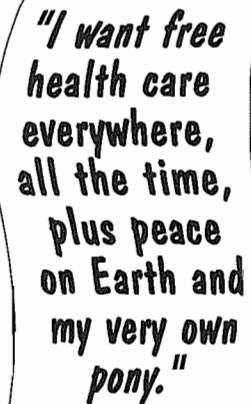
What was bound to happen?

Such cheery hopes for universal health care were quickly sullied by a pesky little visitor called "reality."

Let's be politicians for a minute: let's ignore reality. Just for fun, imagine what would happen if "free," Santa-style services were tried out in the food services industry.

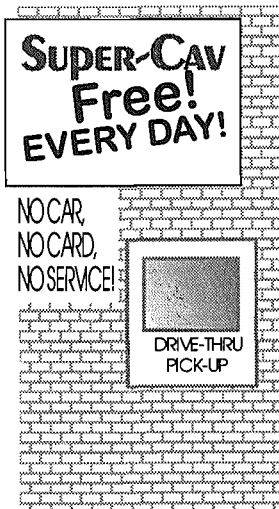
Say the government nationalized all restaurants. Sadly, such a ridiculous scenario isn't beyond

Sounds like a list for Santa:



"I want free health care everywhere, all the time, plus peace on Earth and my very own pony."

Swamped with T-bone steak buffets and caviar drive-throughs



today's Entitlemaniacs. After all, doesn't every Canadian deserve equal access to the basics in life, regardless of ability to pay?

Now just imagine that we all had to pay a Foodcare tax to the government every month and that, in return, each citizen gained unfettered access to restaurant service. Foodcare would be free and available equally to everyone in the country, regardless of ability to pay or need for nourishment, and run by selfless bureaucrat-elves. (And there'd be a pony, too, but only for small children.)

The rest of the crazy story would be pretty easy to predict. With price no longer an object, Canadians wouldn't shop around for the best deals. Instead, they would try for the biggest possible share of the restaurant pie. They'd eat out as much as they could stand.

Restaurants too would change. They wouldn't have to control costs or compete based on value for the dollar. After all, the government would pay for anything a customer wanted. The country would be swamped with T-bone steak buffets and caviar drive-throughs. And politicians would

promise a fine dining Spago's in every neighbourhood.

Pretty soon, though, cracks would appear. First of all, costs would rise more quickly than anticipated. After all, it's "free," so people would gorge all they could. Milton Friedman has pointed out that there's no such thing as a free lunch: with Santa-style Foodcare, though, there would be...until tax time.

Other things would happen. There would be lineups and customer service would plummet. If restaurants were run by bureaucrats and paid for by politicians, customers wouldn't really have a role beyond paying their Foodcare tax.

Before you knew it, the best Foodcare outlets would have lengthy waiting lists and wealthier Canadians would be trekking down to the U.S. to escape the mess up here.

Politicians and other folks with connections wouldn't have much of a problem, of course. They'd pull a few strings and get great service. And there would always be the exclusive Parliamentary Dining Room.

"There's no such thing as a free lunch" —Milton Friedman

I think that's a fair summary of what would happen if we had free, universal, publicly administered Foodcare. Is it any wonder, therefore, that our health care situation is in such a mess?

And what a mess it is. Universal health care has exhausted our public coffers. Fully one-third of provincial budgets are dedicated to free health care, one of the fastest-growing budget areas. It's a big reason why we're deep in debt.

Any guesses which generation is going to have to pick up that tab?

What is more, nationalizing our health care system has meant changing the definition of health care "success." Success used to be defined in medical terms. Today, political and bureaucratic standards seem more important. Where once the customer mattered, now only the politics remains.

So what really happened?

What really happened was that politics was put ahead of patients. Although the U.S. system is constantly waved as a threat to Canadians who

MRI machines: a) hi-tech, life-saving tools; b) Psst! Canadian hospitals are less than one-sixth as likely to have this equipment as U.S. hospitals; c) If you complain, you'll be called anti-Canadian!

cast doubt on our government-run system, it seems as though—at least by some measurable standards—Americans are better off.

Take high-tech medical tools like computerized tomography (CT) scanners and magnetic resonance imaging (MRI) machines. These are souped-up versions of traditional X-ray machines that allow doctors to spot problems much earlier and with less radiation than would otherwise be required. Sounds great. The problem is, Canada's financially overloaded system hasn't been able to keep up with the demand for these diagnostic tools.

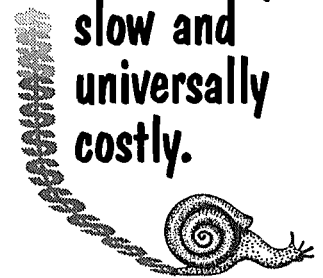
For example, U.S. hospitals have more than 15 CT scanners for every million people. In Canada, the figure is about half as many—only eight machines per million population.¹

Or take cardiac catheterization, a complex procedure used to fix clogged arteries in a patient's heart. Again, Canadians have less than half the number of these labs that Americans do.

But the real whopper is MRI machines, essentially giant electromagnetic devices that can pinpoint diseases long before they'd become visible on traditional equipment. For every million Americans

Universal Health Care?

**You bet.
Universally
slow and
universally
costly.**



there are 6.1 MRI units. For every million Canadians, there is only one and a bit.

Compare Canada's birthplace of medicare, Saskatchewan, and its southern neighbour, the U.S. State of North Dakota. Saskatchewan, with a population of one million, has only one MRI machine. North Dakota, with only 640,000 citizens, has five. The result: many Canadian patients drive across the border to get care that they'd normally have to wait months for at home.

Is that "universal" health care? You bet. Universally slow and universally costly.

But lack of technology isn't the only payoff from our government-run system. Rationing doesn't just happen with leading-edge technology like MRIs. Bureaucracy causes waiting lines for everything from heart surgery to nose jobs. Though it varies from province to province, the median waiting time for orthopedic surgery, for example, is 11 weeks—almost three months. That's one and a half times longer than the "clinically reasonable" waiting period for such surgery.²

Canada Health Act. Our national health care law "guarantees" accessibility, universality, and portability: meanwhile, people in Prince Edward Island have to wait four months for what everyone else gets in ten weeks.

And although our universal care is supposed to avoid so-called “two-tiered” medicine, it seems as though waiting lines have already created two classes of Canadians. On the bottom rung of the health care ladder are Canadians from Prince Edward Island: they have to wait an average of almost five months for non-emergency treatment. Quebecers, on the other hand, are treated in less than half that time. *Vive la différence*, I guess.

Caring for the old

A lot of expenses in this life are unexpected. Few, however, are as predictable as health care costs for senior citizens.

It’s estimated that 75-year-olds consume four times as much health care in a year as 40-year-olds do. By the time they hit age 85, they cost eight times as much.

This in itself is not a bad statistic. It’s great that we have the medical technology to prolong life and make prolonged life more enjoyable and productive. What is not so good is that we have not planned properly to fund the consequences of this wondrous medical technology that alters our demographic pattern.

History will likely record Boomers as the one anomalous generation to receive transfers from both its parents and its children



What is our demographic pattern? Well, history will likely record Boomers as the one anomalous generation to receive transfers from both its parents and its children. We could call the Boomers “entitlement-ambidextrous.”

But will their children put up with that? In a competitive global economy, can Canada incur such disproportionate subsidies? Doubtful: benefits will have to be cut back.

Cut back? Cut back? I thought those words were made illegal under the Entitlement Laws of the 1970s!

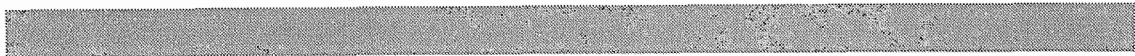
Golden Age?

**Sure.
But please,
a little
less gold.**

Golden Years—but with whose gold?

Let’s run through a quick checklist.

- Yes, there is tremendous wealth in this country. True. But that money is borrowed, and Canada’s kids have to pay it back.
- Yes, we have one of the most expensive medical systems in the world. True. But we’re struggling to pay for it now. When the Boom-



ers hit age 70, universal health care will probably implode—if we even have a *Canada Health Act* by then.

- The Golden Age of the Baby Boom is coming to a close. Unrealistic expectations will have to be hauled down more than a few notches.

Golden Age? Sure. But please, a little less gold.

GENERATIONAL ISSUE #7: HEALTH CARE IS HAVING A HEART ATTACK

PROBLEM: Our health care system is out of money and service is starting to deteriorate. There's no way it can survive for when we Gen-Xers get old and sick.

WHY IT'S A PROBLEM: By promising Canadians something for nothing—free medical care anywhere, any time, no problem—our nation is being driven to the edge of bankruptcy. As costs continue to climb and the population continues to age, young Canadians just won't be able to keep pace on the tax treadmill.

If we were saving for our own health care needs—say, if we were socking money away into a health care fund of some sort—then maybe we

As costs continue to climb and the population continues to age, young Canadians just won't be able to keep pace on the tax treadmill.



**UNBEKNOWNST TO THE FEDERAL GOVERNMENT,
A TWO-TIERED HEALTH SYSTEM WAS ALREADY IN EXISTENCE**

could afford the coming cost crunch.... Remember? That'll happen when the Boomers turn into senior citizens?

