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The Iron Lady

Why Margaret Thatcher mattered

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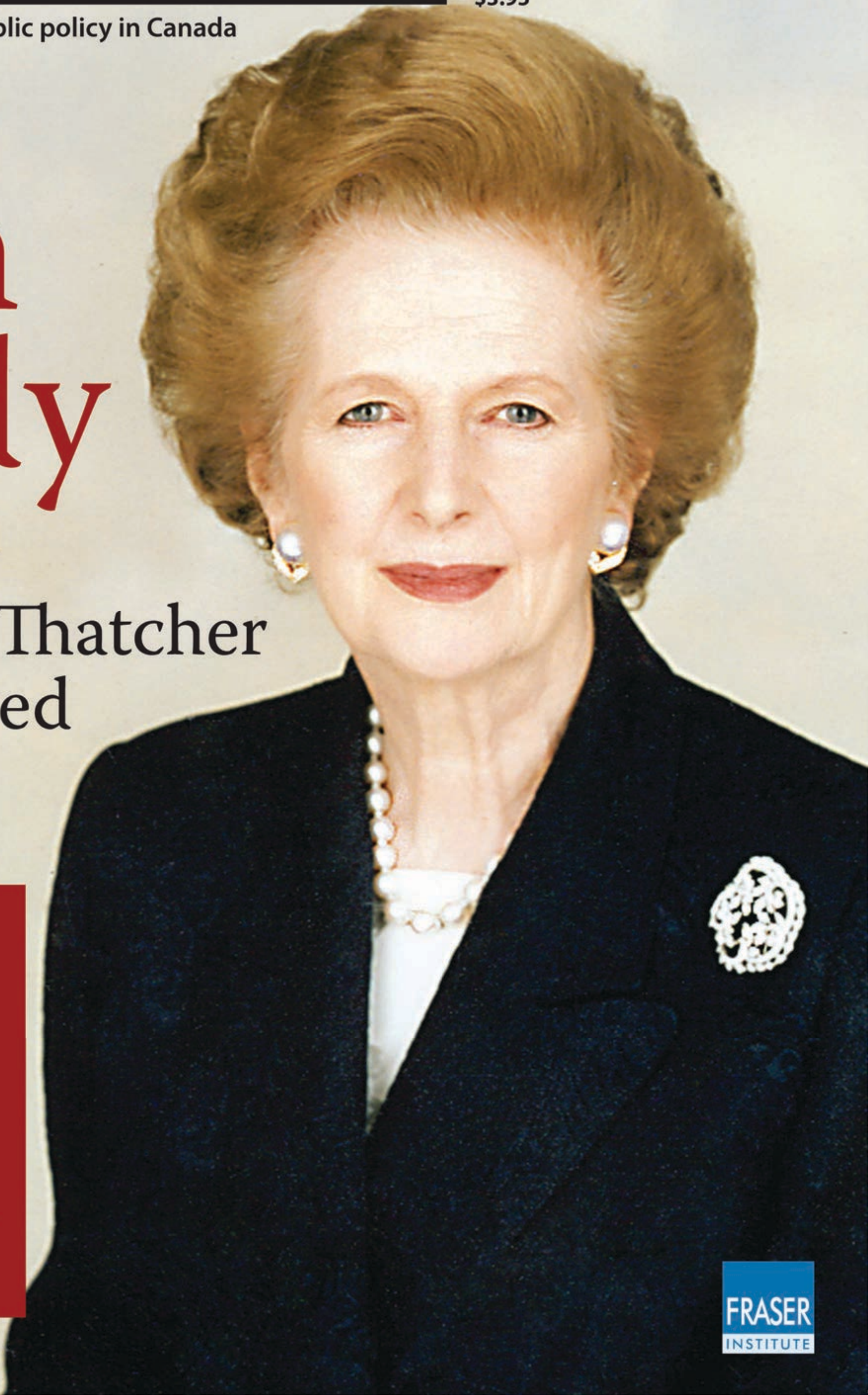

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Determinants of charitable giving

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Introduction

In February 1997, the Fraser Institute's Vancouver office was abuzz with anticipation. Margaret, the Lady Thatcher, was coming back to visit the Institute and the staff were all invited to take part in the event.

The day arrived and we all trooped down early to the Waterfront Centre, excited and with our tasks assigned. The hour finally arrived when the event was to begin—but no Lady Thatcher. The room hummed and guests chatted, but no honoured guest. (As it turned out, she was taking to task our Executive Director, Michael Walker and our Chairman, Raymond Addington, over a *Fraser Forum* article with which she disagreed. She was, as she pointed out, a regular reader of the magazine. Eventually satisfied with their explanation and analysis of the article, and having explained her own point of view in no uncertain terms, Lady Thatcher relented and the event proceeded, much to everyone's relief.)

When Margaret Thatcher swept into the foyer of the hotel's ballroom, staff and guests stopped their networking to watch her. A political pro, Mrs. Thatcher moved quickly and seamlessly from one group to another, hand-shaking, smiling, saying a word or two and moving on, leaving in her wake dazzled and delighted fans. Her energy was intense and her charisma unmistakable. Despite the fact that she had a terrible head cold, Lady Thatcher stood patiently while she had her picture taken with 200 or so dignitaries, and then agreed to pose with the staff for a very memorable group photo. The luncheon and "Conversation with Margaret Thatcher" followed. Although Lady Thatcher had been out of office for some years, her remarks were insightful and prescient and we all listened intently, honoured to be part of such a significant event.

Hollywood recently launched a major motion picture on the life of Margaret Thatcher. As critics have pointed out, *The Iron Lady* has many flaws, and in various ways Mrs. Thatcher is not shown in a particularly flattering light. But one thing the film has done is remind us all that Margaret Thatcher was a powerful force in British and world politics in the 1980s. The film has directed attention to Mrs. Thatcher; pundits are once again assessing her role and debating and disagreeing over her legacy.

In this issue of *Fraser Forum*, Institute analyst and commentator Mark Milke examines why Margaret Thatcher's conviction and policies were important [*The Iron Lady for a new generation: Why Margaret Thatcher mattered* (pg. 16)]. As part of his analysis, he looks at the role the Fraser Institute played in her education and eventually, in her policies. That contribution is something that all Fraser Institute supporters and staff should continue to be very proud of.

— Kristin McCahon

Fraser Forum

Contents

7

BC welfare levels are adequate

12

Who donates to charities and why?

27

Air quality in Canada

Feature Story

The iron lady for a new generation: Why Margaret Thatcher mattered

— page 16

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Opportunity for real reform

Fotolia

Mark Rovere

When the provincial premiers met in Victoria on January 16th, a number were clearly distressed about the federal government's plan to restructure the automatic annual increase in health transfers from the current six percent to the rate of nominal economic growth or three percent, whichever is greater, starting in 2017-18. While the plan has not been applauded by most premiers and their respective health ministers, it is a step in the right direction. The reason is quite simple: after decades of chatter, including millions of wasted tax dollars on government "commissions," this new funding arrangement could encourage provinces to introduce meaningful health care reforms.

The 10 year health accord introduced by Prime Minister Paul Martin in 2004 was intended to improve timely access to high quality medical care across the provinces. Yet, as the health accord is set to expire in 2014—and billions of dollars later—significant reductions in wait times have, for the most part, not been achieved (Barua et al., 2011). The most recently available data indicate that in 2010, around 4.4 million Canadians, or 15 percent of the population, aged 12 and older did not have a regular family doctor (Statistics Canada, 2011). At the same time, government health expenditures take up an increasing share of provincial revenues across Canada, already accounting for half of total government revenues (including federal transfers) in both

Ontario and Quebec (Skinner and Rovere, 2011). In other words, the 2004 health accord did not substantially improve access to medical services.

In fact, the health accord may have worsened the health care landscape in Canada as it failed to remove federally imposed disincentives or create any incentives for provinces to introduce meaningful reforms.

Currently, the Canada Health Act (CHA) forbids extra billing for medically necessary services and bans user charges for insured health services by hospitals or other providers under the provincial health plans. Provinces that violate the Act risk being penalized by the federal government through a reduction in federal health and social cash transfers (Canada Health Act, 1985). In other words, the provinces have been forced to abide by the act in order to ensure that they receive their full federal health transfer.

The 2004 health accord may have worsened the health care landscape in Canada

However, instead of relying heavily on the federal government for funding, the provinces should have the flexibility to find additional ways of financing medical services. Importantly, this does not mean that health care in Canada will no longer be universal, or that the ability to access high quality care will depend on what coast you live on, or your family's ability to pay.

What it does mean is that the provinces will have to innovate and figure out alternative ways of financing medical services. This might require political will from our politicians; it might require political courage to step outside of their comfort zone and look to other jurisdictions that achieve universal access to health care by incorporating alternative financing methods.

But most of all, it does not mean moving towards an American-style non-universal health care system. Numerous European countries achieve superior universal access to health care as compared to Canada by incorporating a competitive private sector for financing and delivering medically necessary services (Skinner and Rovere, 2010).

As the majority provinces are currently facing unsustainable growths in government health spending (Skinner and Rovere, 2011), provincial governments cannot afford to wait much longer, especially in provinces like Ontario, which currently faces a $16 billion deficit.

We are the only country in the developed world that effectively prohibits its citizens from purchasing private health insurance for medically necessary services; we are one of the few that does not require patient cost sharing in the form of co-payments or user fees at the point of service.

The federal government maintains that it supports a universal health care system. That is positive. However, provinces do not require a health insurance monopoly to do so. Ottawa should allow the provinces to experiment with alternative financing models commonly practised throughout the developed world, which will require repeal or a temporary suspension of the CHA. At the very least, the federal government should make it explicit that it will not impose financial penalties on provinces that experiment with user fees and extra billing or voluntary private insurance options.

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BC welfare levels are adequate

Niels Veldhuis, Amela Karabegović, and Milagros Palacios

Surrey MLA Jagrup Brar's attempt to spend January living on the $610 welfare rate for a single employable individual has succeeded in getting people talking about the adequacy of welfare. Mr. Brar's actions are in response to a challenge issued by Raise the Rates, a coalition of community groups that wants to double welfare benefits (Raise the Rates, 2012). But despite all the publicity Mr. Brar has received, the reality is that for most recipients, welfare is adequate and raising benefits would only create further welfare dependency.

To have an informed debate about the adequacy of welfare it is important to understand that the level of benefits changes depending on the recipient's family situation. British Columbians with children and/or those with a disability receive significantly more than those classified as "employable singles." Those in the latter category receive the least amount ($610 a month in provincial Basic Social Assistance). In addition, welfare recipients (again depending on family situation) receive other types of social assistance payments including credits for goods and services tax (GST) and the harmonized sales tax (HST), the federal government's Canada Child Tax Benefit, and Universal Child Care Benefit (UCCB) (see table 1).

