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Editor's notes

One of the great things about growing up in Canada, or in the US for that matter, is that you soon realize you can do just about anything you want within the boundaries of the law. You can live anywhere you want within the country. You can make friends with anyone. You can marry anyone you want to. You can say just about anything and choose any hobbies you like. You can wear what you want, and drive what car you want to drive and have the money to buy. The Americans are fond of saying that their society is so open that anyone born in the States can become president. The same is true in Canada (though the prime ministerial plum seems a little less sweet).

Because we enjoy so many of these basic, simple freedoms—and have really come to take them for granted—it comes as a shock when we find that there are some things we can't do. And it is even more of a shock when we find that we can't do them not because we are demonstrably incompetent, or because we don't have enough money to do so, but because we don't belong to the right club.

The club I am talking about is the union club to which many Canadian workers must belong.

One of my colleagues began her university training determined to become a museum archivist. She got her degree and set off to implement her ideas about staging interesting and interactive displays in a well-known museum. And promptly ran into a brick wall. Other workers in the museum, senior to her, were resistant to her new ideas. While they lacked her formal training in the area, they did have something my colleague didn't: union seniority. They had been able to transfer to the museum from elsewhere in the unionized work environment. They saw the museum as a pleasant, low-stress workplace and opted to be part of it when the opportunity arose, and were not going to see their work world changed by some new recruit. My colleague could see a long and frustrating wait ahead of her if she chose to hang on and hope for change. So she resigned, and switched careers.

My colleague's story is not unique. I know of other people whose careers have been shaped by opportunity, or lack of it, as much as by training or ability.

This issue of *Fraser Forum* focuses on the labour market. A key article, "Comparing Labour Relations Laws in Canada and the United States," summarizes a study the Institute recently completed comparing labour market regulations in Canada and the United States. The differences between the two countries are dramatic. The Americans remain true to their respect for the individual—in all states, workers in firms that have union representation can choose whether or not to belong to the union. The converse is true in Canada.

As this and the other articles point out, it is time that the labour markets in Canada's provinces became more flexible. Such change would encourage workers and employers to take more risks, which would lead to more innovation and investment, and eventually to better lives for us all.

—Kristin McCahon (kristinm@fraserinstitute.ca)

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Opposition Parties: 1 Albertans: 0

by *Nadeem Esmail*

Late in April, Alberta's provincial government abandoned its plan to allow private access to health services and to allow physicians to practice simultaneously in both publicly funded and privately funded health care sectors (currently, they must choose one or the other). While those opposed to sensible reform of health care based on the world's most successful health care models have chalked up another victory, the losers are not (as some might suggest) the provincial Conservatives. Rather, the real losers in this political battle are Albertans.

Compared to other provinces, Albertans are receiving nothing special in terms of health care from their provincial government. Consider access to physicians and technology: Alberta ranks at the top for MRI scanners, but near the bottom for CT scanners; it offers about average access to family doctors, but below average for specialists (CIHI, 2005a; CIHI, 2006). Further, Alberta ranks third best overall in waiting times for selected procedures in 12 major medical specialties, with a total waiting time (from referral by a general practitioner to treatment) of 16.8 weeks, a 60 percent longer wait than was experienced in 1993 (Esmail and Walker, 2005a). While that wait time is shorter than in most other provinces, it's nothing to be proud of. This varied health care performance comes

with a very high price tag: Albertans in 2005 spent more on health care per person than citizens in any other province in the country (CIHI, 2005b).

While Alberta's costly performance within our national borders is neither exemplary nor poor, Canada, as a whole, turns in a dismal performance relative to other countries. On an age-adjusted basis, Canada operates the third most expensive universal access health care system in the developed world (only Iceland and Switzerland spend more). In exchange for that high level of spending, Canadian governments provide some of the lowest levels of access to physicians and technology, while Canadian patients experience only satisfactory health outcomes and suffer some of the longest waiting times (Esmail and Walker, 2005b). Even a decent performance in Canada is a poor performance internationally.

For a time, it seemed that the Alberta government was willing to do something about this poor performance. It realized that, despite the relative lack of physicians in Alberta or Canada, many physicians who are in the province spend a good deal of their time waiting for access to operating rooms or are

unable to treat patients because of provincial quotas and limits. In other words, there are idle physician resources in Alberta that the public system is simply unable or unwilling to employ. Allowing private access to those resources would increase the quantity of services available to Albertans, reduce the number of people in the public queue for treatment,¹ and make better use of Alberta's highly trained specialists.