But we haven't been saving. According to the Canadian Institute of Actuaries: "If all working people in Canada were putting aside sufficient

funds to pay for their own health care in their retirement years, that fund would have over \$1 trillion in it...that is the amount that will have to be met by the next generation.”³

We haven't been saving. If program spending and taxes stay as they are, it will still cost an additional \$401 billion to take care of today's seniors alone for the rest of their lives.⁴

Our health care system is out of money and we all know it. A November 1995 *Macleans*' poll found that although 83 percent of Canadians think the system is fine today, 58 percent believe it will be worse in ten years' time. When *Macleans*' asked doctors—the people who see the system every day—fully 76 percent said they thought the system would fail.⁵

WHAT'S THE SOLUTION? Right now, Canadian governments are solving the medicare crunch by rationing health care—simply not treating everybody who needs help. In fact, a 1996 survey of Canada's doctors showed 165,472 Canadian patients languishing on waiting lists, shut out by rationing.⁶ Anyone wanting to pay cash to avoid the health care lineup has to go to the U.S.



Right now, Canadian governments are solving the medicare crunch by rationing health care—simply not treating everybody who needs help.

The real answer for health care is to encourage people to take responsibility for themselves, as we do now with Canada's retirement savings or RSP system. With RSPs, people can put money away tax-free to be used in their retirement. This is a lot smarter than relying on government pensions. We could do the same thing for health care: we could set up Medical Savings Accounts (MSAs), tax-free funds that people can dip into for health care reasons. In other words, instead of having a massive health care bureaucracy making health decisions, individual families can make those decisions themselves. Of course, there would still be catastrophic care insurance so that a terrible illness or accident wouldn't wipe out a family's savings. But for most of us, who will thankfully never have a health care crisis, the MSA makes sense.


The idea is this: instead of every minor health care expense being billed to our inefficient government, citizens will pick up the tab for the first, say, \$2,000 that their families spend on health every year. That amount is tax-free because it is spent from their MSAs. If, however, a major operation is necessary when the \$2,000 deductible is exhausted, then the catastrophic

We could set up Medical Savings Accounts (MSAs), tax-free funds that people can dip into for health care reasons. In other words, instead of having a massive health care bureaucracy making health decisions, individual families can make those decisions themselves.

insurance kicks in and the patient pays nothing. MSAs are already in use in countries like newly democratic South Africa and the city-state of Singapore, where they're called "Medisave Accounts."⁷

During the great health care debate in the U.S. back in 1994, many different ideas were put forward to help provide services to Americans who weren't insured. Not surprisingly, MSAs were among the most popular proposals, and some U.S. companies are already using them, although the concept is still being debated and refined. In her book *Health Care Reform*, for example, economist Michele Davis writes that "putting consumers in charge, by giving tax incentives directly to individuals and providing for Medical Savings Accounts, would create real competition in the health care market and give consumers, not bureaucrats, the last word."⁸

What's more, she adds, "the government doesn't have to take over the entire health care system just to help families who can't afford insurance on their own. Under a consumer-driven plan, the government can empower people who cannot afford their own health insurance—while preserving choice and medical innovation for all



consumers.” In other words, most people don’t need government involved in their health care choices. Those who can’t afford MSAs and insurance could get subsidies: the rest of us are better off without government!

Admitting that Canada’s health care system is broken is about as much fun as being interrupted in the middle of a nice dream. But that’s all the system is—a utopian dream with nightmarish costs. It’s time to wake up now!

Custer’s Last Stand

**Now every
Entitlemaniac
in the land is
lining up for the
leading role of
the white knight
who saves
health care**

Other countries are accepting reality, but not Canada. After all, universal health care is the Christmas goose of the Canadian welfare state, the flagship of the big-government flotilla. But now that times are tough, the goose is cooked. The unsinkable *Titanic* is, unthinkably, going down.

It is here that rhetoric is hottest and tempers shortest. You can talk about welfare reform and be engaged in a rational debate; even the future of the Canadian Broadcasting Corporation (CBC) is up for grabs. But tinker with health care and



you are messing with Canada™. You know, the sacred trust and all that.

And with good reason. Universal health care, held up as a symbol of what makes us Canadian, is also a symbol of government gone crazy. If it is repudiated or reduced, that would mean a low blow to the enlarged Entitlementaniac heart.

Since politics is really just theatre with a captive audience, such an emotional issue makes for a good campaign. Now every Entitlementaniac in the land is lining up for the leading role of the white knight who saves health care.

Oh, to land that role would be sweet.... To be the defender of sick children! The protector of the young, the poor, the old! There's got to be a Nobel Prize in there somewhere!

But Mother Teresa isn't the only role up for grabs. There's also the role of fearmonger pitching horrific alternatives to our welfare state. Imagine, says the fearmonger, a world where people lie dying in the streets! Imagine a society where your life has a price tag attached to it! Imagine...life in the United States! Well, as you know, the argument will end

Universal health care is the Christmas goose of the Canadian welfare state, the flagship of the big-government flotilla. But now that times are tough, the goose is cooked.

there as long as Canadian Culture™ simply means being “not American.”

But if changes aren't going to come from the top, they will surely come from the bottom.

They'll come in the form of private clinics, opened by enterprising doctors to help people stuck in long hospital waiting lines.

They'll come in the form of U.S. hospitals advertising in Canada for Canadian doctor referrals.

And they'll come with provincial governments less likely to listen to the outdated rules of the *Canada Health Act* once the money runs out.

Change will come—if not from the top down, then from the bottom up. Pressure's building. You can feel the rumble.



Notes

1 Cynthia Ramsay and Michael Walker, "Waiting Your Turn: Hospital Waiting Lists in Canada" (6th ed.), *Fraser Forum Critical Issues Bulletin*, The Fraser Institute, Vancouver, July 1996, p. 27.

2 Cynthia Ramsay and Michael Walker, "Waiting Your Turn," p. 22.

3 Canadian Institute of Actuaries, "Health Care Financing," Ottawa, February 1996, p. 9.

4 OSFI (op. cit.).

5 *Ibid.*

6 Cynthia Ramsay and Michael Walker, "Waiting Your Turn," *op. cit.*

7 Mukul G. Asher, "Compulsory Savings in Singapore: An Alternative to the Welfare State," in NCPA Policy Report No. 198, Dallas, September 1995.

8 Michele A. Davis, *Health Care Reform: Putting Families in the Driver's Seat*, Citizens for a Sound Economy Foundation, Washington, D.C., 1994, p. 29.

Politicians and pork

—*Tremor four*

The politicization of spending

Why does so much government spending go to people who don't need it? Or put another way, how did welfare for the poor become welfare for the rich?

The answer lies in the nature of politics itself. For in politics, only two things have value: money and votes. And where you find those twin political currencies, you'll find government gravy.

Take the National Infrastructure Program (NIP), for example. That was the centerpiece of the federal government's 1993 election platform—\$6 billion for job-creation projects clear across the country. Or at least that's how it was sold.

In politics, only two things have value: money and votes.

These people
are in some
kind of weird

TIME
SPACE
warp

But \$6 billion can buy an awful lot of favours if spent wisely. So few were surprised when the Canadian Taxpayers Federation reported that spending in the home towns of government MPs, on average, was double the spending in constituencies held by opposition politicians.

Moreover, the projects funded could hardly be considered infrastructure at all. In Shawinigan, the Prime Minister's home town, \$500,000 went to fund the Canoe Hall of Fame.¹ Dartmouth, Nova Scotia, another government stronghold, received over \$1 million for the World Canoe Championships, including a wall for Lake Banook. I don't quite know what it is about canoeists, but they sure seem to be politically connected.

But that's not to say the tennis pros are shut out. The Jarry Tennis Stadium in Montreal pulled in \$5 million from the same NIP program.

This is the iron law of public spending: when money is spent in the name of the public interest, usually a very private interest is being served.

The Iron Law of Public Spending
When money is spent in the name of the public interest,
usually a very private interest is being served.

Meet the Canadian Federation of Students

The leading student Entitlement central is called the Canadian Federation of Students (CFS), but its politics would more fairly translate as Canadian Federation of Planets: these people are in some kind of weird space-time warp.

The Federation's hallmark is its Marxist goal of zero tuition. That actually is the goal—unlimited free university. To achieve this, the CFS National Office employs a dozen paid lobbyists.

Half of their lobbying is directed at government, propagating the Zero Tuition Wonderland. The other half is spent browbeating dissenting student factions that disagree with the Wonderland wisdom. Whenever a member school considers dropping out of the Federation, Starfleet Command responds at Warp 10, flying organizers in to pit themselves against independent-minded student unions.

It's a fascinating exercise in groupthink, reminiscent of the Young Pioneers in the former

**Either you
support the
Wonderland
or you're a
traitor.
Someone
always makes
a note of the
first person to
stop clapping.**




Soviet Union. Like the Young Pioneers, the Federation doesn't permit a lot of political diversity. Either you support the Wonderland or you're a traitor. Everybody smiles nervously together. Someone always makes a note of the first person to stop clapping.