Had Mr. Brar, who has a wife and two children, applied for welfare as a family, they would have received approximately $1,800 a month (see table 1). That's certainly not an abundance of money for a family of four but is enough to pay for the absolute necessities his family would need (shelter, food, and clothing).

The level of income needed to cover "basic needs" in different provinces has been estimated by Chris Sarlo, a professor of economics at Nipissing University. The basic needs level of income is the amount needed to pay for a nutritious diet, shelter, clothing, personal hygiene needs, a telephone, public transportation, household insurance, out of pocket health and dental care costs, and a host of other items.[1] In other words, the "basic needs" level of income covers significantly more than absolute necessities.

In BC, the annual basic needs level for a family of four was $25,377 in 2010. Social assistance (welfare and other provincial and federal benefits) would have provided $21,608, or 85% of this income. For single parent families with one child, the basic needs income was $17,975 of which social assistance provides $17,121, or 95%. For British Columbians with disabilities, social assistance provides 100% of the income necessary to afford basic needs (see table 1).

Federal GST Credit

BC Tax Credit

Basic Social Assistance

Universal Child Care Benefit

Canada Child Tax Benefit

Rather than raise welfare benefits, help

The BC government has set welfare benefits so that total social assistance roughly coincides with the basic needs level. And even in situations where social assistance is not quite enough to meet all of the basic needs, it doesn't mean that these British Columbians are starving or going without adequate shelter. Further, the "basic needs" income level assumes that families have out of pocket health costs (i.e., health premiums) and dental care costs which in the case of low income British Columbians, are often covered by charitable organizations, community clinics, and governments.[2]

In fact, the only cases in which social assistance is significantly below the basic needs level is for single employable individuals. This, however, is deliberate.

The level of benefits available to single employable recipients reflects the fact that they are not expected to collect welfare long term. Single employable British Columbians should be working and welfare should not be an attractive alternative for them.

Table 1: Welfare rates, British Columbia 2010

	Type of Family			
Annual	Single Employable	Lone Parent, One Child (aged 4)	Couple, Two Children (aged 10 and 12)	Person with Disability
Basic Social Assistance (Provincial) (a)	$7,320	$11,347	$13,213	$10,877
Additional Social Assistance Program Benefits				
Christmas	$35	$80	$90	$35
School Start-Up	N/A	N/A	$200	N/A
(Federal) Canada Child Tax Benefit (CCTB) (b)	N/A	$3,426	$6,613	N/A
(Federal) Universal Child Care Benefit (UCCB)	N/A	$1,200	N/A	N/A
Federal GST Credit	$249	$629	$759	$249
BC Tax Credit (c)	$220	$440	$733	$220
Total Welfare Income	$7,824	$17,121	$21,608	$11,381
Sarlo's Basic Need Level, 2010 (annual) (d)	$11,455	$17,975	$25,377	$11,455
Welfare Adequacy, 2010 (%)	68.3	95.3	85.1	99.4
Monthly				
Basic Social Assistance	$610	$946	$1,101	$906
Total Welfare Income	$652	$1,427	$1,801	$948

Notes
(a) Basic Social Assistance includes hardship support and shelter.
(b) The federal government's Canada Child Tax Benefit includes the basic benefit plus the National Child Benefit Supplement (NCBS). Benefits are paid over a 12-month period from July to June and thus the rate for 2010 is the average of the July 2009 to June 2010 and July 2010 and June 2011 rates.
(c) BC Tax Credit includes the sales tax credit and the Climate Action Tax Credit.
(d) Since Sarlo's Basic Needs Level is not available for persons with disability, the Basic Needs level for single employables was used instead.

Sources: British Columbia, Ministry of Finance (2012); Canada Revenue Agency (2011a, 2011b and 2011c); British Columbia, Ministry of Social Development (2012); Statistics Canada (2011 and 2012); Sarlo (2012); calculations by authors.

This brings us back to Raise the Rates's goal of doubling welfare benefits for single employable individuals to $1,300 (Raise the Rates, 2012). Doing so will increase the number of people on welfare and create a larger problem of welfare dependency.

Consider Ontario's experience in the 1980s when that province more than doubled welfare benefits (after adjusting for inflation) (Sarlo, 1994). The number of welfare recipients more than tripled, from 389,800 in 1981 to 1.4 million in 1994 (12.8 percent of the Ontario population) (Shafer et al., 2001; Statistics Canada, 2011; calculations by the authors).

Rather than raise welfare benefits, a much better way to help those on welfare, including single employable individuals, is to incentivize them to work. For starters, the BC government should allow those on welfare to work and keep a certain amount of what they earn without a reduction in their welfare benefits. This would bring balance to the welfare system by helping people in a tough spot while ensuring the program does not create dependency.

Welfare was always intended to be used as temporary assistance for the truly needy, not a permanent source of income. Despite all the media attention Mr. Brar's experience has received, current welfare rates in British Columbia are adequate.

Notes

1 For more details on how the basic needs level is computed, see Sarlo (2006).

2 The government of British Columbia offers a number of health care benefits to those receiving Social Assistance and, more generally, low income individuals and families. For example, those on welfare are eligible for full MSP premium subsidy, see **http://www.health.gov.bc.ca/msp/infoben/premium.html#regular.** The provincial government also offers other health care benefits to those on Social Assistance to for both adults and children, such as optical care for adults and dental and optical care for children through the Healthy Kids program, see **http://www.eia.gov.bc.ca/factsheets/health.htm**.

In addition, there are numerous community clinics that offer health care benefits such as dental care to low-income individuals and families: see, for instance, Kelowna's Gospel Mission Dental Clinic at **http://kelownagospelmission.ca/services/dental_clinic/**, Prince George Emergency Dental Outreach Clinic at **http://www.pgnfc.com/emergency_services.html**, and Vancouver East Side Walk-in Dental Clinic at **http://find.healthlinkbc.ca/search.aspx?d=SV053500**.

Moreover, various charities and non-profit organizations can assist low-income and other families with specific needs from provision of basic necessities to counseling and many other services, see **http://www.donnerawards.org/main/index.php?page_id=5** for some of these organizations.

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A municipal auditor general is not a panacea for local government waste

Niels Veldhuis and Charles Lammam

BC Premier Christy Clark's announcement that her government will create an Auditor General for Local Government (AGLG) is a ray of good news for British Columbians.[1] After all, local governments across the province spend in aggregate nearly $10 billion annually of our hard earned money with little scrutiny (Statistics Canada, 2011).

Although municipal finances are currently audited, the audits only determine if the finances are accurately reported—not whether taxpayers receive value for the money.

As Canadians have witnessed at the federal and provincial levels, auditor generals across the country expose numerous government failures every year, from cost overruns and governments failing to achieve their own stated objectives to governments simply spending our money unnecessarily.[2]

There's little doubt that a municipal auditor will expose similar accounts of government waste at the local level. While the increased exposure of government failure is important, the real question is what will be done about it?

According to the Clark government, the AGLG's role will be to conduct performance audits to determine if taxpayers are getting value-for-money (Government of BC, 2011). The AGLG will do this by investigating local government programs and initiatives to assess whether they are delivered efficiently and whether the desired results are achieved.

But the AGLG, like its federal and provincial counterparts, will be limited in that it will not "question the merits of policy decisions or objectives of a local government" (Government of BC, 2011). The AGLG will therefore only comment on the quality of policy implementation. The AGLG will also provide non-binding recommendations to the audited local governments through publically released reports (Government of BC, 2011).

Without the ability to question the merits of policy decisions and the authority to force municipalities to respond to audits with measurable plans to overcome issues identified by the auditor general, British Columbians should be wary of the proposed AGLG's effectiveness.

Of course, the audits and public reports will receive significant attention, especially in the media, putting increased pressure on politicians and bureaucrats to deliver better value. But the experience from other levels of government shows that increased exposure does not lead to significant corrective action.

For instance, at the federal level, the auditor general highlighted over 300 cases of government waste between 1992 and 2006 with these failures amounting to an estimated cost of up to $125 billion (Clemens et al., 2007). Importantly, the failures occurred regardless of the party in power and many reoccurred despite previous warnings by the auditor general.

The main lesson from failures reported by the federal and provincial auditor generals is that governments are not very effective vehicles for delivering many public programs.

The best way to combat government waste is to minimize the tasks that are undertaken in the public sector. Indeed, a government does not need to undertake an activity to ensure that it will be done. Many public services such as garbage collection, infrastructure development, and water and sanitation services can be delivered more effectively by contracting out or ceding the activity altogether to the private sector.[3]

When governments contract out the provision of goods and services to the private sector through competitive bidding, research finds that there are often significant cost savings and improvements in quality. In fact, Simon Domberger and Stephen Rimmer conducted a review of empirical studies on contracting out in public sectors in North America, Europe, and elsewhere, and concluded that competitive tendering and contracting leads to substantial cost savings—typically around 20% (Domberger and Rimmer, 1994).

So while the proposed AGLG will likely highlight instances of government waste that would otherwise have gone undetected, other reforms are needed to ensure British Columbians get better value for money. A good first step is contracting out and increased use of the private sector.

Notes

1 See Government of BC (2011) for details on the announcement.

2 For example, see Clemens et al. (2007).

3 For a more detailed discussion on the benefits of using the private sector to deliver these services, see Clemens et al. (2007). For evidence on the superiority of contracting out over public sector provision, see Domberger and Rimmer (1994), Domberger et al. (1995), Savas (1982), Savas and McMahon (2002), McDavid (1988), and Levin and Tadelis (2007).

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The best way to combat government waste is to minimize the tasks that are undertaken in the public sector

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Determinants of charitable giving: A review of the literature

Bigstock

Charles Lammam and Nachum Gabler

For over a decade, the Fraser Institute has annually measured and compared charitable giving in Canadian provinces and American states.[1] The research has highlighted stark differences in charitable giving across subnational jurisdictions and between the two countries as a whole. When it comes to private monetary contributions to registered charities, Canadians are generally less generous than their American counterparts.

This raises a natural question: what drives the jurisdictional differences we observe in charitable giving? To help answer that question, this article reviews the academic research on the determinants of charitable giving in order to identify the possible key causes of the differences we have observed.

What drives charitable giving?

Previous research has found that many things influence charitable giving, including a combination of economic, demographic, and social factors. Most of the research, however, focuses on the determinants of charitable giving among individuals and households; few studies have examined the determinants at the jurisdictional level.[2] While this review mainly covers studies of charitable giving that have focused on individuals and households, the results have implications for jurisdictions. In addition, the review covers only the determinants that are typically significant and relevant; it does not cover all possible determinants.[3]

Income

Individual or household income significantly influences charitable giving. Research has shown that, in Canada, higher income earners tend to contribute more money to charity in absolute terms than their lower income counterparts.[4] This was confirmed by Harry Kitchen in a series of studies of Canadian households (Kitchen and Dalton, 1990; Kitchen, 1992).[5] Research on charitable giving in the United States has found the same (Greene and McClelland, 2001; Tiehen, 2001; Bakija and Heim, 2008).