The provincial government also seemed to realize, as reflected in its plan for private insurance, that access to private care is not necessarily affordable for all. Private health insurance provides citizens with quick access to care when needed in return for a regular premium payment prior to the onset of a condition. Insurance also allows those who might prefer to do so, to pay an anticipated and fixed premium over time for access to private care, rather than pay the higher and less predictable cost for private care when they wish to receive it, even if they can afford to do so. Thus, private health insurance creates access to private care for those in lower income groups and allows people to tailor their expenditures to their own preferences.

Some of those opposed to the changes proclaimed, using selected studies from the UK, Australia, and other nations, that allowing physicians to practice in both public and private settings, or to simply allow private health insurance, would lead to fewer publicly available resources and a commensurate increase in waiting times.

First, such a conclusion assumes that Canadian physicians are unable to provide



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more services than they currently deliver through the public program, which, as discussed above, is simply not true.

Second, the evidence showing that dual practice and/or private insurance may lengthen waiting times is not as one-sided or as solid as Albertans were led to believe. Other studies show that the expansion of private health insurance coverage in Australia, where dual practice is an option for physicians, had the opposite effect on waiting times, or no effect at all (Colombo and Tapay, 2003, p. 37). In addition, Australians experience shorter waiting times in their mixed system than do Canadians despite spending less on health care (Schoen *et al.*, 2005; Esmail and Walker, 2005b). And though the proportion of patients waiting very long times for treatment is lower in Canada than in the UK, the Canadian model costs 47 percent more to operate than does the UK's mixed model and the proportion of patients treated fairly quickly is lower in Canada (Schoen *et al.*, 2005; Esmail and Walker, 2005b).

Others opposed to Alberta's proposed changes relied on the cliché that the *Third Way* was "chequebook medicine" and the abandonment of universal health care. These critics completely ignored the fact that every other developed nation (including Sweden and France) that has a universal health insurance program also allows individuals the opportunity to privately seek care that the public program is unwilling or unable to deliver. Canada is alone in its prohibition of privately funded health care (Esmail and Walker, 2005b). Alberta's proposals were a move towards the international norm.

Most important, however, is the reality that every top-ranking universal access health care program (be it one that out-

performs Canada on measures of system performance; one that delivers access to care regardless of ability to pay without any queues; or one that does both) has a competitive private sector that is accessible to all citizens (Esmail and Walker, 2005b; Esmail, 2004).

Sadly, the provincial government ultimately caved in to the opposition's ideological resistance. The potential threat of reduced transfers from Ottawa, which serve as the penalty for disagreeing with the federal government on matters of health care policy, may have also played some role in the decision.

Canada is alone in its prohibition of privately funded health care.

With the loss of private access to health services and dual practice for physicians, Alberta's *Third Way* has been transformed into a copy of what is happening in most other provinces: the continued tweaking of and increased spending on a program that just doesn't work. That's not a *Third Way*; it's the old, expensive way. Albertans can say goodbye to any hopes of a more patient-focused health care program that delivers quality on par with its cost.

Note

¹All else held constant. It is possible for the increase in the availability of publicly funded services (which results from individuals in the public queue opting for private care) to result in an increase in the demand for publicly funded services, in which case it is not possible to determine the effect of increased physician supply on the size of the public queue.

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Comparing Labour Relations Laws in Canada and the United States

by Keith Godin & Milagros Palacios

Flexible labour markets are a key component of a prosperous economy. The more flexible a labour market is, the better it can respond to changes in economic conditions to ensure that labour resources are used to their maximum potential. The way governments regulate labour markets is, therefore, critical. Regulations or labour laws that favour one group at the expense of another or laws that are overly prescriptive will inhibit the labour market from

working properly and efficiently. This article summarizes the results of a recent study, *An Empirical Comparison of Labour Relations Laws in Canada and the United States*, which quantified differences in labour relations laws between the two countries.

Labour relations laws defined

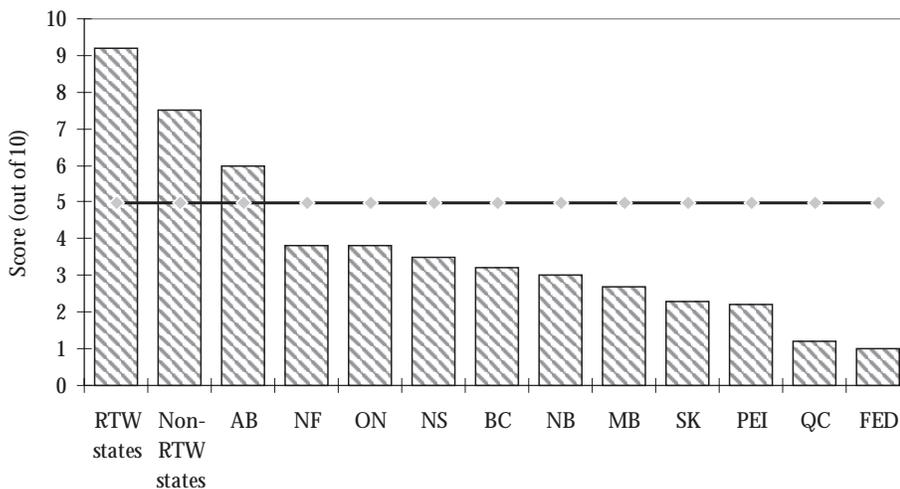
Labour relations laws control the process through which unions gain and lose the right to represent workers in collec-