Sound familiar? That's pretty much how Entitlemaniacs operate everywhere. Like their more overtly partisan brothers and sisters, the CFS rank and file can be relied on to join the chorus calling for more entitlements. After all, the CFS and other "official" student organizations benefit from the same status quo as their cousins in the political parties.

GENERATIONAL ISSUE #8: ARE OUR UNIVERSITIES MAKING THE GRADE?

PROBLEM: As governments run out of money, students will have to find other ways of paying for their university education.

WHY IT'S A PROBLEM: Canada's global competitiveness—and our job prospects as young Canadians—depend now more than ever on our access to higher education. Yet universities are being asked to tighten their belts




along with everybody else. According to the World Bank: "It is... crucial that nations begin to find alternative or supplementary sources of revenue for institutions."² In other words, the "everything for free" approach just won't work any more. But how do we make sure poor students get a fair chance?

One real problem with Canada's university system is that old Canadian syndrome again—Entitlementania: assume you deserve everything for free and someone else will pay the bill. As tomorrow's taxpayers, though, we young Canadians know that we'll wind up being that "someone else" who picks up the tab for today's excesses.

WHAT'S THE SOLUTION? What has to happen is that the old-fashioned notion of universal free access to university must go. Instead of subsidizing all students—including the ones who don't need assistance—why don't we target our funds to the truly needy? Right now, students driving new cars to school or spending \$50 a week in the campus pub could probably get along without government help.

There is an idea out there, however, that is gaining popularity in both political circles and student



Right now, students driving new cars to school or spending \$50 a week in the campus pub could probably get along without government help.

lobbies. This idea is known as the Income-Contingent Loan Plan (ICLP) and it is currently in use in Sweden, New Zealand, and Australia. In effect, the ICLP allows students to pay back educational loans as part of the tax system after graduation.

Right now, according to a study by education reformer Edwin West, “the federal government’s present Canada Student Loans are fixed-debt obligations that require fixed payments for up to 10 years at fixed intervals.”³ That sort of rigidity doesn’t allow for the fact that some students will do better right out of school than others. This means that a lot of students default on their loans—one third of all outstanding student loans were delinquent as of 1992. Since student loans were first recorded in 1964, over \$1 billion has been lost to defaults. An ICLP, West writes, “dramatically reduces defaults because it embraces long and flexible periods of repayment.”

With students better able to bear the cost of student loans, tuition could rise to a more equitable level. As of now, the lion’s share is paid by the average taxpayer. But when you look at who’s benefiting, the numbers tell a different

We’ve got to stop subsidizing wealthy students. It’s not fair and, what’s more, we can’t afford it.

story. Canada's poorest families, those making less than \$20,000 a year, receive on average \$2,354 in education spending from government. Families making \$100,000 or more receive more than double this amount: \$4,994.⁴ We've got to stop subsidizing wealthy students. It's not fair and, what's more, we can't afford it.

GENERATIONAL ISSUE #10: GOVERNMENT HAS TO GO OUT OF BUSINESS

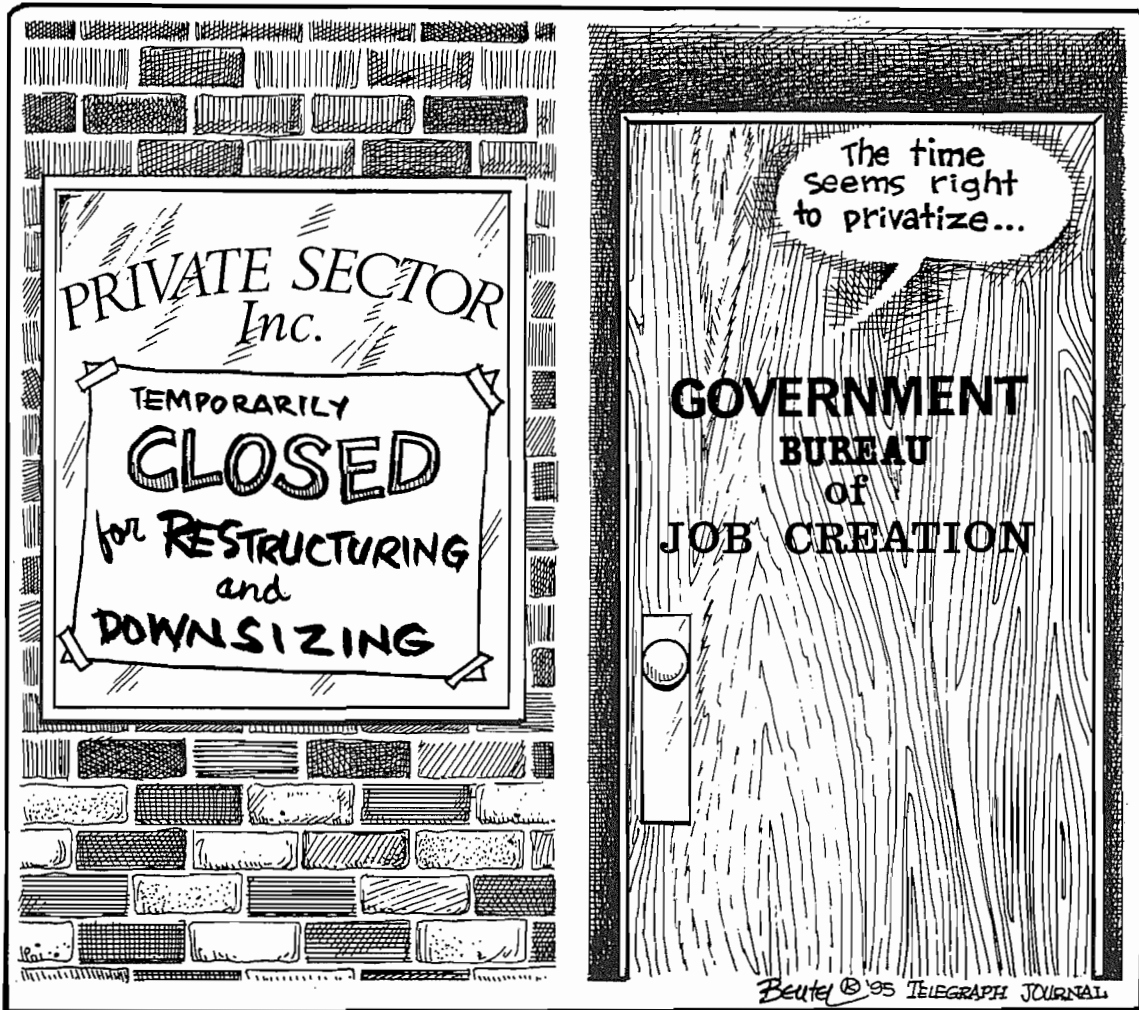
PROBLEM: Governments are subsidizing or managing businesses that have nothing to do with running the country.

WHY IT'S A PROBLEM: When governments give subsidies to businesses—or actually own and run businesses themselves—the economy gets hurt, and that's bad for young people trying to enter the job market. After all, when private-sector employers—who don't go running to the taxpayer to bail them out—have to compete with a corporation that feeds at the tax trough, they are placed at a huge disadvantage. Not only are government-run businesses unfair to competition, but they also tend to deliver lower-quality products and services at too high a price.

Who is benefitting from education spending in Canada?

Family Income Group	<\$20,000 per year	\$20,000–\$30,000	\$30,000–\$40,000	\$40,000–\$50,000	\$50,000–\$60,000	\$60,000–\$70,000	> \$100,000
Education Spending/Family	\$2,354	\$2,064	\$2,763	\$3,406	\$3,977	\$4,549	\$4,994

Source: Horry and Walker, *Government Spending Facts 2*, p. 146.



When private-sector employers—who don't go running to the taxpayer to bail them out—have to compete with a corporation that feeds at the tax trough, they are placed at a huge disadvantage.

Take the sorry case of the Post Office. When government first got into the business of delivering mail, the worry was that no private company would deliver everywhere, and even if one did, it wouldn't treat everyone the same.

Times have changed, but Canada Post hasn't. Nowadays, privately owned courier companies deliver everywhere in the country and all mailboxes are no longer equal: some people have home delivery, others have "Supermailboxes" at central locations.

So if the private sector can deliver mail faster and cheaper than the government, why keep Canada Post around? Well, that's exactly the question asked by Gordon Davies, a privatization advocate and former manager of strategic planning at Canada Post.

"At one point in our history, Canadians may have wanted and needed the federal government to provide all our postal services, but today private operators can do the job faster and more economically," he told the *Globe and Mail*.⁵ After all, said Davies, any private post office would likely deliver anywhere in Canada simply "because those who use, or might use, the postal



system would want to be able to send a letter to anyone of their choice.”

How did we get government involved in these businesses anyway?

When the prototype for the CBC was formed in 1932 by Prime Minister R. B. Bennett, the reason given was government concern that

private-sector radio would cater solely to big cities. That may have been the case in the early years of radio, but sixty years later the world of telecommunications has changed. Today we live in an age of shortwave radios, satellite TV, the Internet, and booming private media. Most Canadians don't have to rely on government for information any more.