If higher income individuals and households contribute more to charities in absolute terms, then jurisdictions with a larger concentration of higher income earners are more likely to have higher levels of private charitable giving. In fact, in the US Gittel and Tebaldi (2006) found that an increase in a state's per capita income boosts the average charitable giving per tax filer.

After-tax cost of donating

Apart from income, the after tax cost of donating also affects charitable giving. Many jurisdictions in Canada offer charitable donation tax credits (the rates vary with the amount donated).[6] These tax credits allow eligible donors to reduce their taxes owed on personal income.

When the tax treatment of charitable contributions offers greater opportunities to reduce the amount of personal income taxes paid, individuals and households tend to donate more to charities. Put differently, a lower after tax cost of donating tends to encourage more contributions. This has been confirmed by research in both Canada and the US (Kitchen and Dalton, 1990; Kitchen, 1992; Randolph, 1995; Tiehen, 2001; Auten et al., 2002).[7] While that research analyzed individuals and households, it implies that jurisdictions offering more favourable tax treatments for donations are likely to experience higher levels of charitable giving.[8]

Scope of government

Government grants (or financial contributions) to charitable organizations affect charitable giving as well. Studies have found evidence that government grants can "crowd out" (or displace) private donations, meaning that government grants lead to reduced private donations. However, the magnitude of the impact varies (Brooks, 2004; Payne, 1998; Gruber and Hungerman, 2007; Andreoni and Payne, 2011).

The "crowding out" effect occurs for two reasons. As governments make ever larger transfers to charitable organizations financed by tax revenues, private sector donors begin feeling that their obligation or personal desire to contribute has been satisfied through their tax contributions. This outcome is called "classic crowding out." Government grants to charities can also lead to "fundraising crowding out." This type of crowding out occurs when charities receiving government support reduce the amount of resources (financial and human) dedicated to raising funds from private donors. The more resources a charity receives from the government, the less motivated that charity is to try to procure further funds from private contributors.

Existing research suggests that most crowding out is of the latter kind: "fundraising crowding out." Using data on more than 8,000 charitable organizations in the United States from 1985 to 2002, economists James Andreoni and Abigail Payne (2011) measured the extent and causes of crowding out. They estimated an average total crowding out effect of around 73%, implying that a $1,000 government grant reduces private donations by $727. The researchers concluded that reduced fundraising efforts caused most of the crowding out. Depending on the type of charitable organization, classic crowding out can be responsible for up to 30% of the total crowd out effect, while fundraising crowding out could be responsible for up to 100% (Andreoni and Payne, 2011).

Although the Andreoni and Payne study examined the crowding out effect of government grants at the organizational level, we can extrapolate to the jurisdictional level. That is, jurisdictions where governments give heavily to charities are likely to have less private charitable giving due to the displacement effect of the grants.

Age

Research has identified age—and particularly the age of the household head (or primary income earner)—as a determinant of charitable giving (Kitchen and Dalton, 1990; Kitchen 1992). Households with an older primary earner typically donate more to charity since older household heads are farther along in their careers and tend to earn higher incomes relative to younger household heads.

However, other research indicates that it is not simply age that matters for charitable giving; what's important is where donors are in their lifecycle. In their analysis of jurisdictional differences in charitable giving between US states, Gittell and Tebaldi (2006) found that charitable giving is lower in states with a relatively larger share of the population between the ages of 35 and 54 and higher in states with larger shares of their population in younger or older cohorts (i.e., outside of the 35-54 range). These findings could reflect the fact that middle aged workers have less disposable income available for charities since other obligations, such as caring for dependents (young children and/or aging parents) and paying off costly purchases like a home or car, weigh more heavily during this stage in life.

Given these rather conflicting findings on the role of age in charitable giving, more research is needed to determine the appropriate age mix of a population that will maximize a jurisdiction's charitable contributions.

Education

A relationship exists between education and charitable giving (Tiehen, 2001; Gittell and Tebaldi, 2006). Those with graduate degrees typically earn higher incomes and consequently contribute more to charitable causes; they may also be more socially aware and/or feel socially obligated to contribute. Gittell and Tebaldi's jurisdictional analysis of US states (2006) found that with a greater share of a state's population holding either masters or doctoral degrees comes an increase in average giving per tax filer.

Bigstock

Canadians are generally less generous than their US counterparts

Religious affiliation

An important social determinant of charitable giving is religious affiliation.[9] Many religions espouse charitable giving as a moral obligation; some religions even mandate that its adherents donate a specified fixed percentage of their annual income (i.e., a tithe). As a result, religious affiliation is an important indicator of whether people will donate to charity (Jackson et al., 1995). Gittell and Tebaldi's (2006) research showed that jurisdictions with a greater proportion of the population identifying with a religious affiliation display higher levels of charitable giving.[10]

Volunteerism

Finally, volunteer work is a vital aspect of community participation that enhances one's likelihood of giving to charity (Schervish and Havens, 1997; Statistics Canada, 2009). That's why jurisdictions with higher rates of volunteerism have higher levels of charitable contributions (Gittell and Tebaldi, 2006).[11]

Conclusion

Charities deliver critical services in our society. This overview of the research on the determinants of charitable giving has uncovered several possible factors that could be driving the differences in charitable giving that we observe between Canadian provinces and US states and between the two countries as a whole. However, a rigorous statistical analysis is necessary to tease out which of these factors are most influential.

Notes

1 See Gabler et al. (2011) for the most recent published report measuring charitable giving in Canada and the US.

2 Ross Gittell and Edinaldo Tebaldi (2006) examined the determinants of charitable giving at the jurisdictional level—specifically across the 50 US states. A similar cross jurisdictional study has not been undertaken for the Canadian provinces.

3 For a comprehensive study on the profile and characteristics of Canadian donors, see Statistics Canada (2009). For a comprehensive American study on individual determinants of charitable giving, see Schervish and Havens (1997). Both Statistics Canada (2009) and Schervish and Havens (1997) considered an assortment of factors that motivate charitable giving which have been excluded from this review because they are less relevant for explaining jurisdictional differences in charitable giving.

4 There is a debate about whether high or low income households donate more or less as a percentage of income. Research by Statistics Canada (2009) shows that the share of income donated consistently falls as incomes rise. However, a novel finding is that the share of income donated is high for low income donors, declines for middle income donors, and then rises again for higher income donors (James and Sharpe, 2007).

5 Kitchen also found that increases in household wealth are associated with additional charitable giving in Canada (Kitchen and Dalton, 1990; Kitchen, 1992).

6 At the federal level, the charitable tax credit is 15% on the first $200 donated and 29% on any amount above. For the charitable tax credit rates across the provinces, see **http://www.cra-arc.gc.ca/chrts-gvng/dnrs/svngs/clmng1b3-eng.html.**

7 Tax incentives can have different impacts depending on the type of charitable organization (i.e., whether it is religious, health, education, etc) (Brooks, 2007). For Canada, Kitchen (1992) found that the after tax cost of giving is not an important determinant for donations to religious organizations. More broadly, research by Steinberg (1990) has challenged the notion that tax incentives are a powerful stimulus to charitable giving.

8 But this doesn't necessarily mean governments should enact generous tax deductions for contributions to registered charities. Such targeted tax initiatives distort the tax system and keep other tax rates higher than they otherwise would be in order to compensate for the lost revenue.

9 In Canada, religious organizations receive by far the largest percentage of donations (Statistics Canada, 2009).

10 A few key points about the impact of religious affiliation on charitable giving: (1) the type of religious affiliation matters since some are positively associated with charitable contribution levels while others are not (Gittell and Tebaldi, 2006); (2) the level of religious diversity in a region also matters since increased diversity is associated with lower levels of charitable giving (Andreoni et al., 2011); and (3) religious affiliation is a stronger motivating factor for charitable giving among lower income earners (Greene and McClelland, 2001).

11 Gittell and Tebaldi (2006) measured volunteerism by the share of the population in a US state that did unpaid work through, or for, a charitable organization.

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The Iron Lady for a new generation: Why Margaret Thatcher mattered

Mark Milke

Chris Collins

"Before I read from the great liberal economists, I knew from my father's accounts that the free market system was like a vast sensitive nervous system, responding to events and signals all over the world to meet the ever-changing needs of peoples in different countries, different classes, of different religions, with a kind of benign indifference to their status. Governments acted on a much smaller store of conscious information and, by contrast, were themselves 'blind forces' blundering about in the dark, and obstructing the operations of markets rather than improving them. The economic history of Britain for the next forty years confirmed and amplified almost every item of my father's practical economics."

— Lady Thatcher, *The Downing Street Years* (1993)

In his review of Hollywood's movie on the life thus far of Margaret Thatcher, *The Iron Lady*, John Blundell, a four-decade long Thatcher confidante and author of a biography on the former British prime minister mused that—surprisingly for Hollywood—the film gave her reputation a good boost (Blundell, 2012).

Blundell's assessment is correct. Problematically though, the film skips over far too much of what Thatcher and Britain faced when she came to power in 1979, and thus is itself of little help in explaining why a grocer's daughter from Grantham mattered so much to not only Britain in the late 1970s and 1980s, but also to the world. For that explanation, we must look elsewhere.

Western capitalism's main ideological competition after 1945

To understand why Margaret Thatcher matters to history it helps to understand the economic position of the world and the United Kingdom when the UK's first (and only) female leader took control of the Conservative party in 1975 and then, with her party, won a majority in the British House of Commons in 1979.

In postwar Britain, as with too many Western economies, state intervention was popular with voters and politicians. On a simplistic level, the notion that governments that could organize troops to successfully win a world war could also "organize" the economy to combat poverty or other problems appealed to at least enough voters and politicians to allow for such assumptions to be enacted into policy. As an example of the consensus opinion, consider historian A.J.P. Taylor's comments shortly after the war ended: "Nobody in Europe believes in the American way of life—that is, in private enterprise" (Yergin and Stanislaw, 1998).

Beyond questions of nationalization, there were other significant factors in the expansion of the interventionist state. Such policies had been growing in popularity even before the war due to economic theories from John Maynard Keynes. Moreover, new government programs (introduced in the 1930s and well into the 1960s that aimed to reduce economic risks for citizens) also played a significant and enduring role in the expansion of government's reach.

However, on the post-war appeal of intervention itself, that there might be substantial and insurmountable differences between a command-and-control, top-down approach to getting Canadian, American, British, and other allied troops to the beaches of Normandy in 1944—and what such "organization" might do to an economy—was ignored, overlooked, or opposed by those who thought such planning the way of the future. They conflated a straightforward exer¬cise (though not at all an easy one)—winning a war, with an infinitely more complicated one—getting to a flourish¬ing economy, which after all, depended upon accurate price signals and voluntary exchange, something that excessive planning and government controls would mute and make oblique.