tive bargaining. Once a firm is unionized, these laws also regulate the interactions between unionized employees, their collective representatives (unions), and employers.¹

An important major difference that exists between Canada and the United States in the jurisdictional authority each has over labour relations laws. Canada maintains a decentralized system of labour relations laws for both the private and public sectors. Approximately 92 percent of workers are covered by provincial labour relations laws while the remaining 8 percent (1.3 million Canadian workers), are employed in federally-regulated industries and thus are covered by federal legislation (Canada Industrial Relations Board, 2006).²

The United States, on the other hand, has a centralized system of private sector labour relations laws.³ Federal labour relations laws in the United States cannot be contradicted by state laws, although states are able to expand upon and/or clarify federal laws.

Figure 1: Index of Labour Relations Laws



RTW = right to work
Source: Godin *et al.*, 2006.

Index of Labour Relations Laws

The principal quantification of differences in labour relations laws is the *Index of Labour Relations Laws* (figure 1). Table 1 contains the overall results of the index, as well as the specific scores for the three categories included: (1) Certification and Decertification, (2) Union Security, and (3) Regulation of Unionized Firms.

The results suggest four distinct groups of jurisdictions. The first are the 22 Right-to-Work (RTW) states in the US.⁴ According to the index, these US states have the most balanced and least prescriptive labour relations laws in Can-



Labour Law Comparison

Table 1: Index of Labour Relations Laws

	Index of Labour Relations Laws		Certification and Decertification		Union Security		Regulation of Unionized Firms	
	Score (out of 10)	Rank (out of 61)	Score (out of 10)	Rank (out of 61)	Score (out of 10)	Rank (out of 61)	Score (out of 10)	Rank (out of 61)
Right-to-Work States ^a	9.2	1 ^b	7.5	2 ^c	10.0	1 ^b	10.0	1 ^b
Non Right-to-Work States	7.5	23 ^d	7.5	2 ^c	5.0	23 ^d	10.0	1 ^b
AB	6.0	51	10.0	1	0.0	51	8.0	51
NF	3.8	52	7.5	2	0.0	51	4.0	52
ON	3.8	52	7.5	2	0.0	51	4.0	52
NS	3.5	54	6.5	55	0.0	51	4.0	52
BC	3.2	55	7.5	2	0.0	51	2.0	58
NB	3.0	56	5.0	56	0.0	51	4.0	52
MB	2.7	57	4.0	58	0.0	51	4.0	52
SK	2.3	58	5.0	56	0.0	51	2.0	58
PEI	2.2	59	2.5	60	0.0	51	4.0	52
QC	1.2	60	3.5	59	0.0	51	0.0	61
Federal	1.0	61	1.0	61	0.0	51	2.0	58

Notes:

^aRight-to-Work States include: Alabama, Arizona, Arkansas, Florida, Georgia, Idaho, Iowa, Kansas, Louisiana, Mississippi, Nebraska, Nevada, North Carolina, North Dakota, Oklahoma, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, and Wyoming (National Institute for Labor Relations Research, 2005).

^bTied for first place.

^cTied for second place.

^dTied for twenty-third place.

Sources: Government of Canada, *Labour Code* (1985); Province of British Columbia, *Labour Relations Code* (1996); Government of Alberta, *Labour Relations Code* (2000); Government of Saskatchewan, *The Trade Union Act* (1978); Government of Manitoba, *The Labour Relations Act* (1987); Government of Ontario, *Labour Relations Act* (1995); Government of Quebec, *Labour Code* (1977); Government of New Brunswick, *Industrial Relations Act* (1973); Government of Nova Scotia, *Trade Union Act* (1989); Government of Prince Edward Island, *Labour Act* (1988); Government of Newfoundland and Labrador, *Labour Relations Act* (1990); National Labor Relations Board, 29 USC TITLE 29-LABOR x. 141-503; calculations by the authors.

ada and the United States; they scored 9.2 out of a possible 10.0 (see table 1). RTW states differ from other US states in one key aspect of labour relations laws: dues payment. Workers in unionized firms in RTW states are able to completely opt out from any union dues payment, whereas unionized workers in other US states can only opt out of non-representation-related dues (for more information, see Clemens *et al.*, 2005; Taras and Ponak, 2001).