The same applies to transportation. When the ancestor of Air Canada was formed in 1937, it was thought that no private company would be willing to fly east-west in Canada—the fear being that such a firm would fly only from Canada to the U.S. Again, history proved the politicians wrong and they finally got out of the airline business.

WHAT'S THE SOLUTION? Two simple rules will put a stop to these great adventures our bankrupt governments seem to love. Rule One: Don't spend—don't buy any more companies and don't give handouts to private firms. Rule Two: Do sell—unload any companies the government still owns and cut the private sector off cold turkey!

Just think of all the money we'd save. According to research by the Canadian Taxpayers Federation, when government hands out money

Why is the government still in the information business?

Telecommunications <i>then</i>	Telecommunications <i>now</i>
CBC formed in 1932 to provide radio service to all Canadians	<ul style="list-style-type: none"> • short wave radios • satellite TV • internet • private media

to corporations it becomes just like welfare—the companies get hooked on it and keep coming back for more. An audit of 17 failed firms to which the Atlantic Canada Opportunity Agency (ACOA) had lent money, cost taxpayers \$97 million.⁶ Indeed, governments have a sorry record when it comes to picking winners and losers in the business environment.

ACOA is just one of several government agencies whose purpose is to give handouts: Western Economic Diversification (WED) and the Federal Office of Regional Development-Quebec (FORD-Q) are busy writing cheques too. Even Northern Ontario has its slush fund, called FEDNOR.

One terrible example of handout frenzy is the case of a tiny French-language newspaper in Nova Scotia, *Le Courier*, which had been publishing for 53 years and was about to go out of business. A few phone calls to some connected politicians and the newspaper soon got a \$400,000 cheque from the federal government, \$250,000 from the Nova Scotia government, and \$150,000 from Quebec. *Le Courier* however, had only 3,400 subscribers. That works out to a \$240 subsidy for each customer. *The Taxpayer*

Two Simple Rules for Our Bankrupt Government:

- 1. Don't buy any more companies.**
- 2. Sell off the companies already owned.**

wanted to know: "Should taxpayers fund a venture when there isn't enough interest in the marketplace to warrant its existence?"⁷ Good question.

But if you think this super-subsidized newspaper is a one-of-a-kind example, you might just check out a book put together by Canada's most ornery waste-busters, the National Citizens' Coalition. The Coalition has published a whole booklet called *Tales from the Tax Trough* that is now in its third edition. Like the Canadian Taxpayers Federation, these citizens sat down with a calculator and added up just how much money is spent on people who didn't earn it. They found that, from 1993 to 1996, ACOA alone "handed out a staggering \$974,495,000! That means 201,342 taxpayers worked and paid taxes all year to fund these shameful examples of corporate welfare."⁸ They proceed to give such examples as \$139,035 spent "to construct a replica Viking ship," and \$500,000 for the "completion of a 9-hole golf course in Newfoundland." Or how about \$13,842 for "additional wax figures for the Royal Atlantic Wax Museum"?

WED gave out more than \$1 billion over the same period of time, barely edging out FORD-Q.

Should taxpayers fund a venture when there isn't enough interest in the marketplace to warrant its existence?

FORD-Q, however, had the distinction of spending \$3.5 million on an industrial interpretive centre in Shawinigan, Quebec, the home town of our Prime Minister.

Enough, already! Stop the great giveaway. Sell the Post Office. Sell the CBC. Sell the railways, including VIA. Because by subsidizing these white elephants, we're selling something else—our future.

Picking on the kids

The rule that government goodies are ladled out to government friends applies equally to generational politics. Since young people are 25 percent less likely to vote than senior citizens are, it's no wonder that the rules of the political game seem to ignore and sometimes even punish these same young people.

The biggest government sop to its political friends is none other than the minimum wage. For the young, it has the effect of a bulwark against employment. Every year now, it seems, youth unemployment edges up. Even in the economically strongest regions, the jobless rate

**Teenagers
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Since young people are 25 percent less likely to vote than senior citizens are, it's no wonder that the rules of the political game seem to ignore and sometimes even punish these same young people.

for 15- to 19-year-olds is almost double the rate for other Canadians.⁹

The culprit is easy to spot: a law supposed to protect workers from underpayment is actually protecting the youngest workers from employment. Young people will often have no work experience and few job skills. Teenagers need that starter job to build up the requirements for better jobs later on. The minimum wage prices them out of this market.

Every time the minimum wage is raised, youth unemployment jumps because employers can't swallow the increased cost. If a student is worth \$5 an hour, a \$7.50 minimum wage is like a \$2.50 job-tax that prospective employers have to pick up. Some do; but far more just don't hire. They make do without another employee or else automate.

Why? Why do we legislate young people out of jobs? Who could possibly benefit?

Big unions, of course, love minimum wages. Laws that make cheap student labour illegal help the unions protect their turf. It's pretty hard to get a \$15-an-hour dishwashing contract if you've got

**Laws that make
cheap student
labour illegal
help the unions
protect their turf**



pesky high-schoolers willing to do the job for half the price.

The great thing for politicians is that those high-schoolers don't vote or contribute to election coffers. Union members do. All the high-schoolers are good for is picking up the tab, time and time again.

GENERATIONAL ISSUE #10: LABOUR ISN'T WORKING

PROBLEM: Canada's labour laws used to protect workers. Now they are a leading cause of youth unemployment.

WHY IT'S A PROBLEM: By imposing restrictions on who can do what for a living, the government makes it harder for Canadians to get jobs. This is especially true for younger and poorer Canadians, people who don't exactly have employers lining up to hire them. Laws forcing people to join politically charged labour unions only worsen the situation. But the worst program ever designed by government is the law that says young people can't be hired unless they can be paid six or seven dollars an hour. These laws are called Minimum Wage Laws, but


By imposing restrictions on who can do what for a living, the government makes it harder for Canadians to get jobs.

let's be honest. They're actually Mandatory Youth Unemployment laws.

WHAT'S THE SOLUTION? The answer is to give young people more opportunities by making it legal for them to enter the job market on their own terms. For a start, get rid of minimum wage laws.

In September 1995, two economics professors did a study on the effects of raising Ontario's minimum wage. Writing in *Canadian Public Policy*,¹⁰ Michael Shannon of Lakehead University and Charles Beach of Queen's University found that raising the minimum wage resulted in the firing of many lower-income workers. The real effect of raising the minimum wage was "eliminating low-wage jobs." What is more, wrote the professors, "the policy will likely eliminate more low-wage jobs held by women than by men" as women are more likely to be working in such jobs.

What's the total damage? Since the Ontario government raised its minimum wage, there has been "a 1.2 to 1.5 percent decline in the total number of paid jobs that existed in Ontario," in other words 73,000 to 92,000 more unemployed Ontarians.

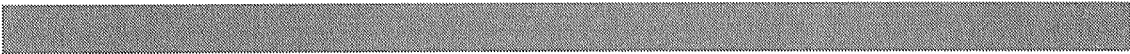


Those 73,000 to 92,000 victims of bad labour laws might be anonymous, but I've got a pretty good idea who they are: they look exactly like you and me. According to the Shannon-Beach study: "Young workers, part-time workers, and those with only high-school education or less bear a much greater incidence of being affected." In fact, "about half of those potentially affected are full-time students at least part of the year."

How can students get any job experience, and how can they pay their tuition, if the government is making their entry-level jobs illegal?

But making entry-level jobs legal again is only part of the solution. We've got to break the cartel that many labour unions have in Canada. Right now, every Canadian province allows "closed shops," places where you can't work unless you pay union dues. Even if you don't want to be part of the union, and even if you disagree with the politics of the unions, you've still got to join them and/or pay them.

An increasing number of high-growth American states—as well as New Zealand's booming economy—have opted to change all that. They've introduced "right-to-work" laws that allow



people to work in a place even if they don't want to join the union. Job growth boomed too: the U.S. National Institute for Labor Relations Research found that eight of the 10 top job-producing states had right-to-work laws while all of the top 10 job-losing states had laws permitting forced unionism.¹¹

It's a simple question: which do we value more: jobs for young Canadians or the protected big union cartels? Right-to-work laws are the choice of the new generation.

GENERATIONAL ISSUE #11: SQUEEZING BLOOD FROM A STONE

PROBLEM: Government taxation is so high it's killing off jobs. We young people are the most vulnerable.

WHY IT'S A PROBLEM: No doubt about it: if government is going to spend money, it's got to find it somewhere, and that means taxes. Trouble is, taxes—and especially taxes on jobs, called payroll taxes—make it more expensive for employers to hire new workers.

That much should be obvious: if a small business has to pay a tax just for hiring somebody, this can

Right-to-work
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If a small business has to pay a tax just for hiring somebody, this can make hiring unaffordable.

make hiring unaffordable. When economists Livio Di Matteo and Michael Shannon looked at the question in last summer's *Canadian Business Economics* magazine, they found just that: "These taxes do have a negative impact on employment."¹²

It's not hard to see why. Back in 1965, only 2.9 percent of all government tax dollars came from payroll taxes. Since that time, these job taxes have skyrocketed to fully one dollar out of every eight that the government rakes in. For every percent increase in payroll taxes, say the two economists, "in the long run about 40,600 jobs would have been lost" nationally.