As Lady Thatcher summarized the post-war period in her memoirs:

> Primarily under the influence of Keynes, but also of socialism, the emphasis during these years was on the ability of government to improve economic conditions by direct and constant intervention. It was held that the state, if its huge powers were directed in an enlightened manner, could break free of the constraints and limits which applied to the lives of individuals, families, and businesses. In particular, whereas a household which spent beyond its income was on the road to ruin, this was (according to the new economics) for states the path to prosperity and full employment. Of course, matters were never expressed so crudely. Government deficits, for example, were intended to be counter-cyclical—that is to compensate for the effects of the recession—rather than open-ended (1995: 566).

An additional problem was that after 1945, the main ideological competitor to Western capitalism and freedom was the Soviet Union. There, communism by definition and in practice not only attempted to "direct" the economy but also to control it through government ownership of every conceivable type of property—farms, factories, all types of industry, small businesses, and homes. The alleged failure of capitalism in the 1930s (e.g., blaming free markets for the Great Depression) was matched up against the seeming socialist success in the Soviet Union (Yergin and Stanislaw, 1998/2002) and also against Soviet success against the Nazis on the eastern front during World War II. All of it meant a segment of the Western political class, academia, and intelligentsia believed such massive government intervention was the way of the future. As historian E.H. Carr wrote in 1947, "Certainly, if 'we are all planners now,' this is largely the result of, conscious or unconscious, of the impact of Soviet practice and Soviet achievement" (Yergin and Stanislaw 1998/2002).

Such achievements were illusory and the truth of human experience in the Soviet Union was in fact brutal. Josef Stalin's collectivization program that confiscated private farmland in the Ukraine didn't lead to economic utopia and increased production; it led to famine. As for wartime successes, it was the capitalist Americans who shipped massive amounts of materiel and jeeps to the Soviet Union through America's lend-lease program.[1]

But such facts were little noted in the 1930s and 1940s, with the exception of a few lone voices such as British journalist Malcolm Muggeridge who did try and alert the broader public: "Muggeridge was one of the first—perhaps he was the first—Western journalist to expose the awful brutality of Soviet totalitarianism," wrote Roger Kimball (2003), in a review of Muggeridge's life and influence.

More generally in the West, as Daniel Yergin and Joseph Stanislaw explained in their 1998 book, *The Commanding Heights: The Battle for the World Economy*, not everyone bought into the notion of the desirability and superiority of planned economies. To note just one critical exception, the Austrian economist (and later a founding member of the Fraser Institute's editorial advisory board) Friedrich von Hayek opposed the theories not just of state Marxism but "softer" varieties of socialism, including the interventionist theories of John Maynard Keynes, whose theories Western governments would impose immediately after the war and well into the 1970s.

The Labour party's radical post-1945 agenda

In Britain, the belief that governments were capable of accounting for millions of economic decisions made daily by millions of individuals was reinforced politically by the British Labour party, which had its intellectual origins in the socialism of early practitioners such as the British socialist T.H. Green (1836-1882) and later theories from Karl Marx.

While British socialists, as with others around the world, had the same ends as the Soviets—centralization of military, economic, and civilian power—Western socialists were incrementalists, not revolutionaries and so introduced ever-more government control of key industries after electoral successes (Yergin and Stanislaw, 1998).

For example, the Labour party had long advocated state ownership of "the commanding heights of the economy," to use a 1918 phrase from Vladimir Lenin. The Labour party adopted a party constitutional clause which committed it to "common ownership of the means of production, distribution, and exchange." In practice, this meant "nationalization"—government ownership—of major sectors and industries. After the Labour party took power in 1945, they nationalized the coal industry (which provided 90 percent of British energy at the time), as well as iron, steel, railroads, utilities, and international telecommunications (Yergin and Stanislaw, 1998).

Socialist Britain in the 1970s: The "sick man" of Europe

By the 1970s, the six-decade experiment in revolutionary socialism was an obvious failure, damaging both economies and leaving a bloody trail of victims across the world.[2]

The socialism in Western countries such as Britain, while avoiding much of the human rights abuses, fared little better on the economic front. In 1974, a miners strike paralyzed the British economy and led to the ejection of the Conservative government of Prime Minister Heath from power the year after compromising with the strikers.

Lady Thatcher blamed Prime Minister Heath, under whom she served in the early 1970s, for many of the harmful policies which were adopted under socialist/trade-union pressure. While Thatcher, Heath, and others initially attempted to re-insert free enterprise not only into party documents but into government policy in the face of a 1974 miners' strike, Heath did an about-face. Lady Thatcher later recalled that instead of moving Britain to a more market-friendly state: "the Heath Government changed our course equally radically and adopted a program of corporatism, intervention, and reflation. I had my doubts, but as a first-time Cabinet minister, I devoted myself principally to the controversies of my own department" (1993: 13).[3]

Margaret Thatcher timeline

1925
Oct. 13: Margaret Hilda Roberts is born

1929
World stock market crash

1939
World War II begins

1947
Earns degree in chemistry from Somerville College (Oxford)

1925 1935 1945

In 1976, the United Kingdom, once a world-spanning power, was borrowing money from the International Monetary Fund (IMF) to support the British pound. As an indication of how badly Keynesian economics had already failed, the then Labour Prime Minister James Callaghan starkly rejected one Keynesian notion, the idea that governments could spend their way out of economic difficulties:

> For too long, we postponed facing up to fundamental choices and fundamental changes in our society and in our economy… we have been living on borrowed time. The cozy world where we were told would go on forever, where full employment would be guaranteed at the stroke of the Chancellor's pen… that cozy world is gone (Yergin and Stanislaw, 1998: 86).

While Callaghan made some cuts to public sector spending, the British economy continued to be plagued by under-investment and anti-capitalist attitudes, in part because labour union leaders, in both the public and pri¬vate sector, still had control of the "commanding heights" of the economy. In 1978, hospital workers went on strike, as did sanitation workers, truck drivers, and even grave-diggers who refused to bury the dead. One day that same year, British rail posted this notice: "There are no trains today" (Yergin and Stanislaw, 1998).

Mrs. Thatcher comes to 10 Downing Street

The 1978-79 "Winter of Discontent," as it was known, led to a non-confidence vote in the House of Commons which the Labour party lost by one vote. In the ensuing election campaign, the Conservative party manifesto, launched at its first press conference during the election campaign, consisted of five proposals:

- To restore the health of our economic and social life, by controlling inflation and striking a fair balance between the rights and duties of the trade union movement;
- To restore incentives so that hard work pays, success is rewarded, and genuine new jobs are created in an expanding economy;
- To uphold Parliament and the rule of law;
- To support family life, by helping people to become home-owners, raising the standards of the their children's education, and concentrating welfare services on the effective support of the old, the sick, the disabled, and those who are in real need.
- To strengthen Britain's defences and work with our allies to protect our interests in an increasingly threatening world. (Thatcher, 1995)

On May 3, 1979, the Conservative party under Margaret Thatcher swept to power with 44.9% of the vote and 339 seats, an increase of 60 from the previous election and a majority in the 635-seat House of Commons (BBC, 1997).

The first reason why Thatcher mattered: Her reforms

It is impossible to fully survey the wide and deep reforms introduced by Margaret Thatcher. But perhaps one way to view Lady Thatcher's record is to compare what she initially set out to do on the domestic side (foreign affairs will necessarily be left aside here for reasons of space) with the results achieved. As recounted in her memoirs Thatcher intended four main reforms upon taking office in 1979.

1951
Marries Denis Thatcher

1951-1953
Studies law and becomes a barrister

1959
Political life begins. Elected as MP of Finchley in North London

1961
Appointed Parliamentary Undersecretary for Pensions and National Insurance

1964-1970
Serves in Edward Heath's Shadow Cabinet

1970
Heath elected prime minister, Thatcher becomes secretary for education and science

1975
Becomes leader of Conservative party

1979
General election held; Conservatives win majority

Continued

1955 1965 1975

The first was to bring down inflation. On this, the Thatcher years were mostly successful. Inflation had been as high as 27% in November 1975, was 21.9% in May 1980, and reduced to a low of 2.4% in the summer of 1986 (Thatcher, 1995, 2010).[4]

The second priority was to bring Britain's public finances under control which included moderating the size of the public sector and its appetite for tax dollars. On the size of government, this was a more marginal achievement. The Conservative government did reduce public sector borrowing and repay some debt. However, public sector spending as a share of the British economy only fell to 40.2% of GDP from 42.6% of GDP over the Thatcher years. More positively, and as one example, the UK's top marginal income tax rate was cut from 83% in 1979 to 25% by 1988; other taxes also fell (Thatcher, 1995).

The third priority, to promote private enterprise and ownership was quite successful. As Lady Thatcher writes in her memoirs, the only specifics promised in the 1979 campaign were the denationalization of the aerospace and shipbuilding industries, and share offerings in the National Freight Corporation. However, more were added to the list as time went on and by the 1983 election, the "list of candidates" for privatization included British telecom, British Airways, Rolls-Royce, parts of British Steel, Leyland, the airports, and later, utilities in the gas, water, and electricity sectors. "By the time I left office," wrote Lady Thatcher, "the state-owned sector of industry had shrunk by 60 percent and, largely as a result of the wider share ownership schemes which accompanied privatization, about a quarter of the population owned shares" (1995: 574).

The fourth Thatcher priority was to institute a wide-ranging program of structural reforms to make markets work more efficiently. They included the previously noted program of cutting marginal tax rates and privatization, but also trade union reforms where union members were given more power over union leaders (thanks to the introduction of the secret ballot, among other reforms). Also in the mix: an end to controls on prices and incomes. Here, too, Thatcher mattered immensely (1995: 574-575).

In the 1984-85 miners' strike where the union insisted on keeping uneconomic mines open, Thatcher refused to give in and uttered her famous rebuke to those who wanted her to do a Heath-style cave-in to the country's radicalized union sector: "You turn if you want to; the lady's not for turning." Henceforth, industries had to make a profit or be replaced by businesses that would: "The outcome of the 1984-85 miners' strike effectively cemented the new order in which jobs had to depend upon satisfying customers rather than wielding collective power to extort subsidies" wrote Thatcher, and by 1990, the year she left office, Great Britain saw the lowest number of industrial stoppages since 1935 (1995: 575).

The second reason why Thatcher mattered: Her rhetoric

Thatcher succeeded in changing public policy in Great Britain because she understood from her youngest days as a grocer's daughter the power that entrepreneurs could bring to improving the human condition, and the critical importance of incentives and markets in sending proper price signals about what it is that men and women actually want and at what cost. But Thatcher succeeded not only because she aligned policy with how people actually think, live, work, and behave; her political success also resulted from a frontal rhetorical attack on the notion that redistribution for

Timeline
continued

1979
Becomes PM

1982
Falkland Islands war begins; UK wins

1983
Elected for second term

1984
12 month long Miner's strike begins and IRA bomb attack on party conference

1985
Signed Anglo-Irish Agreement

1987
Elected to third term and was first British PM to do so consecutively

1990
Resigns November 20

1992
Appointed to House of Lords

1993
The Downing Street Years is publilished

1995
Becomes member, Order of the Garter. *The Path to Power* is published

1980 1985 1990 1995

Sources: Telegraph, BBC, Encyclopedia Britannica, *The Path to Power* and *The Downing Street Years*. Images: WikiCommons superior to the voluntary exchange of money and goods and services between men and women.