The remaining 28 US states form the second group; they scored 7.5 out of 10.0.

The third group is a single Canadian province: Alberta. It scored 6.0 on the index and led all Canadian jurisdictions, but fell short of competing with any of the US states.

The final group is the remaining nine Canadian provinces and the Canadian federal government. These jurisdictions maintain the most biased labour relations laws; they failed to score above 5.0 (they ranged from a low of 1.0 for the federal government to 3.8 for Ontario and Newfoundland).

Components of the Index of Labour Relations Laws

A brief description and overview of the results for each of the three categories included in the index are presented below.

Certification and decertification

Certification and decertification is the process through which a union acquires and loses the right to be the exclusive

bargaining agent for a group of employees. This category includes three measures: the use of secret-ballot voting, remedial certification, and differences between the thresholds for certification and decertification (for more specific information, see Godin *et al.*, 2006).

Points of interest

- Alberta received the highest score (10.0 out of a possible 10.0);
- Three Canadian provinces (British Columbia, Ontario, and Newfoundland) as well as all the US states tied for second place with a score of 7.5;
- Five Canadian provinces (New Brunswick, Saskatchewan, Manitoba, Quebec, and Prince Edward Island) received scores of 5.0 or less; and
- The Canadian Industrial Relations Board (CIRB) received the lowest score of 1.0.

Union security

Union security includes regulations governing union membership and the payment of union dues. Specifically, union security relates to whether or not workers can be forced to join a union and/or remit full or partial union dues payment as a condition of employment.

Points of interest

- US Right-to-Work (RTW) states scored the highest (10.0) based on the fact that they give workers the right to choose to belong to a union and to fully opt out of any union dues;
- US non-RTW states also performed reasonably well. Like the RTW

states, these states allow all workers to choose whether or not to join a union. However, workers in non-RTW states are only able to opt out of union dues that are not directly related to their representation;

- The Canadian jurisdictions (10 provinces and federal government) performed poorly since they all permit mandatory union membership and full dues payment as a condition of employment.

Regulation of unionized firms

Regulations that affect unionized firms can be the source of competitive problems for those firms versus their non-unionized counterparts. A number of provisions were examined including successor rights, technological change, arbitration, replacement workers, and third-party picketing (for more specific information, see Godin *et al.*, 2006).

Points of interest

- The US states all scored 10.0 out of a possible 10.0, indicating a high degree of balance and fairness;
- Alberta is the only Canadian jurisdiction that scored above 5.0;
- The remaining nine Canadian provinces and the federal government scored below 5.0; and
- Quebec ranked last with a score of 0.0.

Conclusion

Canadian provincial and federal labour relations laws are markedly more biased and prescriptive than US legislation,

resulting in less labour market flexibility. The benefits of labour market flexibility are well established and include lower unemployment, higher job growth rates, and increasing productivity (OECD, 1994; Botero *et al.*, 2004; Di Tella and MacCulloch, 2005). In order to promote greater labour market flexibility, Canadian provinces and the federal government would be well advised to pursue balanced and less-prescriptive labour laws.

Notes

¹In 2005, labour relations laws regulated about 32 percent of workers in Canada and about 13.7 percent in the United States (Statistics Canada, 2006; Hirsch and Macpherson, 2006).

²Federally regulated industries include inter-provincial transportation (air, land and water), broadcasting, banking, longshoring and grain handling. Workers in Canada's Territories are also covered by federal labour law.

³Public sector labour relations laws in the United States are decentralized along similar lines as Canada. See Karabegović *et al.*, 2004 for further information.

⁴The 22 US states with Right to Work laws are: Alabama, Arizona, Arkansas, Florida, Georgia, Idaho, Iowa, Kansas, Louisiana, Mississippi, Nebraska, Nevada, North Carolina, North Dakota, Oklahoma, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, and Wyoming (see table 1).

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Quebec Should Eliminate Replacement Worker Laws

We often discuss competitiveness in terms of the tax burden, manpower costs, or access to capital and other services. But one preoccupying issue in Canada remains that of labour regulations. This is particularly true for Quebec.

No American state or Canadian province is as heavily unionized as Quebec where as of 2005, 40.2 percent of workers belonged to unions. In the same year, the average unionization rate for Canadian provinces was 32.0 percent, and for US states was only 13.7 percent (Hirsch and Macpherson, 2006; and Statistics Canada, 2006).