But there's more to it than that. Like the minimum wage laws that force poor people out of their jobs, payroll taxes fall more heavily on lower-income people. A \$100,000-a-year manager probably won't lose his job over a 1 percent job tax increase, but a \$5,000-a-year part-time employee just might. In fact, Di Matteo and Shannon calculate that "women, young workers, those with less education, employees in retail, clerical, and services, and in small business generally are likely...to bear many of

Payroll taxes fall more heavily on lower-income people. A \$100,000-a-year manager probably won't lose his job over a 1 percent job tax increase, but a \$5,000-a-year part-time employee just might.

the employment and wage costs these taxes may produce.”

WHAT'S THE SOLUTION?

The solution here is simple, but not easy. We've got to make it easier for young people to get jobs. We've got to make them a more attractive investment for businesses. We've got to give our young people a competitive edge over lower-cost labour in the U.S. and abroad.

By cutting payroll taxes, we win twice. First of all, young people will be more affordable to businesses—without wage cuts! It's as if the government is running some giant shakedown scheme, a huge protection racket: any time someone wants a job, the government is there slaving for its cut. If that sort of legal pilferage is removed, employers and employees can do business with each other and without the uninvited middleman of big government.

The best way to kill something is to tax it. So how come a government that campaigned on “jobs, jobs, jobs” is taxing them at the highest rate in our history? Stop picking on employees, please. Stop pricing us out of the market.



The best way to kill something is to tax it.

Other barriers to youth employment

Canada's Auditor General commented recently that "the levels of income support provided by the social programs may be generating work disincentives and causing a form of voluntary unemployment."¹³ Youth unemployment is chronically higher than the national average, we've long been told, and hundreds of millions of dollars have been thrown at the problem. Some of that unemployment is caused by the minimum wage. Could some of the rest be voluntary?

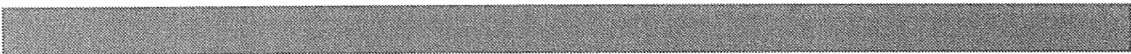
**"More spending!
We're outraged!
...What was the
question again?"
drone the
Entitlemaniacs**

"Of course not!" bark the bureaucrats.

"That's just right-wing rhetoric!" chime the lobby groups.

"More spending! We're outraged! ...What was the question again?" drone the Entitlemaniacs.

Notwithstanding a multitude of interest-group press releases shouting to the contrary, government programs to help the unemployed are actually helping to cause unemployment.



With the welfare payout rising and taxes on legitimate work rising even quicker, the only surprise is that we're surprised.

"With voluntary unemployment, even if jobs were available, workers would prefer the benefits of the social safety net," continues the Auditor General: "Where significant levels of job vacancies and unemployment coexist, this can constrain economic growth. Further, it can greatly increase the burden on social program expenditures."¹⁴

Stripped of its techno-rhetoric, this is the truism of the welfare state. We are rewarding sloth and punishing productivity. What have our politicians wrought in the name of progress and compassion?

The Organization for Economic Cooperation and Development (OECD) has also taken a crack at Canada's problem: to them, social welfare provisions in Canada appear to be "quite generous," with a number of full-time persons potentially better off on social programs than in the labour force!¹⁵ Thanks for the tip, Sherlock, but we young'uns have known about this little scam for quite a while now. (I guess they've just got word over there in Paris about our EI Ski Team.)

**We are
rewarding
sloth and
punishing
productivity**



Sorry, high-schoolers. All apologies, recent grads. You're in Canada...and the ground is beginning to get pretty shaky.

Notes

1 WED (Western Economic Diversification) statement for a January 27, 1995 press conference in Tsawwassen B.C. by Cliff Breitzkreuz, MP Yellowhead.

2 World Bank Discussion Paper No. 137 "Deferred Cost Recovery for Higher Education," (1991), Introductory Abstract.

3 Edwin G. West, "Mr. Axworthy's Proposals for Reforming Canadian University Finance: A World Perspective," *Fraser Forum*, The Fraser Institute, Vancouver, February 1995, p. 44.

4 Isabella Horry and Michael Walker, *op. cit.*, p. 146.

5 Alan Freeman, "Rethink Canada Post, Ottawa told," *Globe and Mail*, February 26, 1996.

6 *The Taxpayer*, vol. 7, no. 6, 1995 (Alberta edition), p. 8.

7 *Ibid.*, p. 7.

8 *Tales from the Tax Trough III*, published by the National Citizens' Coalition, Toronto, 1995, p. 19.

9 Statistics Canada Catalogue no. 71-001.

10 *Canadian Public Policy*, vol. xxi, no. 3 (September 1995), p. 284.

El ski team: Canadians who work the minimum required weeks until they qualify for Employment Insurance and then go skiing while they collect EI payments.

11 National Institute for Labor Relations Research, "Jobs Up in Right-to-Work States: 1960-1993," Springfield, Virginia, 1995.

12 Livio Di Matteo and Michael Shannon, "Payroll Taxation in Canada, An Overview," *Canadian Business Economics*, vol. 3, no. 4, Summer, 1995, pp. 5-22.

13 Auditor General, Canada, *Report of the Auditor General of Canada to the House of Commons*, Ottawa: Ministry of Supply Services, 1995.

14 Auditor General, Canada, *ibid.*

15 The OECD Jobs Study, *Unemployment in the OECD Area 1950-1995*, OECD, 1994.

Youth and debt:

the big grab

—*Tremor five*



Looking over our shoulders

If the next thirty years were guaranteed to be the same as the last thirty years, Canada would be sitting pretty. The old way of doing things would still work fine. The trouble is, the sun is setting on the golden age of overspending. The times they are a-changing.

It's tough to look far into the future, tougher still for politicians with a one-election time horizon. But we've got to stop driving by looking in the rear-view mirror.

The generational vector in reverse

An interesting way of sizing up the kind of deal young people are getting is by using a computer

**We've got to
stop driving
by looking in
the rear view**

tonim



projection technique that economists call “generational accounting.” It’s pretty simple: just add up all the taxes someone is going to pay over the rest of his or her life, then subtract all the government spending that same person will receive. Throw in a few technicalities—for example, adjust for interest rates—and you’ve got yourself a pretty powerful statement of the kind of mess we’re in.¹

GENERATIONAL ISSUE #12: TREATING THE GOVERNMENT “SPENDAHOLICS”

PROBLEM: Big-spending politicians are leaving the younger generation with a huge bill for all their political promises.

WHY IT’S A PROBLEM: Leaving the costs of today’s government for tomorrow’s citizens just isn’t fair, and it sure isn’t sustainable. Just as with Canada’s overextended public pension plan, government spending is good for those receiving benefits, but everyone still has to pay the piper down the line. After a while, the future just doesn’t add up any more.

In February 1996, Montreal’s Institute for Research on Public Policy (IRPP) published a



52-page report called “Restoring Generational Balance in Canada.”² According to the IRPP’s president, Monique Jérôme-Forget, unless government gets its act together soon events will spin out of control: “If policies geared to remove the need for future net tax increases are delayed by only five years, the authors estimate the permanent tax revenue increases or spending cuts required would have to be about 20 percent greater than if the changes were introduced now.”

What does this mean? Basically, if the country doesn’t stop overspending right now, the taxes to pay off the bills are about to skyrocket. Philip Oreopoulos, 24, who coauthored the study “Restoring Generational balance in Canada,” found that if things continue the way they are people born in the 1970s will have to come up with an additional \$200,000 in taxes over their lifetimes—above and beyond what they get in government benefits—just to pay off today’s bills. The numbers are even worse for young men: 25-year-old men can expect to pay \$290,100 over their lives in extra taxes; 25-year-old women will pay \$135,400 in extra taxes. That’s because governments can’t say no.

People born in the 1970s will have to come up with an additional \$200,000 in taxes over their lifetimes—above and beyond what they get in government benefits—just to pay off today’s bills.

it's an
attitude
thing



Today's seniors, of course, have the best of both worlds. The average 65-year-old man will pocket an extra \$121,400 over his life; 70-year-old women get an extra \$113,000. Not bad if you can get it! Incidentally, Oreopoulos's study is the second in a year to voice the same troubling vision: another twentysomething Canadian economist named Chris Good came to the same conclusions in 1995.³

WHAT'S THE SOLUTION?

Oreopoulos and other economists have some ideas about what we can do: we can cut health care spending, they say, slow down government spending on other program—seven, a terrible suggestion, raise taxes. But none of those solutions deals with the real problem behind this overspending. It's an attitude thing.

The real problem is not that people are getting sick too often, or that we can't afford to take care of the needy. Nor is it a problem that the Boomers are about to collect their pensions. Those things just happen: they're neither good nor bad. The real problem is that we Canadians expect every stage of our lives to be government-


The real problem is that we Canadians expect every stage of our lives to be government-subsidized.

subsidized. Nothing should ever be our responsibility, we say: just get a handout to cover the cost. I have been calling this attitude “Entitlementania.”

Just because we’re young doesn’t mean that we should get free education. Just because our grandparents are old doesn’t mean they should get free health care. We’ve been living in this fantasy world for so long, living off our credit and a smile, but now it’s catching up to us.