Thatcher decried such an errant belief because she understood the danger of giving human beings in positions of political power—who already possessed legislative power and a monopoly on force—additional "muscle" over economic decision-making. She also understood that there was no virtue in subsidizing an able-bodied man who could otherwise work but chose not to.

Thus, whether on the need for privatization, or on the wrongness of giving an adult who could work a state subsidy, Prime Minister Thatcher attacked socialism and the entitlement mentality with moral clarity, both at home and abroad. "We are all responsible for our own actions. We can't blame society if we disobey the laws," said Thatcher in a 1988 speech to General Assembly of the Church of Scotland (Thatcher, 2010). "Soviet Marxism is ideologically, politically, and morally bankrupt," she opined in a speech to Conservative party faithful in Brighton in October, 1980 (Thatcher, 2010). In response to a query at her 1994 Fraser Institute speech in Toronto, Lady Thatcher asserted that there was "a moral basis to British economic policy" and proceeded to quote an encyclical from Pope John Paul II, which she summarized in this fashion: the "creative capacity that man has is noble [and] should be respected, encouraged, and used" (1994: 22).

How the Fraser Institute helped Thatcherism

A recollection of why Margaret Thatcher mattered would be incomplete without noting the Canadian contribution to aspects of Thatcher's economic program, including the role of the Fraser Institute and its founding executive director, Dr. Michael Walker, and other staff in the 1970s and 1980s. Here I rely on and summarize personal recollections from Dr. Walker for this following section.

Sir Alan Walters, who acted as an informal tutor to Thatcher in the years when Heath was backtracking on reforms, first met Walker at the Bank of Canada in the late 1960s. In 1975, the same year Thatcher won the leadership of the UK Conservatives, Walters agreed to join the Editorial Advisory Board of the Fraser Institute (along with Harry Johnson, Jim Buchanan, Friedrich Hayek, Armen Alchian, Herb Grubel, and Tom Courchene).

When Thatcher's government was elected in 1979, Walters became the prime minister's chief economic advisor. He still received and read all of the Institute's publications, sometimes in draft manuscript form before publication. One book Walters took note of was *Privatization: Theory and Practice*, which told the story of privatization in British Columbia under the then Social Credit premier, Bill Bennett, and the privatization of the British Columbia Resources Investment Corporation (BCRIC). That book was a "how-to" (and "how-not-to") book and was widely read around the

Quotes from the Iron Lady

In 1994, Margaret Thatcher gave a speech to a Fraser Institute audience in Toronto. Here are a selection of quotes from the evening:

"The task upon which I embarked was to say, politics is the art of making the impossible happen. And that is precisely what we did."

"You must get your economics and the enterprise right. For, if you do not, first you'll have no standing in international affairs, and secondly no one else will listen to you at all."

"You simply have to give people the opportunity to do better. It enriches their lives, they have money left over to give to preserving historic sites, to the arts, to the science, to music, and so on. Most importantly, we all want to get other people out of poverty, and you can only do it by the wealth you have created."

"We must never forget that it is in fact capitalism which has the moral quality in society, not socialism, which is the elevation of the power of the government over the people."

"Tyrants and dictators have been born across the ages. They will continue to be born, and we must never let them achieve their aim of taking other people's land or possessions."

"I have to tell you that if your task is to get your expenditure down, because you've got too big a budget deficit, it is quite possible, provided you have politicians with conviction at the head. I had a budget deficit. I was very tough on expenditure. I knew the art of saying 'no.'"

world. British deputy ministers and staff from Number 10 were dispatched to find out how it was done in BC and were sent to the Fraser Institute. As David Helliwell, the president of BCRIC wrote on the book's back cover: "Any legislator considering a BCRIC-type project would be crazy not to read this book."

Walker notes how the idea for bundling up state-owned companies and putting them back in actual public/shareholder hands came about:

> The other part which is amusing and closes the circle is how the idea for the privatization came up in British Columbia. Austin Taylor, then BC Chairman of Scotia McLeod's predecessor company [MacLeod Young and Weir] was an avid reader of Fraser Institute publications. We had just published two short books by Milton Friedman entitled *On Friedman and Galbraith* and also *On Curing the British Disease*, the latter being the content of a lecture Milton Friedman gave in London, England. In it, Milton said they should create a holding company, put in it all the nationalized industries and then give the shares to the people. That is where Austin Taylor, an investment banker, got the idea for BCRIC, a holding company for all the assets which the NDP had previously nationalized. BCRIC was the largest privatization up to that time, the second or third largest share offering in North American history. (Personal e-mail correspondence with author, January 25, 2012).

As Walker notes, when 10 Downing Street and Prime Minister Thatcher were looking for solutions to their nationalized industries, they came to the Fraser Institute to "get the scoop on BCRIC." Also, additional contact between Mrs. Thatcher's government and the Fraser Institute over the years took place on a variety of topics as Sir Alan tried to guide Mrs. Thatcher through the thicket of actual policy. That included how British Tories looked at and learned from a 1983 overhaul of public policy in British Columbia by Premier Bill Bennett, a story noted in Milton Friedman's *The Tyranny of the Status Quo* (and where he cites three examples of successful policy overhauls: New Zealand, the United Kingdom, and British Columbia).

Perhaps one last measure of Thatcher's influence on the British people can be demonstrated by the remarks of an expatriate, R.J. Addington, then Chairman of the Fraser Institute, who at Lady Thatcher's 1994 Toronto speech to a Fraser Institute audience was called upon to thank her for her remarks, and who noted the turnaround Britain had achieved under her stewardship:

> In the early '70s, when I came to Canada, torn and bleeding, and bearing the scars of British socialism, it was with a feeling of sadness, frustration, and shame. You know, Britain was an economically defeated nation, the British disease was rampant, as you all know, the unions were dictating government policy. And millions like me felt ashamed that we had allowed this apparently irreversible horror to happen. What we wanted was a miracle, and of course, Margaret Thatcher was that miracle. She produced it, and she made history by achieving the impossible against enormous odds. The term "British disease" is a thing of the past, and the British people have regained their self-esteem, and with it, the respect of the world (Thatcher, 1994: 27-28).

Notes

1 Out of $50.9 billion (1946 dollars) in total spent on lend-lease aid by the US between March 1941 and July 1946, the Soviet Union received $11.2 billion in Lend-Lease aid from the United States, second only to Great Britain and her Commonwealth countries at $31.2 billion. Items included aircraft, tanks, ship, trucks jeeps, munitions and high-octane fuel, as well as food and services. The aid also included 15 million pairs of boots for Soviet soldiers (Library of Congress, 2007).

2 Readers interested in a comprehensive catalogue of communism's failures and effects should read the 1999 book, *The Black Book of Communism* (Courtois et al 1999).

3 Margaret Thatcher challenged Edward Heath for the leadership of the British Conservative Party in early 1975, and won the contest on the second ballot, on February 11 that year (Thatcher, 1995).

4 Inflation rose again later, to a high again of 10.9% in October 1990 (which Thatcher blames on a policy of shadowing the Deutschmark which she opposed); the rate dropped again by 1991 (Thatcher 1995, 570).

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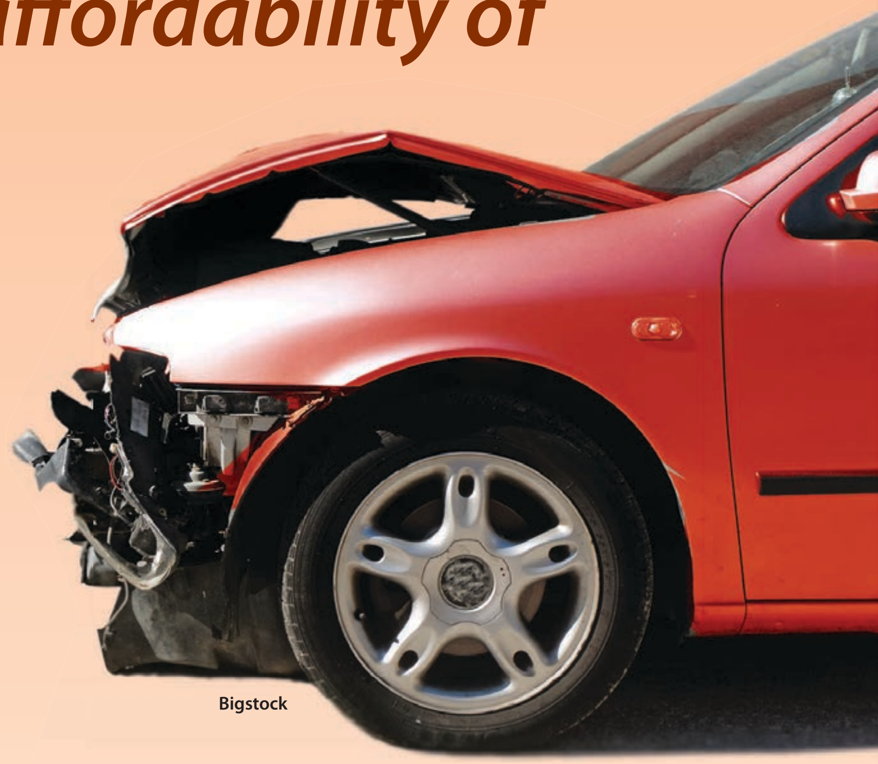
The costs and affordability of Canadian auto insurance in 2011: Private versus public provision



Bigstock

Neil Mohindra, Emrul Hasan, and Nachum Gabler

Canadians buy their auto insurance from both public and private insurers, depending on the province.[1] Proponents of public insurance contend that government monopolies reduce costs and ensure that premiums are more affordable, and thus comprise a relatively small portion of personal after-tax income (Consumers' Association of Canada, 2003). However, the Fraser Institute's most recent study of the cost and affordability of auto insurance across Canada's provinces, titled *The Personal Cost and Affordability of Auto Insurance in Canada: 2011 Edition*, reaffirms that publically provided auto insurance is typically more expensive than privately supplied auto insurance and that the higher costs associated with publically provided auto insurance are often borne by taxpayers (Mohindra and Hasan, 2011).