Quebec's labour legislation is, not surprisingly, quite favourable to unions. For instance, Quebec is one of five Canadian provinces where a union can be accredited without a secret ballot vote if the initial level of support exceeds a prescribed threshold (50 percent + 1 of the unit). Quebec employers have no right to challenge a union's representation, which is not the case in most other provinces and in the United States.

Moreover, one of the most controversial aspects of the "Quebec model" is replacement worker legislation that has been in place since 1977, which prohibits the temporary hiring of replacement workers during legal strikes. In essence, and with minor exceptions, employers can replace striking workers only with management personnel working in strikebound firms who were hired before the start of negotiations. British Columbia is the only other jurisdiction in North America that has such restrictions in its labour relations laws. BC's laws have been in place since 1993 and a similar law in Ontario lasted only from 1992 to 1995.

Prohibiting a company from hiring temporary staff to replace strikers—even though strikers are free to work elsewhere—is an example of the asymmetry in the rights and obligations of the parties in a labour conflict that strengthens unions in relation to employers in Quebec.

The effects of such legislation are, however, far from positive, whether for the workers they were intended to protect, or for the economy as a whole.

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Economic effects

By modifying the balance of power between employers and unionized workers, replacement worker provisions lead to perverse economic effects. These vary according to whether the company involved is large or small. A multinational company hit by a strike can, for example, transfer production temporarily to another plant located elsewhere in the country or even abroad. These alternatives give it some counterweight to the economic pressure it faces because of the strike, although large companies may still be less likely to set up shop in a place where replacement worker laws are in force so as to avoid these labour relations problems in the first place.

The situation is more critical for smaller companies. They generally operate from only a single production facility, making it much more difficult for them to resist the economic pressure they face because of a strike. The result is that a smaller company will give in more easily to demands in order to avoid a strike it knows it cannot withstand. If a smaller company is nonetheless hit by a strike, it will tend to seek a quick settlement rather than a settlement that enables it to stay competitive and survive, and to maintain the jobs it has created.

Up against these unfavourable conditions, the logical reaction of a small business owner will be to manage his company in a way that reduces his dependence on unionized staff as much as possible. For example, a company could rely more on subcontracts, could hire fewer permanent workers, or could increase its production capacity by opening a new plant, often outside the province where it operates, rather than expanding the existing plant.

Each option results in reduced employment and investment. A recent study shows that in a given jurisdiction, the reduction in the employment rate linked exclusively to replacement worker measures is 0.47 percent (Budd, 2000). For Quebec, with a working-age population of 6.2 million, this is equivalent to a reduction of about 30,000 jobs. For BC, with a working-age population of 3.5 million, the reduction in the number of jobs is 15,800.¹

Another study shows that replacement worker measures also have adverse effects on investment levels. Using provincial data for 1967 to 1999, the study shows that the investment rate in provinces with such measures is 25 percent lower than in provinces without them (Budd and Wang, 2004).

The effects on strike duration and frequency

One of the most frequently-raised arguments in support of replacement worker laws is that they lead to shorter and less frequent labour conflicts. However, existing studies contradict this claim, at least for large companies for which data on collective agreements are readily available. For smaller firms, the argument may be valid, but few data are available to prove it.

The most recent of these studies examined 4,340 contracts negotiated at large private-sector companies in Canada from January 1967 to March 1993. The results, heavily influenced by Quebec's experience, reveal that the average duration of a strike is 86 days if the hiring of replacement workers is forbidden and 54 days in the absence of such measures (Cramton *et al.*, 1999).

The same study reveals that allowing replacement worker has generally had

the effect of increasing the probability of a strike occurring—from 15 percent to 27 percent. Again, this contradicts commonly-held beliefs. These findings can be explained in part by the fact that unions, whose power is strengthened by such laws, are more often prepared to endure longer disputes in the hope of being compensated by higher wages.

Conclusion

None of these consequences works to the long-term advantage of workers as a whole, whether unionized or not. From a strictly economic standpoint, Quebec, and British Columbia as well, would benefit if they adapted their labour codes to be more in line with those in the rest of North America.

Note

¹The figures for Quebec and BC were calculated by applying the coefficient supplied by Budd, 2000 (0.47 percent) to the population aged 15 and over for each province.

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Setting Wages in the Public Sector: Quebec's Daycare Experience

by *Sylvia LeRoy & Milagros Palacios*

Since daycare in Quebec was transformed in 1997 from a private sector activity to a public sector program, the cost of services has grown significantly. This can be attributed to the different economic incentives that exist in the public sector compared to the private sector, and in particular the wage setting process. This article reviews some of these differences and suggests how the introduction of an independent wage board could help control the soaring costs that threaten to overwhelm Quebec's \$1.4 billion public daycare system.