Thankfully, a lot of Canadians are starting to realize that being Canuck doesn’t just mean being an American with higher taxes. It can be about personal responsibility as well. Like putting away something every year to prepare for retirement. Like getting the government out of the way of job-creating businesses and letting those businesses fail or succeed on their own merits. That’s what Canada’s about.

As we’ve seen, the government can’t keep its promises. The dollars just aren’t there: neither are the demographics. And so the shortfall is being borrowed. We think we’re entitled to borrow for this shortfall, and the next, and the next.... And that’s the problem.



Being Canuck doesn’t just mean being an American with higher taxes. It can be about personal responsibility as well. Like putting away something every year to prepare for retirement.

There is another option—one that politicians don't like to talk about. It's called cutting back. Going on a diet. Stopping the insanity. Slowing down on the spending. Ending the mirage.

Canada's worst-kept secret

Things stopped adding up quite a while ago, but it's taken us some time to realize the mess we're in. Chalk it up to pride-and some fancy accounting.

After all, to disown Entitlementia is to repudiate the way we've been doing things in Canada for at least a generation. Admitting we're wrong means that a lot of folks have a lot of questions to answer.

Our Prime Minister is like a driver who's lost but refuses to stop the national car and ask for directions. He gets farther and farther off course, but the longer he goes without stopping the greater his potential embarrassment gets to be. Everyone in the car knows we're lost: it's just that no one has the guts to tell the driver to pull over.

**Admitting
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Everyone in politics whispers about the dead end of big government, but everyone's also in on the deal. And no one wants to be the first to ask those really ugly questions.

Change won't come easy

Take the murky waters of politics and boil them down. Filter them: distil them. What's left is that old chemical mixture for power—money and votes, the potion of government.

But as we know, if campaign contributions and voter turnout are the waters that slake the political system, then young people are bone-dry. Because we don't vote in large numbers. And we're too busy trying to make ends meet to give much time or money to the political process.

Noah's Ark Phenomenon: We're napping!

Different people react to natural disasters in different ways. Some are dazed, stunned that the impossible actually happened. Others simply freak out: their world is shattered, and everything that they could once count on is wrenched away.

If campaign contributions and voter turnout are the waters that slake the political system, then young people are bone-dry.

Still others are calm: maybe they prepared for the moment, even if just mentally.

In Canada we've got a lot of Types 1 and 2; Type 3 is still ridiculed. Call it the Noah's Ark Phenomenon, or NAP—no one wants to hear bad news, no one likes a rabble-rouser.

It's more fun just to NAP than to prepare for floods...or Youthquakes.

Notes

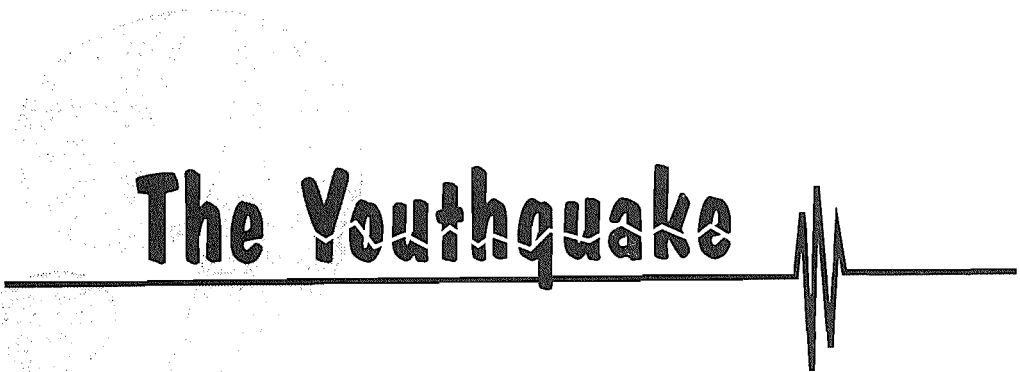
1 Christopher Good, "The Generational Accounts of Canada," *Fraser Forum Special Issue*, The Fraser Institute, Vancouver, August 1995, p. 29.

2 Philip Oreopoulos and Laurence J. Kotlikoff, "Restoring Generational Balance in Canada," in *Choices*, Institute for Research on Public Policy, Montreal, vol. 2, no. 1, February 1996, p. 3.

3 Christopher Good, *op. cit.*



The Youthquake



What would it look like?

If young people were an effective political force, we could bring the bloated welfare state down to fighting weight by diet and exercise—slowly trimming excess programs and clearing out the regulatory deadweight. We could bring pension and EI payments into line with reality and avoid a crisis.

Such discipline is a rare commodity: more likely, Canada is in for an economic heart attack. By then, Weight Watchers won't be able to cut it: we're looking at stomach-stapling time.

What would be the first shockwave in this Youthquake? It could come from anywhere, a single act that would inspire a revolution.

**Canada is
in for an
economic
heart attack**

Meech Lake Accord: a constitutional deal cooked up in the 1980s by Canada's First Ministers. It flopped.

**Maybe a
twentysomething
politician
somewhere will
hold the balance
of power in a
minority
government**

That's pretty tough talk for Canada, but it has happened before. Remember when a lone legislator in Manitoba, Elijah Harper, scuttled the Meech Lake Accord? One man, one act—standing up in the provincial legislature with an eagle feather—crystallized the resistance of Canadians everywhere to that constitutional deal.

Or look outside the country, say, to the youth movement in Beijing that held the ill-fated Tienanmen Square sit-in. The whole planet watched as one lone student blocked the onslaught of an army tank, staring it down with nothing but hope.

I think Canada is ripe for an act of courage.

Maybe it'll come from the courts: a young judge with a radical decision. Maybe some student will sue the government over a broken welfare state promise and the courts will agree. Such a victory—even if only until a higher court overturned it—would stir the generation.

Or maybe it wouldn't be through the courts: maybe it would be a young politician; a young MP who refused to toe the party line or a young



MLA who, like Elijah Harper, refused unanimous consent for a crucial piece of legislation to go forward. Maybe a twentysomething politician somewhere will hold the balance of power in a minority government.

The underground economy: a quiet rebellion

Maybe the Youthquake won't be dramatic at all. Maybe it will just be a continuing slide into apathy and dissociation from "the system." Maybe youth voter turnout will continue to fall as politicians continue their over-promising ways.

Maybe youth, increasingly shut out of official employment by a mess of regulation and employment taxes, will find refuge in the burgeoning black market economy, tapping into the legitimate economy only to take full advantage of student loans or healthy welfare payments. They'll just drop out.

It's happening already. When the *Financial Post* conducted a survey of Canadians in the summer of 1995, fully 42 percent "admitted they have broken the law by evading taxes."¹ According to the *Post*: "Most blame their cheating on high

**Everyone knows
that our driver
has lost his way,
but no one seems
to want to grab
the steering wheel**

Maybe youth, increasingly shut out of official employment by a mess of regulation and employment taxes, will find refuge in the burgeoning black market economy, tapping into the legitimate economy only to take full advantage of student loans or healthy welfare payments.

taxes, government size, government waste, salaries and corruption.” You see? Everyone knows that the emperor has no clothes. Everyone knows that our driver has lost his way, but no one seems to want to grab the steering wheel.

Almost three quarters, 72 percent, “admitted they would evade taxes if they had the opportunity.” Even more, 77 percent, said they were “more determined than ever to evade taxes in the future.”

**Just 15% of
under-30s said
they wouldn't
pay cash to
avoid taxes.**

**That's nothing:
15% of
Canadians
believe Elvis
is still
alive!**

“The most striking finding from the survey is the evidence of changing ethics,” said the pollster.

What really is most striking about the survey is how a disproportionate number of tax cheaters are younger Canadians: 28 percent of the under-30s are hiding income as against only 7 percent of the over-65s. That's quadruple. Just 15 percent of under-30s said they wouldn't pay cash to avoid taxes. Only 15 percent! That's nothing: 15 percent of Canadians believe Elvis is still alive!

A year earlier, three business professors at the University of Alberta had calculated the amount



of underground economic activity that goes unreported to the government.² They found “an increase in underground activity from 1976 to 1990, with the underground economy accounting for 15 to 20 percent of total economic activity in 1990.” That’s a staggering admission—one in every five dollars earned in this country isn’t reported to the taxman. And this was before the hated GST was introduced in 1991: if anything, those numbers have since increased.

What causes so many people to hide what they’re doing from the government’s tax collectors? That’s an easy one. The professors come up with six reasons, and four of those are related to taxes and regulations. High income taxes are Reason Number One. High payroll taxes are Reason Number Two. Unreasonable labour laws come third, and hatred of government bureaucracy is the fourth. Inflation and “cultural” reasons round out the list. I can understand that last reason: a lot of people resent the fact that Canadian culture is starting to mean being taxed and loving it.

A 7 percent GST? A provincial sales tax on top of that? And big-time pension and EI deductions off every pay cheque? Fine. Some young people wouldn’t care if the tax rate were 80 percent—



**Why hide from the
Tax Collector:**

- 1. High Income Taxes**
- 2. High Payroll Taxes**
- 3. Unreasonable
Labour Laws**
- 4. Hatred of
Government
Bureaucracy**
- 5. Inflation**
- 6. Cultural Reasons**

Source: "Canada's
Underground Economy
Revisited", p.235.

they'd just buy things with cash and skip the taxes. Since they feel powerless to change the system from within, they're simply working it to their own advantage or else dropping out.