In nominal terms, three of the four most expensive average auto insurance premiums in 2009 were in provinces that have government run auto insurance.[2] The comparison of real costs (i.e., the actual costs after taking variations in the general price level between provinces into account by comparing cost as a percentage of provincial GDP), is consistent with the nominal comparison. In both nominal and real comparisons, five of the six provinces with the least expensive premiums from 2007 to 2009 had regulated competitive private sector markets for auto insurance.[3] Ontario had the highest average premium in 2009 and Quebec's average auto insurance premiums in 2007 and 2009 were the least expensive of any province in both nominal and real comparisons. The study's main results concerning relative costs of auto insurance are presented below in figure 1.

The study found that auto insurance premiums were most affordable, or the lowest relative to after-tax income, in Alberta, Newfoundland & Labrador, Nova Scotia, Prince Edward Island, and New Brunswick from 2007 to 2009 and were least affordable in British Columbia, Manitoba, Ontario, and Saskatchewan. In 2008, Quebec had one of the least affordable auto insurance premiums among Canadian provinces but its performance rebounded in 2009. The study also discovered that automobile insurance in 2007 and 2008 is consistently less affordable in British Columbia and Manitoba than in the other provinces.

The study identified notable exceptions concerning the relative cost and affordability between provinces: privatized insurance premiums in Ontario are relatively high, while premiums in Quebec, where the market is supplied by both public and private sector insurers, are relatively low.

Why is auto insurance in Ontario relatively expensive and unaffordable?

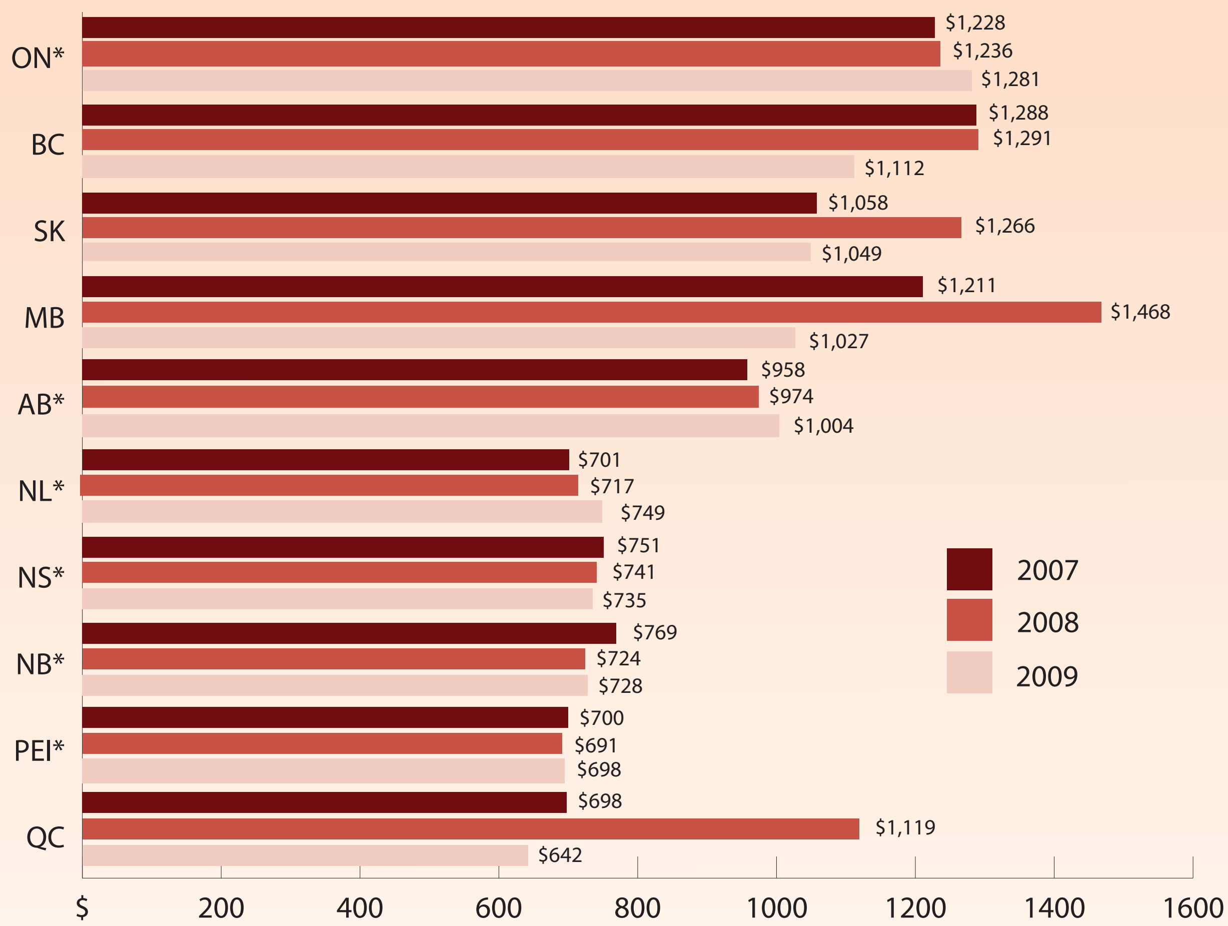
Ontario had the most costly and least affordable auto insurance in 2009. The explanation is higher claim costs per private passenger vehicle, which in turn is a result of several factors including regulatory severity and insurance fraud.[4] Because of regulatory severity and relatively high incidences of fraud, claims costs in Ontario are significantly higher than in other provinces with private auto insurance. Conversely, the other provinces with private auto insurance have lower claims costs compared to Ontario because insurance fraud is less common and regulations are less burdensome in those provinces.

Earlier research has shown that private insurers in Ontario face severe regulations in minimum capital requirement laws, rate-setting, mandatory minimum liability, and accident benefits laws (Rovere and Skinner, 2010).[5] Ontario is among the most regulated provinces for private auto insurance, along with British Columbia, Manitoba, and Saskatchewan; three of the four provinces which maintain a public monopoly over the provision of auto-insurance. In 2009, drivers from these four provinces faced the most costly premiums. It has been found that jurisdictions with relatively strict control over how insurance rates are calculated for certain types of drivers tend to have relatively high insurance premiums (Tennyson, 1997; Mullins, 2003).

Another factor making auto insurance excessively costly in Ontario is the prevalence of insurance fraud. Insurance fraud accounts for approximately 15 percent of costs incurred by private insurers in Ontario (Ontario, Ministry of Finance, 2003). It has been suggested that 33.6 percent of all accident benefits claims and 25.6 percent of all bodily injury claims have some element of fraud (Hynes et al., 2003).

In response to the high cost, Ontario's government implemented a package of 41 reforms to automobile

Figure 1: Average net premium from 2007 to 2009



Note: Provinces with (*) have privately provided auto insurance. British Columbia, Manitoba, and Saskatchewan have public auto insurance. Quebec has a dual auto insurance system.

Source: Authors' calculations

Drivers should beware of misleading promises regarding public auto insurance

Depositphotos

insurance in September 2010. These reforms lowered the minimum coverage for medical and rehabilitation benefits, attendant care, deductibles, and direct compensation, thus reducing regulatory severity and the potential financial gains from fraud.

Why is auto insurance in Quebec relatively cheap and affordable?

Of the four provinces that have a public auto insurer, Quebec has consistently ranked first on insurance costs and in 2009 had the lowest average auto insurance premium of all provinces.[6] Two factors that have contributed to this performance are the limitation of the public monopoly to bodily injury coverage and less severe regulations than the other three provinces.

A no-fault system was introduced for bodily injuries in Quebec in 1978, overseen by the government operated Société de l'assurance automobile du Québec (SAAQ).[7] Property damages are administered by the private sector and SAAQ does not compete with private insurers in this market (Dionne, 2001). The 1978 reform made a minimum of $50,000 liability insurance compulsory, but upheld people's right to seek compensation for property damages under a privatized insurance regime. While the potential merits and hazards of adopting a no-fault insurance regime are debatable (Sheldon, 1997), previous studies confirm that these reforms have had several positive effects in Quebec, including increased protection for victims, shorter wait times for compensation, lower management costs, and a reduction in insurance premiums (Devlin, 1992; Rousseau-Houle, 1998).

A second factor contributing to Quebec's performance on affordability is relatively less restrictive regulations. In Quebec, the regulation of premiums is limited to publishing and filing a rate manual (Dionne, 2001). Lower mandatory coverage for both bodily injury and third party liability for property damage also contribute to Quebec's ranking on regulatory severity (Rovere and Skinner, 2010).

However, there is evidence that Quebec's relatively strong performance has been accompanied by significant fiscal costs; taxpayers are subsidizing Quebec's public auto insurance. By 2009, Quebec's public auto insurance was racking up a troubling deficit of $2.6 billion (Mohindra and Hasan, 2011; authors' calculation).

Lessons for insurance regulators

The main results obtained in *The Personal Cost and Affordability of Auto Insurance in Canada: 2011 Edition* and shown in figure 1 suggest that the cost of premiums in provinces with government auto insurance monopolies tends to be higher than those in provinces with private sector competitive insurance markets, echoing the results of earlier studies that have found that government run auto insurance is less efficient than market-based provision (Skinner, 2006). With the exception of Ontario, where burdensome regulation and pervasive fraud have unduly increased costs, and Quebec, where the public monopoly is limited, private competitive auto insurance markets have been shown to deliver lower premiums for any given level of insurance benefit.

Drivers in provinces with competitive private sector auto insurance markets should beware of misleading promises regarding the value of public auto insurance. Drivers in provinces with government-run insurers would benefit by adopting a regulated competitive market where auto insurance is obtained from private sector insurers. Furthermore, Quebecers should seek financial accountability from their government-run auto insurer. As for Ontario, the province has taken positive steps by adopting reforms that scale back benefits and developing a plan to curb auto insurance fraud in its 2011 Budget. Ontario's drivers should press for further reforms that reduce regulatory severity.

Notes

1 Privately provided auto insurance is available in Alberta, Ontario, New Brunswick, Newfoundland and Labrador, Nova Scotia, and Prince Edward Island. Public auto insurance monopolies are administered as crown corporations by the provincial governments in British Columbia, Manitoba, and Saskatchewan. Quebec has a dual auto insurance system whereby mandatory basic coverage for bodily harm is offered exclusively by the provinces public auto insurer, while additional coverage for property damage is available through private insurance providers.

2 Those provinces are British Columbia, Saskatchewan, and Manitoba.

3 Those provinces include Prince Edward Island, New Brunswick, Nova Scotia, Newfoundland & Labrador, and Alberta.

4 Between 2004 and 2009, average accident benefits claims costs in Ontario increased by 102 percent (Mack, 2010).

5 Minimum capital requirements refer to the minimum amount of capital required to serve as a cushion against unexpected losses, where capital refers the difference between total assets and total liabilities. Rate-setting refers to the actuarial calculations used to determine insurance coverage and premiums. Mandatory minimum liability refers to the minimum amount of liability coverage that a driver must posses to protect against possible damages to another party caused by the insured driver, for which compensation might be awarded to the injured party. Accident benefit laws specify precise benefits to be awarded as compensation for certain types and severities of injury or damage.