Public versus private sector employment

A key characteristic of the private sector is competition. The presence of competition, or even the threat of competition, ensures the efficient use of capital and labour and punishes producers that fail to deliver goods and services in a timely manner at a price that is mutually beneficial to both sellers and buyers. For the most part, these enforcement mechanisms do not exist in the public sector, which is largely characterized by monopoly (i.e., no competition).

The absence of competition in the public sector affects the process by which

wages are determined. In a competitive market, wages are largely determined by worker productivity. But as Canadian economist Morley Gunderson pointed out, when government is the employer, political rather than economic criteria dominate the wage setting process (Gunderson, 1979). As a result, compensation levels tend to be determined by the ability of government employees and their unions to compete with other interest groups over the allocation of public funds with little or no regard for worker productivity.

Further complicating the public sector wage setting process is the high unionization rate of government employees. The very structure of the public sector contributes to high rates of unionization. When whole categories of workers, such as teachers and nurses, are employed almost exclusively by the public sector, it is much easier to organize them into unions than if they were employed by the private sector, where workers have multiple employers (Clemens and Karabegović, 2005). In 2005, the Canadian public sector maintained a unionization rate of 75 percent. This was more than 3½ times greater than the private sector's unionization

rate of 19 percent. Quebec's unionization rates are the highest in North America, with 89 percent of public sector workers and 27 percent of private sector workers belonging to unions.¹

When wages are set by exclusive bargaining between the government (monopoly purchaser of labour) and the union (monopoly supplier of labour), the outcome of wage negotiations depends, at least partially, on the ability of each side to withstand the costs of a strike or lock-out. When there are no readily available alternative service providers, governments face strong public pressure to minimize disruptions (strikes) in the delivery of services.

Wage differentials

The factors discussed above contribute to a material wage premium for the public sector over its private sector counterparts. As a review of 2004 Canadian Labour Force Survey data indicates, this wage premium varies considerably depending on the type of employment. For instance, public sector child care and home support workers, primarily concerned with providing child care and homemaking services, assisting school teachers, and planning and operating pre-school programs, earn an average of \$379 per week. Their private sector counterparts earn just \$316 per week (see table 1).² The wage differential is close to 20 percent for this classification of workers.³ A subset of this group, unionized public sector workers, earn an average of \$427 per week while their unionized private sector counterparts earn \$384 per week; a wage differential of 11 percent.

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Table 1: Childcare and Home Support Workers* in Canada, Annual Averages, 2004

	Thousands	Percent of Employment	Wage/Week (\$)	Wage Differential (public/private)
All Workers				
Public Sector	92.3	57.6%	\$379.01	19.9%
Private Sector	68.0	42.4%	\$316.10	—
Unionized Workers				
Public Sector	66.1	85.0%	\$426.85	11.1%
Private Sector	11.7	15.0%	\$384.30	—

*NOC-S category G8 includes visiting homemakers, housekeepers and related occupations (G811), elementary and secondary school teacher assistants (G812), babysitters, nannies, and parents' helpers (G814), as well as child care and home support workers (G81).
Source: Statistics Canada, 2005; and calculations by the authors.

Public sector wage premiums are even higher when examining the occupational classification that includes early childhood educators and assistants employed in daycares, nursery schools and kindergartens.⁴ These employees enjoy an average wage that is 30 percent more in the public sector than in the private sector; unionized public sector workers in this category earn an average 18 percent more than unionized private sector counterparts (see table 2).

These figures only capture direct compensation and are in all likelihood underestimating the compensation premium due to the presence of generous pension benefits and increased job security.

The Quebec daycare experience

Quebec's daycare industry is a case study in public versus private sector employment. In 1997, Quebec's non-profit and family-based daycares were incorporated into a network of *centres de la petite enfance* (CPEs) to provide universal service to children under the age of 5 at a heavily subsidized rate of \$5 per day. The govern-

ment pays for approximately 80 percent of the operating expenses of the daycares, including rent, overhead, and wages.⁵ With salaries and benefits accounting for 85 percent of operating expenses, government has become the sector's *de facto* main employer, negotiating directly with two main unions to set industry-wide compensation rates.

In 1999, the Quebec government agreed to a \$152 million compensation package that pushed nominal daycare wages up an average of 40 percent over four years

(Tougas, 2002). These labour costs have helped drive the nominal cost of the subsidized daycare program upwards, from approximately \$2,020 per space in 1997/98 to \$7,319 per space in 2004/05 (see table 3).⁶

Are wage boards a solution?