And don't think that these tax cheaters feel bad about keeping their hard-earned money from Revenue Canada: 64 percent characterized themselves to the *Financial Post* as "honest taxpayers" and another 16 percent as "honest but forced to cheat by high taxes." They'd be happy to pay what they thought was reasonable, but those days are long gone.

Turn on, tune in, and drop out

GST: Generational Servitude Tax

As they drop out of the formal economy, young people will scorn the official health sector too. Some will be able to afford to fly down to the U.S. and some will wait in public system lineups, but not if they can help it. They want change.

They'll drop out of official financial institutions—driven out by tax grabs and uncertainty in Canada's financial system. Maybe they'll have bank accounts just across the border in the U.S. And of course, all the jobs

—64 percent of tax cheaters characterized themselves as "honest taxpayers."
—16 percent more as "honest but forced to cheat because of high taxes."

—*Financial Post* survey

they do will be for cash. GST? Why, that stands for the Generational Servitude Tax: we have no time for that!

The debt-hold trap

Or maybe the Youthquake won't even come from within. Maybe seismologists in other countries will step in to do our dirty work for us.

Maybe our foreign lenders—holding 44 percent of our debt—will demand an ever-increasing risk premium on our bonds. Maybe—as in the case of Newfoundland and Saskatchewan—they will simply be unable to keep on buying our debt. (That's because many pension fund managers cannot invest in bonds with a “junk” credit-worthiness rating.)

If we do hit a debt wall—as have other industrialized countries like New Zealand, Sweden, and Italy—we could face strictures imposed by the International Monetary Fund, including incredibly high interest rates. Those rates might benefit senior citizens with savings, but for young home buyers with mortgages they would represent a crippling grab.

**Caught in a
debt-hold
trap...**



The resulting currency devaluation would further erode our standard of living; imported goods and foreign travel would be unaffordable. We'd be caught in a debt-hold trap.

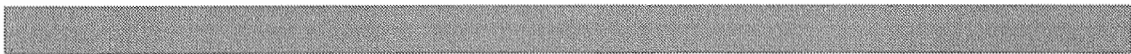
But there is another way out of the mess, sort of... it's called the "Latin American Special."

Canada could always hyperinflate its way out of debt, simply devaluing the currency to the point where our bank obligations—and incidentally, all the rest of the money in the country—became valueless. That might look like a tempting way out of the debt-hold trap....to a generation looking for a panic button.

Of course, this approach demolishes people with savings and those on fixed incomes. And these people are spelled B-O-O-M-E-R-S.

Canadian spirit put to the test

It will be an interesting study to see if our celebrated Canuck advantage—our mellow moderation—can survive hitting the wall. If the pleasant Canadian demeanour is directly attributable to our overextended social programs, as the Entitlemaniacs constantly tell



us, then without the schoolmarm effect of government we'll be at each other's throats like those pesky Americans.

OOPs and OYPs, our official seniors and juniors, would no longer be sated by the steady flow of government dough. They too would be up in arms, whining and wailing and faxing threats to anyone who'd listen.

So yes: some folks would plain-out riot.

But many would do just fine. Many seniors have saved for their golden years and planned ahead. And a truer multiculturalism would survive the demise of state-supported slush funds. After all, somehow ancient faiths and ethnicities have made it through the centuries without government grants.

But yes, there would be fractiousness along certain entitlement fault lines.

Everyone whose mild manners were purchased with a transfer or a grant or a subsidy would now have no reason to be politely Canadian. There would be a lot of angry Entitlemaniacs out there, reassessing their lots.

**There would be
a lot of angry
Entitlemaniacs
out there,
reassessing
their lots**

Somehow ancient faiths and ethnicities have made it through the centuries without government grants.

Quebec, for instance, would have to plot out some kind of post-transfer afterlife. Its jealously guarded status as Canada's Number One transfer beneficiary would grind to a halt.³ The federal equalization programs that began in 1957 with \$834.0 million in 1996 dollars, had grown 10-fold to \$8.73 billion by 1995-96. In fact Quebec has received 49 percent of total federal equalization payments over the past four decades. Last year alone, the *Belle Province* collected \$3.85 billion, or \$533 per Quebecker: that's a lot of *poutine* on the credit card.

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Aboriginal Entitlementania would be eliminated too. The Department of Indian Affairs and Northern Development—booming at 10 percent growth last year—would suddenly have to compete with all other government departments for a smaller slice of a smaller pie. Coupled with growing national resentment towards race-based entitlements, this Entitlementiac encampment would encounter life after debt.

A Youthquake would hit us hard, and it would hit those who rely on big government the hardest. If Canada were a city on a fault line, our government programs would be like rickety old



skyscrapers. I wouldn't want to be in one when the quake hits.

Stop the insanity: disaster preparedness

It is possible to survive a Youthquake. Better still, it is possible to stop one from happening in the first place.

The key is to understand the nature of the problem: unsustainable government. And like quakes of the geological variety, when unsustainable pressure is built up, it often gets released violently. However, we may be able to ease that pressure more gently.

Politicians Anonymous

The first thing we have to do is to acknowledge that we have a problem. If there was such a thing, we should enrol our government in Politicians Anonymous (PA). And every day, in every way, its members would have to become more responsible.

The first step on the road to recovery for wayward politicians is to do just that—take responsibility

**If Canada
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QUAKE
hits!**



How to survive a Youthquake:

Stop one from happening in the first place by understanding the nature of the problem: unsustainable government.

We should
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government
in
PA *

(*Politicians Anonymous)

Then every day
in every way
its members
would have to
become more
responsible

for their spendaholism. Our leaders have to show—well—leadership. You know, make tough choices. Say “No” every once in a while.

And maybe by joining PA, they’ll learn that there is a “sacred trust” in Canada and it is not another spending program. It is the future of our country—one not enslaved by debt.

GENERATIONAL ISSUE #13: POLITICIANS ANONYMOUS

PROBLEM: Canada has lived on borrowed money for so long that simply making interest payments on the debt is now our number one spending program—\$47 billion this year for the federal government alone.⁴

WHY IT’S A PROBLEM: It’s obvious why this is a problem: our tax dollars aren’t being applied to new program or project spending; they’re going to pay the interest on our huge overdue credit card.

It used to be that Canadians got something back for their tax dollars—even if it was an unnecessary museum. Not any more. Today’s largest government expense, interest, has no tangible benefit for Canadians. In 1997, \$49

Spendaholic: a) someone who just can’t say no to shopping sprees, especially in the billion-dollar price range; b) synonymous with “politician.”

billion will go to service the public debt, up from \$47 billion in 1996. That's almost half of the \$106 billion budgeted for all program spending in 1997. What a terrible waste!


Look at it another way: just to cover that annual interest we'd have to more than double the GST. That irritating tax will only bring in \$17.9 billion in 1996, barely a third of our interest costs.

In Dickens' *A Christmas Carol*, old Ebenezer Scrooge was visited in a dream by the Ghost of Christmas Past. Well, go ahead and pinch yourself—this deficit nightmare is the Ghost of Governments Past, and it's for real.

WHAT'S THE SOLUTION?

We spent the money—we racked up the national credit card—and now we're stuck with paying off the bill. And there's nothing we can do about the debt we already have. These interest charges won't go away until we pay down our balance owing: \$603 billion for the federal government alone.

There's no easy way out of the debt, but we can make sure that it doesn't get any worse. The first thing we've got to do is pass a law to prohibit any



Imagine having to borrow money to pay the minimum monthly payment on your credit card. That's the situation we are in.



more borrowing by our politicians. And we've got to entrench that law in the Constitution.

In 1996, the Canadian Taxpayers Federation proposed a draft constitutional amendment that they called the Taxpayer Protection Amendment.⁵ The proposed legislation would bind the federal government to balancing its budget by the year 2000 and every year

The first thing we've got to do is pass a law to prohibit any more borrowing by our politicians. And we've got to entrench that law in the Constitution.

thereafter. "After that, deficits could only be run in case of war or natural disaster, and then only after a vote of two-thirds of both the House of Commons and the Senate." That's tough stuff.

Not only would the government have to live within its means, but it couldn't even raise new taxes to do it: "The government would be forced to put any proposed new tax or any increase in existing taxes to a referendum"—meaning they'd have to convince the public that the tax was necessary. Try that with the GST!

According to the Taxpayers Federation, reining in government borrowing, spending, and taxing activities is becoming quite the rage: no fewer than six Canadian provinces now have some sort of legislation to control governmental growth. And no wonder—in a Compas poll conducted in December 1994, 86 percent of Canadians declared that it was "very" or "extremely" important for Canada to control its debt, 86 percent said the same thing about spending, and 77 percent thought it was "very" or "extremely important" to control taxation!

**Face it.
Politicians
just don't have
the will-power
to control their
Entitlementania.**



Ask me no questions and I'll tell you no lies

Face it. Politicians just don't have the will-power to control their Entitlementania. Check this out...