6 The provinces with a public auto insurance monopoly are British Columbia, Manitoba, and Saskatchewan. Quebec has a dual auto insurance system. See note 1.

7 No-fault insurance implies that premium holders are compensated for losses by their own insurance company, irrespective of fault in the incident that triggered a loss.

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The state of air quality in Canada

Joel Wood

Air quality in Canada is improving and calls for more stringent regulation that ignore this fact should be dismissed.

A recent Fraser Institute study, *Canadian Environmental Indicators: Air Quality*, calls into question the analyses of Canadian environmental groups and health care organizations that argue for stricter air pollution regulations in Canada. In particular, a study published by the Canadian Medical Association (CMA, 2008) assumes that air quality in Canada remains at 2008 levels leading to increased deaths and health care costs due to a growing and aging population. These forecasts are used to advocate for stricter regulations on the release of air pollutants. However, the assumptions used in these reports are inconsistent with the historical trends of air pollution in Canada and therefore overestimate the future costs of air pollution.

Another study, published by the Suzuki Foundation (Boyd, 2006), calls for a United States style litigation system where the government can be taken to court if universal air quality objectives are not met. However, this policy recommendation ignores the benefits of the current regulatory regime, the role of pollution from natural and US sources, and the fact that air quality in Canada is actually improving.

> The data examined... indicate that air quality has improved for five major pollutants in most regions of Canada since the 1970s.

Canada already has a strict regulatory system for air pollution that involves all levels of government. Canada's air quality objectives are relatively stringent by international standards. Industrial operations may not release substances into the air without obtaining approval from provincial governments and the provincial approval process imposes restrictions on emission sources to ensure local pollution levels do not exceed ambient air quality objectives set by the federal and provincial governments (Wood, 2012). Emissions from diffuse and mobile sources, such as motor vehicles, are controlled through standards and regulations imposed by federal, provincial, and local governments.

The data examined in *Canadian Environmental Indicators: Air Quality*, indicate that air quality has improved for five major pollutants[1] in most regions of Canada since the 1970s. As evident in figure 1, average annual concentrations of carbon monoxide have decreased 87% in Canada since monitoring began in 1974. There have been no reported concentrations exceeding the strictest provincial air quality objective for carbon monoxide since 1998.

Furthermore, concentrations of nitrogen dioxide and sulfur dioxide have decreased substantially over the past 35 years, especially in urban centres. For example, average annual sulfur dioxide concentrations have decreased over 80% since 1974 (see figure 1). Sulfur dioxide concentrations only remain high in a few sparsely populated locations such as Flin Flon, Manitoba and Temiscaming, Quebec that rely on pollution-intensive industries. As shown in figure 1, average annual nitrogen dioxide emissions have decreased over 60% since monitoring began in 1980.

Concentrations of two of the most concerning pollutants for human health, ground-level ozone, and ultra-fine particulate matter, are also decreasing. The detailed statistical analysis contained in the Fraser Institute Study show that ground-level ozone has decreased in most Canadian provinces, including Ontario and Quebec, since 1980. Ultra-fine particulate matter concentrations have been decreasing since 2000 when widespread monitoring commenced. In 2008, the latest year for which there is sufficient data for all provinces, the Canada-wide standard for ultra-fine particulate matter was achieved at all monitoring stations except for those located in Sarnia, Ontario and Shawinigan, Quebec.

The CMA (2008) forecasts, which focus on ground-level ozone and ultra-fine particulate matter, ignore these trends, and assume that these pollution levels will remain constant into the future. This flawed assumption indicates that their forecasts of future deaths and health care costs due to air pollution are overestimated and biased.

Meanwhile, the Suzuki Foundation advocates for legally-binding air quality standards in which the government could be taken to court for failing to achieve concentration limits (see Boyd, 2006). A universal standard ignores the benefit of a regulatory regime that is flexible to regional economic circumstances. For example, the desirable level of sulfur dioxide in Trail, British Columbia, a small town that relies heavily on smelting, is much higher than that in Vancouver. Furthermore, the most concerning pollutants from a human health perspective, ground-level ozone and ultra-fine particulate matter are very difficult to control. For example, industrial sources of ultra-fine particulate matter make up a very small fraction of the total emissions in Canada—roads make up the largest human source and forest fires the largest natural source. It makes little sense to hold governments legally accountable for pollution they have little control over.

It may indeed be the case that stricter air pollution regulations are a net benefit to society; however, the currently available studies fail to prove this, especially since they ignore the historical trends of improving Canadian air quality.

Note

1 The pollutants studied are the current five pollutants included in the National Air Pollution Surveillance database maintained by Environment Canada. They include ground-level ozone, ultra-fine particulate matter, sulfur dioxide, nitrogen dioxide, and carbon monoxide.

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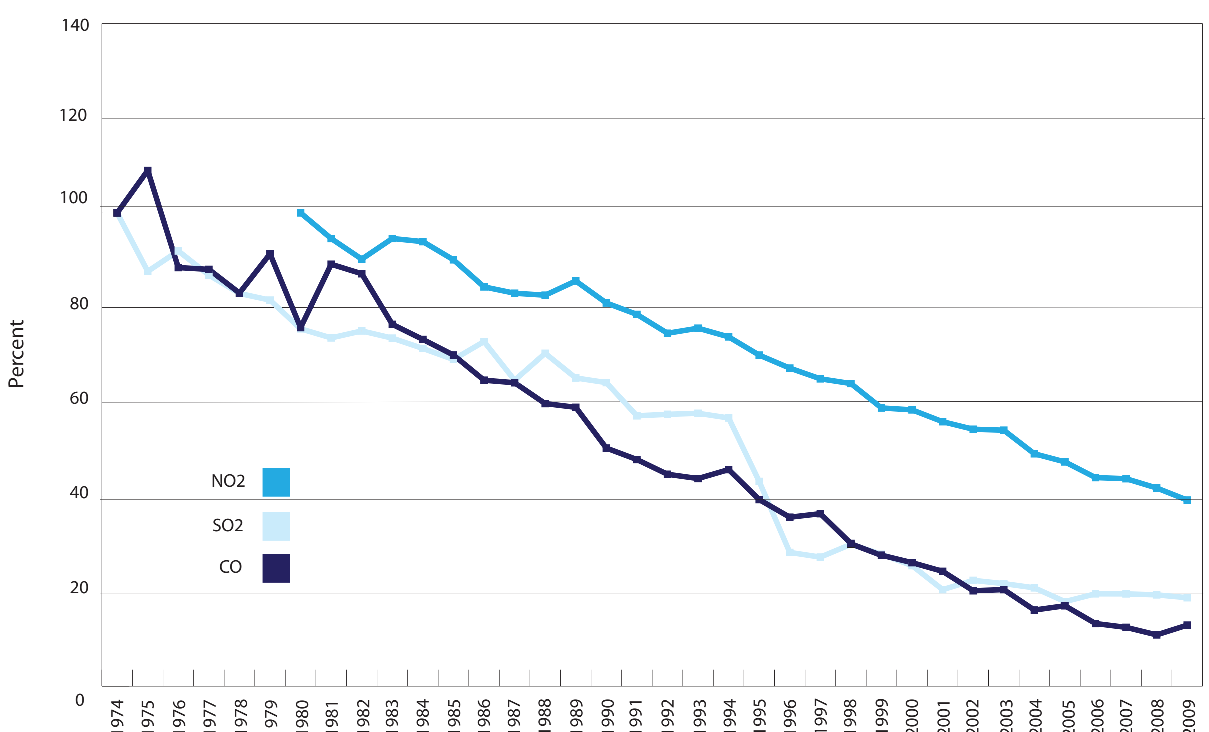
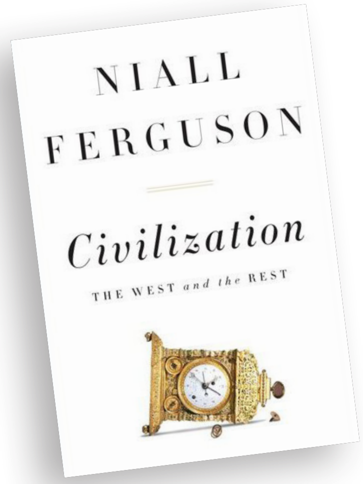
Figure 1: Indexed concentrations of common air pollutants in Canada, 1974-2009



Notes: The graph depicts average annual concentrations of carbon monoxide and sulfur dioxide from all stations across Canada with concentrations indexed to 1974 (i.e., concentrations are divided by 1974 concentrations for each year so that the 3 pollutants are comparable). Average annual nitrogen dioxide concentrations are indexed to 1980 levels.

Sources: Environment Canada, 2010; author's calculations.

How western civilization prospered



A review of **Civilization: The West and the Rest** *by Niall Ferguson, Penguin 400 pages.*

Mark Milke

In a 1999 federal hearing in Victoria to which I was privy, a Member of Parliament on the touring committee expressed wonderment at how a relatively tiny country such as Great Britain could have so greatly influenced North America and the world on questions of law, economic thinking, and a plethora of other matters. The context, and the hearing, concerned the then proposed Nisga'a treaty. The Liberal MP, who represented one of the territorial ridings but whose name I've long forgotten, made the remark with a critical tone which implied it was only by luck or sheer military force that the British came to rule much of the world in the 18th and 19th centuries, and with long-lasting influence thereafter.

The MP's veiled assertion was a rhetorical query and not a search for an honest answer. Still, the British historian Niall Ferguson provides a response to all such assertions in his latest book, *Civilization: The West and the Rest*.

Ferguson's question—"How did the West come to dominate other civilizations?"—and his multifaceted answer reveals just how mistaken is the surface notion that military power led to the influence and dominance of Britain, or for that matter, any of the powers from continental Europe.

Understand what Ferguson means by civilization. His version is not the triumphalist one where just because one culture influences others more than they influence it, that such a one-way flow necessarily translates into moral superiority. Nor is it a narrow definition where an explosion of art and culture are assumed to represent the pinnacle of a civilization's achievements. That latter approach is part of it, but that does not fully capture his sense of a civilization.

Instead, writes Ferguson, civilization is about "sewage pipes as much as flying buttresses, if not more so, because without efficient public plumbing cities are death-traps, turning rivers and wells into haven for bacterium Vibrio cholerae". Civilization is, he writes…

> …a highly complex human organization. Its paintings, statues, and buildings may well be its most eye-catching achievements, but they are unintelligible without some understanding of the economic, social, and political institutions which devised them, paid for them, executed them—and preserved them for our gaze (2011: 2).