Assuming that the public sector remains the dominant provider and thus employer, the introduction of an independent wage board to determine public daycare compensation has the potential to decrease the gap between public- and private-sector wages. Wage boards are independent governmental bodies responsible for collecting, analyzing, and recommending (or imposing, if necessary) public sector wages and benefits based on private sector equivalents. The idea comes from the widely supported prevailing wage principle, which suggests that workers performing the same type of work should be paid comparable wages (for further discussion see Christensen, 1980).

The potential benefits of wage boards are threefold. First, establishing an

Table 2: Paralegals, Social Services Workers, and Occupations in Education and Religion , Canada, Annual Averages, 2004**

	Thousands	Percent of Employment	Wage/Week (\$)	Wage Differential (public/private)
All Workers				
Public Sector	70.2	27.5%	\$647.28	30.0%
Private Sector	185.3	72.5%	\$497.90	—
Unionized Workers				
Public Sector	48.2	61.0%	\$702.66	18.3%
Private Sector	30.8	39.0%	\$593.79	—

**NOC-S category E2 includes early childhood educators and assistants (E217), as well as paralegal and related occupations (E211), community and social service workers (E212), employment counsellors (E213), instructors and teachers of persons with disabilities (E214), other instructors (E215), and other religious occupations (E216).
Source: Statistics Canada, 2005; and calculations by the authors.



Table 3: Quebec Daycare Spaces and Spending, 1997/98-2004/05

Year	Centres de la petite enfance (CPE) spaces	Non-CPE Subsidized Daycare Spaces (leased)	Total Subsidized Spaces	Total Spending, CPEs, and Leased Spaces (millions)	Daycare Spending per Space
1997-98	58,738	17,979	76,717	\$155	\$2,020
1998-99	72,252	23,861	96,113	\$390	\$4,058
1999-00	90,675	23,270	113,945	\$615	\$5,397
2000-01	107,967	24,578	132,545	\$833	\$6,285
2001-02	120,718	24,629	145,347	\$1,020	\$7,018
2002-03	138,694	24,740	163,434	\$1,206	\$7,379
2003-04	150,318	27,530	177,848	\$1,310	\$7,366
2004-05	159,249	30,131	189,380	\$1,386	\$7,319

Source: Lefebvre and Merrigan (2005)

objective standard against which wages can be measured can help reduce some of the acrimony in the public sector negotiations on compensation since compensation in the public sector would no longer be driven by interest group competition. Second, involving an independent body like the wage board can reduce the political influences that lead to work stoppages in the public sector. As Christensen (1980) explains, "When public employees may bargain and strike over compensation, the principle of comparability with the private sector is effectively replaced by the principle of more pay to those with more power" (p. xv). Finally, tying the public sector to the principle of prevailing market wages can eliminate the ad hoc cycle of large and sudden increases followed by wage freezes or even reductions when the cost of public services proves unsustainable.

Conclusion

The Quebec daycare experience shows how the structure and incentives of the public sector can increase costs in the provision of public services. These costs

can be reduced by introducing an independent wage board to review comparable rates compensation in the private child care market. By linking public sector wage rates against their private sector counterparts, a wage board would help to bring public daycare spending under control.

Notes

- ¹Favourable labour laws concerning union certification and security encourage these high unionization rates (see Clemens, *et al.*, 2005).
- ²Hourly weekly wages include both full-time and part-time employees.
- ³Other workers in this category include visiting homemakers, housekeepers, elementary and secondary school teacher assistants, babysitters, nannies and parents' helpers. Detailed descriptions of all Statistics Canada's occupational classifications are available online at <http://www.statcan.ca/english/Subjects/Standard/soc/2001/nocs01-index.htm>.
- ⁴Early childhood educators and assistants fall within a category that encompasses paralegals, social services workers, and occupations in education and religion.
- ⁵A limited number of subsidized daycare spaces are also provided by for-profit centres and non-profit centres run by religious organizations, municipalities, and school boards,

"under agreement" with the provincial government. The government funds a smaller portion of the total costs of these non-CPE daycare centres. In 2004/2005, CPEs and daycare centres under agreement with the government provided 99 percent of all Quebec daycare spaces, up from 93 percent in 1997/98. The 1 percent of Quebec daycares that are licensed and regulated but not under agreement receive no government subsidies, but may fix their own fees.

⁶Costs have also been driven up by new government regulations dictating that two-thirds of staff in centre-based CPEs must have a college diploma or university degree in early childhood education. This requirement puts the majority of Quebec public daycare staff in the higher-paid class of employees identified in table 2.