In 1975, Finance Minister John Turner stated: "I come now to specific measures. None is more important than the control of public expenditures." That same year, Turner racked up a \$6.2 billion debt.⁶

A year later, there was a new finance minister, but the line was still the same. "Now that the recovery is well established and private spending is rising, it is equally appropriate that these record deficits should recede," said Donald Macdonald. Wrong: his deficit was \$6.8 billion.

The next twenty years sound like a broken record. When Jean Chrétien was finance minister in 1978, he declared that "significant reductions in the deficit can be expected." Actually, he doubled the deficit in a single year, to \$13.1 billion. Great: call the Guinness Book of World Records.

Actually he
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with
a B →

Great! Call
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What our Finance Ministers have said:

- "No issue" is more important than the control of public expenditures
—John Turner, 1975, \$6.2 billion deficit
- "These record deficits should recede."
—Donald Macdonald, 1976, \$6.8 billion deficit

By 1986, the governing party had changed, but not the rhetoric. Finance Minister Michael Wilson declared that “the buck was passed to us. Well, the buck stops here.” He still ran a deficit of over 30 billion bucks.

By 1995, the whole thing had become a boring political Gong Show. “The last thing Canadians need is another lecture on the dangers of the deficit,” said Paul Martin, our current finance minister, adding: “The only thing Canadians want is clear action.” Well, overspending now rages at \$32.7 billion a year. Is that clear enough?

Tax and Expenditure Limits work

The only way to guarantee that governments stop paying for today’s promises with tomorrow’s dollars is to enact Tax and Expenditure Limits (TEs).

Politicians—congenitally unable to resist the lure of deficit spending—must have the decision taken out of their hands. By constitutionally limiting the ability of legislatures to raise taxes, borrow or spend, both politicians and the public can win. The pols can win because they have a good excuse when an interest group comes calling for more

By constitutionally limiting the ability of legislatures to raise taxes, borrow or spend, both politicians and the public can win

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- “Significant reductions in the deficit can be expected”
—Jean Chrétien, 1978, \$13.1 billion deficit
 - “The buck stops here.”
—Michael Wilson, 1986, \$30 billion plus deficit
 - “The last thing Canadians need is another lecture on the dangers of the deficit.”
—Paul Martin, 1995, \$32.7 billion deficit

money—"I wish I could, but I can't." And we win because the politicians are telling the truth—they really can't.

TEs have been tried in one form or another in most American states and are now cropping up in some Canadian provinces. Some TEs are non-binding, flowery distillations of philosophy; others are rock-solid constitutional provisions. I love them all.

In the U.S., for example, the Massachusetts' TE limits the state's total revenue growth to the average annual growth rate of the state's wages and salaries over the previous three years. In other words, tax increases aren't allowed to grow any faster than people's incomes. A simple majority vote in the legislature, however, can circumvent that limit.

In Oklahoma, by contrast, state spending cannot exceed 95 percent of taxes, and there is no legal way around its TE: it's in Oklahoma's constitution. Still other states, Montana being one, have spending caps that can be exceeded only if the governor declares a state of emergency and the state legislature approves the specific

Manitoba leads the country with its *Taxpayer Protection Act* (TPA)—the centrepiece of the 1995 provincial election.

additional expenditures by a two-thirds majority vote.

A proven track record

According to the Washington, D.C.-based CATO Institute, states with TELs saw their spending growth rates fall as soon as the laws were enacted: “The state spending burden per family of four in those states would have been, on average, \$450 more in 1992 than it was.” In Canadian terms, that would be like saving \$3 billion a year.

In the context of a \$603 billion debt, \$3 billion is just a start. But those \$3 billion would come not a penny too soon. And that amount paid down on the debt now would make a very big difference later on.

Manitoba’s *Taxpayer Protection Act*

Manitoba leads the country with its *Taxpayer Protection Act* (TPA)—the centrepiece of the 1995 provincial election.

The language of the law is tough. Take section 2, for example: “...for the fiscal year commencing



April 1, 1995...and for each fiscal year thereafter, the government is not to incur a deficit." Also, strict accounting rules are used so that governments can't hide revenue or spending increases away from the main budget. No ifs, ands or buts.

Well, maybe one. The law allows Manitoba to run a deficit if there is a natural disaster or a war, or if government revenues fall by more than 5 percent in a year.

The clincher: punishing the politicians

But what if the Manitoba government breaks the law? What if it does incur a deficit and keeps loading debt on future generations? This is where the law gets exciting.

The first time Manitoba's provincial government runs a deficit, the premier and the cabinet get docked pay—a 20 percent fine. And heaven help the sorry politician who doesn't learn his or her lesson after the first offence. There's a 40 percent fine for a second budget deficit in a row.



Step 1: balance the budget.

Step 2: pay down the debt.

Not only does the TPA ban deficits, but it also requires a minimum annual payment of \$75 million towards actually paying off the accumulated provincial debt.

And in case any Entitlemaniacs think a tax increase is the answer, they'd better think again. The TPA requires a general referendum for any such move.


We're not going to take any more!

Let's resolve, you and I, to stop making things worse. Let's resolve to stop making promises we can't keep.

For one thing, let's get our national deficit under control. Let's stop running cap in hand to foreign banks every year just to meet our national credit-card payments.

Let's dial back the spending until we run a balanced budget. And when we finally stop digging and look up from the bottom of our \$603 billion hole, let's start climbing back out.

And when we finally put down our debt-digging shovel, let's promise never to pick it up again. Let's



**Let's resolve, you and I, to stop making things worse.
Let's resolve to stop making promises we can't keep.**

Let's
pass
Laws
that forbid
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governments
from digging
us into
debt-holes
ever again



pass laws that forbid future governments from digging us into debt holes ever again.

As we climb our way back out of our hole, let's remember how it was that we got there in the first place. Let's remember that ratcheting up tax rates only discourages business activity and, as the surveys suggest, drives most Canadians into the grey areas of tax avoidance.

Let's remember that, most times, government doesn't know best—especially when it comes to the economy.

But remember too, that talk is cheap. We need to enshrine these lessons in law—laws so stringent that not even the wiliest politician can return to a life of Entitlementania.

Notes

1 Diane Francis, "High taxes turn Canadians to cheats," *Financial Post*, Toronto, June 3, 1995, p. 19.

2 Rolf Mirus, Roger S. Smith and Vladimir Karolett, "Canada's Underground Economy Revisited: Update and Critique," in *Canadian Public Policy*, vol. xx, no. 3 September 1994, p. 235.

3 Alistair M. Taylor, "Quebec and the Equalization Program," *Globe and Mail*, July 13, 1995.

4 Department of Finance, "Budget 1996, Budget Speech," Ottawa, Ontario, March 6, 1996.

5 "The Taxpayer Protection Amendment: A Constitutional Proposal to Restore Fiscal Responsibility to the Government of Canada," Canadian Taxpayers Federation, January 1996.

6 Department of Finance, Table 1: Summary Statement of Transactions Consistent with 1989-90 Accounting Revisions, 1991.





Time for change



The months ahead

Changing a country is a tough task at the best of times. And when the old culture is well entrenched—as Entitlementania is—it’s downright difficult.

It’s not up to any one single Canadian to save the country: that’s too much to ask. It’s not up to any one of us to save the world solo. But neither are we free to do nothing...

Our generation—today’s teens and twentysomethings—will one day inherit this nation. We’ll take it all—the wealth and the power, but also the debts and the problems. That’s one thing

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**It's time for
another "rights"
movement, but
this one is not
about race or
gender:
it is about
economics**

about a generational argument: the young are always present for the final word!

So if Canada is really ours—if it is simply on loan to some ageing politicians for the moment—shouldn't we get involved? Don't we owe it to ourselves to learn about Canada's problems and start to deal with them?

I think so. I've seen the numbers. Canada doesn't have a happy diagnosis, but there is a cure. And there still is time to change course.

We have been to the mountain top

The coming Youthquake is not about one generation fighting another, and it's not about enemies versus allies. It's about good people trapped in a bad system.

In fact, it's an awful lot like the civil rights movement thirty years back. The main problem was inertia. It was a modern world living by ancient rules. Things needed a push. Soon



activists arose who pointed out the injustices of the system. They showed how change shouldn't be feared, but embraced. There was a better way, and it could come by evolution. Otherwise, it would come by revolution.

Enough people of good faith came together and things did change. Some who profited from the old system dug in as hard as they could. But most accepted that it was time for a change. Their conscience would permit no other way.

It's time for another "rights" movement, but this one is not about race or gender: it is about economics. The arguments of fundamental fairness, however, ring just as clear.

And like the old segregationist ways of the '50s, the overspending of the '80s and '90s must give way. It has to. A cleansing of the national conscience requires nothing less.

Like the racists of yore, there are a few who claim to speak for everybody when they actually only want to protect their privileged fiefdoms. Instead of white sheets, they sport official suits, but their self-interest is the same.

The coming Youthquake is not about one generation fighting another, and it's not about enemies versus allies. It's about good people trapped in a bad system.

And in the end, they'll give way to change. They must—their old system just isn't sustainable.

A Youthquake is coming, and it looks like a big one. Let's get ready, starting now!