To grasp the answer of why Western civilization predominated over the past 500 years, Ferguson asserts one must first understand history and its ebbs and flows and what that means for a comprehensive explanation. The author properly defends the importance of a classical understanding of history if one is to grasp even today's events. In an age of necessary specialization, it is yet a mistake to think one's "rabbit hole" explains all. Writes Ferguson,

> The former president of the university where I teach once confessed that when he had been an undergraduate at the Massachusetts Institute of Technology, his mother had implored him to take at least one history course. The brilliant young economist replied cockily that he was more interested in the future than in the past. It is a preference he now knows to be illusory. There is in fact no such thing as the future, singular; only futures, plural. There are multiple interpretations of history, to be sure, none definitive—but there is only one past (2011: xix).

The author expands on this when he points out the need for a wide historical understanding and not, as too often apparently occurs in history departments, a narrow focus on "modules." The latter approach zeroes in on isolated events and misses chronological developments and also the grand narrative explanation: the "how" and "why". (The MP I noted at the beginning made just this mistake: she thought the military power of the British explained all; she had no conception of what made Great Britain a prosperous, trading power to begin with, which then afforded it the opportunity to engage in military matters abroad).

Ferguson makes no such shallow mistake in his analysis of how the West rose from a backward, anti-scientific superstitious divided group of tribal peoples, to influence the course of world history over the last half-millennium more than any other civilization. But stop for a moment and consider how unlikely it was in the year 1500, that Europe would ever lead in anything, be it materially, scientifically, or militarily.

In 1411, Western Europe was, writes Ferguson, a "miserable backwater, recuperating from the ravages of the Black Death" which had killed off half of the European population in the previous century. The Anglo-French 100 Years War was about to resume, other kingdoms and city states were also busy with their petty quarrels, and the Moors still ruled in Granada.

Compare Europe's poverty, population loss, squalor, and military weakness to that of the Ottomans, "closing in on Constantinople, which they would finally capture in 1453" or to Asia, where the largest city in the world existed, Beijing, with perhaps as many as 700,000 people (compared to perhaps 200,000 people in Paris and 50,000 in London).

Meanwhile, in North America, writes Ferguson, "it was an anarchic wilderness compared with the realms of the Aztecs, Mayas, and Incas in Central and South America, with their towering temples and skyscraping roads."

Four centuries later, much of this was reversed. To use just one example, by 1900, only one of the world's most populous cities was in Asia (Tokyo) with the rest in Europe or North America.

Ferguson credits six factors for the dynamic change between the time of Columbus in 1492 and the fall of the Berlin Wall in 1989. They are: competition, science, property rights, medicine, the "consumer society," and the work ethic. In short, institutions matter, and the West managed to get them in a way that led to material and social improvements which, until recently, set it apart from other civilizations.

For example, on competition, the ancients such as Plato saw extreme unity in a civilization as necessary for its success and even survival. In the case of Rome (into which Greek thinking was diffused), too many feuding plebeians and senators might distract people from enforcing Roman rule upon the hinterlands.

But in the case of pre-modern Europe, the Reformation split apart such unity in Christendom. That led to the possibility of having not only a different religious opinion, but eventually to decentralization of political and economic life.

Such competition and diversity also eventually led to pluralism on matters scientific; that allowed and provoked new scientific discoveries. Of the world's 369 most important scientific breakthroughs in the history of man—369 events that are mentioned in virtually all reference works of science—38% of them took place between 1530 and 1789, the beginning of the Reformation and the French revolution.

They include: William Gilbert's description, in 1600, of the magnetic properties of the earth and electricity; William Harvey's 1628 description of how the body circulates blood; probability theory founded by Pierre de Fermat and Pascal in 1654 (which allows actuarial and insurance calculations); and Antoine Lavoisier's accurate description of combustion in 1775.

"The Scientific Revolution was, by any scientific measure, wholly Eurocentric," writes Ferguson, with 80% of the revolution's key figures found within a hexagon bounded by Glasgow, Krakow, Naples, Marseille, and Plymouth with nearly all the rest "born within a hundred miles of that area."

Meanwhile, in many other areas conformity on all such matters was still rigidly enforced due to a closing of the scientific mind near the end of the 11th century. (This was in contrast to the previous centuries, where, as he points out, much classical learning rediscovered in Europe and which ultimately led to the Renaissance, was transmitted courtesy of Islamic scholarship.) It was then that influential Islamic clerics began to assert that the study of Greek philosophy was incompatible with teachings from the Koran. The Koran won; science lost. That had profound consequences. It was science that gave the West a major military advantage over the rest of the world for much of the past five centuries.

Ferguson's work celebrates Western achievements because they were indeed achievements. But his is not the voice of triumphalism; it is more of observation. Also, he thinks the decline of the West is now almost inevitable, at least relatively. That other people around the planet have (and hopefully increasingly will have) access to education, science, consumer goods, and the like to improve their lives is not a negative development. But as other regions catch up to the West, it will make the anomaly of Western ascendancy in the last 500 years even more clear.

Ferguson is not a pollyannaish romantic. He well knows the West has had its own share of faults in the past half-millennium and the good and bad "brothers" were in a constant tussle: "Competition and monopoly; science and superstition; freedom and slavery; curing and killing; hard work and laziness—in each case the West was father to both the good and the bad," writes the author.

Ferguson asserts though that ultimately it was the "better brother"—the one that successfully marshalled the six factors—who won, and which led to material and social improvements. That included the eradication of much disease, the abolishment of institutional discrimination against women and minorities, the creation of the framework for an explosion of prosperity unknown in all of human history. In short, the successful combination of those six factors are why the West improved itself over the past five centuries and led "the rest"; they are also why worldwide improvements are occurring now as others imitate such dynamics (2011: xxvi).

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Pareto's Republic and the New Science of Peace

Filip Palda

Three thousand years ago, the Hebrew prophet Isaiah foresaw a day when people would "beat their swords into ploughshares, and their spears into pruning hooks: nation shall not lift sword against nation, neither shall they learn war anymore." The image of a person beating his or her sword into a ploughshare is powerful because it acknowledges the complexity of human aggression and suggests a means of harnessing it to some peaceful, productive end.

The idea of peace as a productively managed conflict arising from the ongoing animosities and tensions between people is not new. Chinese emperors sometimes went to war with the barbarians on their frontiers, but most of the time kept them quiet with bribes. The empire became so skilled at this form of violence management that it eventually absorbed most marauders in a mutually beneficial relationship.

In the Middle Ages, European peasants paid armed thugs hefty sums to provide protection against other marauding bandits. It took hundreds of years to work out ever better terms for both sides. Modern democracies that tax their citizens in an orderly manner and spend the money according to public wishes can trace their ancestry to these early attempts to transform violence into something fruitful. One can even find the idea of managed peace in the myth of St. Francis of Assisi who convinced a wolf to stop terrorizing the villagers of Gubbio in return for a regular handout of food, and in the story of Saint Gall who gave bread to a monstrous bear in return for the security of his Swiss parishioners.

In these examples the peaceful solution does not try to eliminate the tensions that give rise to the conflict. Philosophers have noted that the elimination of aggression might even deny us our humanity. Karl Popper wrote in *The Open Society and Its Enemies* that "a human society without conflict would be a society not of friends but of ants." The trick instead is to travel from conflict to peace by making both sides see their common interest.

The path to this common interest is not easy to find, but after many failed social odysseys, it is becoming clear that property rights, protected by the rule of law are the best guides. Consider nations that are so similar in their basic makeup that they could be thought of as twins. In 1953, Korea split in two after a civil war. North Korea came under a tyrant who abolished private property. Today his people are starving. South Korea allowed individuals the freedom to exchange private property under laws that were the same for all. It is now one of the richest countries in the world. Haiti and the Dominican Republic share the island of Hispaniola, but share little else. Property rights are dubious in Haiti and it ranks as the poorest nation in the western hemisphere. The Dominican Republic is what the World Bank calls an "upper-middle income developing country" with reasonably secure property rights. The average Dominican earns nearly 10 times as much as the average Haitian. The list of twins goes on and includes the former West and East Germanies and Pakistan and India.

These casual observations on the value of property rights have formal scientific support. In the late 1980s and early 1990s, under the impetus of economist and Fraser Institute founder Michael Walker, fellow economists Stephen Easton and Walter Block, and Nobel Prize winners Milton Friedman, Gary Becker, and Douglass North led several weekend retreats to determine how property should be measured and quantified into a single number. The method they worked out is now famously known as the *Index of Economic Freedom*. Using the index, James Gwartney and Robert Lawson found indications that economic freedom and prosperity go hand-in-hand. While there are still many details to work out, these types of study are powerful enough to have attracted a fan club for property rights and to form part of the mission statement of the World Bank, which is "to help people help themselves and their environment by providing resources, sharing knowledge, building capacity, and forging partnerships in the public and private sectors."

By helping people to help themselves, the bank is talking as openly as it dare about the benefits of property rights. Yet we need to keep an open mind. As impressive as the achievements of societies based on property rights are, these rights are not ideals. They are tools. The trick is to recognize which tool is the right one for the job. Under the right conditions, property rights can act as "instruments" of peace because they embody a "negotiating rule."

When individuals agree without coercion about how to use resources, as they must when exchanging property rights, they are approaching a condition that a 19th century railroad engineer who switched into the study of the social sciences at the age of 45, identified as having certain desirable features. Vilfredo Pareto defined a particular distribution of resources as being efficient if no one could be made better off by a change in the distribution without making at least one person worse off. All of modern economics rests on this principle.

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The "peace of Pareto" is superior to other forms of imposed peace, such as central control, because it balances what people owe each other in a more precise and humane manner, one that leads invariably to prosperity. Yet it is impossible to allocate all resources using property rights because sometimes these rights simply cannot be created or established or determined. When property rights are absent, markets fail to correctly balance social accounts; government may step in to correct the imbalance, as it may in the case of public goods and common property resources. The problem then becomes one of ensuring that government, to whom we entrust a monopoly, even if temporary, over coercion, does not abuse its powers to charge a non-competitive "tax price" for doing its duty of plugging the gaps left by incomplete private property rights.

There are no guarantees that simply by knowing the ingredients of Pareto efficiency a society can attain that state. There are two challenges to attaining and then maintaining Pareto's Republic. The first and greatest challenge is that of overcoming prejudices and group hatreds. These are fundamentally inimical to any form of productive peace. When antagonisms are too powerful, property rights or democracy become overwhelmed by the demands upon them to funnel aggression into productive pursuits. The second challenge is more ongoing. It is to fight at every instance the tendency of governments to absorb resources and place them under public control. This is not the cry of the libertarian or neo-conservative, but rather a concern that arises from mainstream research into the dangers of socializing property.

Even countries that have had the greatest success in establishing property rights never quite live in the Republic of Pareto, but just pitch their tents in one of its proverbial suburbs. The Republic is like a rainbow whose arc we follow with varying degrees of success. Where is the pot of gold at the end? I suspect the answer to that question does not really matter. What matters is that we try to emulate the Republic and that through our efforts we strive to convert our antagonisms into something fruitful. That sort of peace is the real treasure we gain from believing in and working out the details of Pareto's Republic. ■

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