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Union Security and Unionization Rates

by Jason Clemens & Niels Veldhuis

There continues to be a great deal of misunderstanding regarding the high level of unionization in Canada. Many Canadians still mistakenly believe that Canada's comparatively high unionization rate is driven by worker preferences and choice. The reality is that labour relations laws, particularly aspects concerning voting, mandatory union membership, and dues payments are critical explanations for our country's relatively high unionization rates. Data from the US and Canada, at both the national and sub-national levels, tend to support the idea that when workers are given a genuine choice, they choose unions to a much lesser degree.

The Canada-US divide

Union security provisions broadly cover two critical aspects of labour relations: membership and dues payment. Specifically, a jurisdiction's union security provisions, determined by either direct legislation or court rulings, will specify whether or not workers can be required to join a union as a condition of

employment and the degree to which workers must pay unions dues.

The federal standard in the United States is to prohibit mandatory union membership as a condition of employment. In other words, workers in the United States cannot be compelled to join a union in order to secure or maintain employment. This standard applies to all US states.¹

In addition, federal legislation in the United States allows workers covered by collective agreements to opt out of paying union dues that are not related to representation-related activities (see *Communication Workers v. Beck*, 1988).

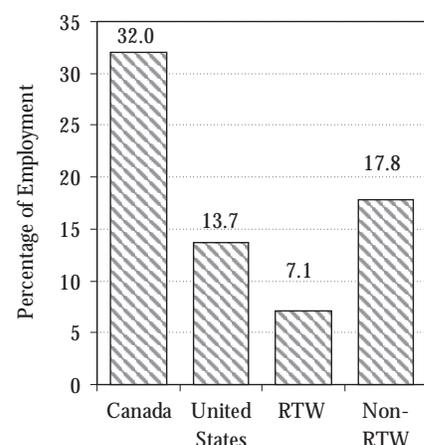
Twenty-two US states, the so-called Right-to-Work (RTW) states² have expanded on the US federal legislation: they allow workers to fully opt out of paying any union dues. The only difference between the 28 US states that have not expanded on the US national standard and the 22 RTW states is the degree to which workers can opt out of paying union dues. All workers in the US, no matter what state they are in, can opt out of union dues that are not related to their representation (for further explanation, see Karabegović *et al.*, 2004).

The contrast between the United States and Canada in terms of the choice workers have with respect to both union membership and dues payment is startling. Neither provincial legislation nor Canadian federal legislation prohibits mandatory union membership as a condition of employment. Further, both provincial and federal legislation permit unions to designate all dues mandatory, without opt-out options, regardless of the nature of union spending. This latter provision has been reinforced by Supreme Court cases.³

Effect of union security laws

A number of scholars have concluded that the different treatment of union membership and dues payment in Canadian and US labour relations law is one of the principal explanations for the wide divergence of unionization rates between the two countries.⁴ Figure 1 illustrates the significant difference in unionization rates between Canada and

Figure 1: Unionization Rates, 2005



Sources: Statistics Canada, 2006; and Hirsch and Macpherson, 2006.



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Table 1: Unionization Rates, 2005

Rank	Province/ State	Per- cent- age	Right- to- Work State?	Rank	Province/ State	Per- cent- age	Right- to- Work State?
1	South Carolina	3.3	Y	31	Maine	13.6	N
2	North Carolina	3.9	Y	32	Massachusetts	14.9	N
3	Arkansas	6.0	Y	33	Maryland	15.0	N
4	Georgia	6.0	Y	34	Pennsylvania	15.0	N
5	Utah	6.1	Y	35	Nevada	15.1	Y
6	Texas	6.2	Y	36	West Virginia	15.5	N
7	Virginia	6.2	Y	37	Oregon	15.7	N
8	Idaho	6.3	Y	38	Minnesota	16.4	N
9	Oklahoma	6.4	Y	39	Rhode Island	16.8	N
10	Tennessee	6.6	Y	40	Connecticut	17.0	N
11	Florida	7.2	Y	41	Ohio	17.2	N
12	Louisiana	7.4	Y	42	Wisconsin	17.2	N
13	Arizona	7.7	Y	43	Illinois	17.6	N
14	South Dakota	8.2	Y	44	California	17.8	N
15	North Dakota	9.2	Y	45	Washington	20.4	N
16	Colorado	9.4	N	46	Michigan	21.4	N
17	Kansas	9.5	Y	47	New Jersey	21.7	N
18	Nebraska	9.5	Y	48	AB	23.6	N
19	Wyoming	9.5	Y	49	Alaska	24.1	N
20	Mississippi	9.7	Y	50	Hawaii	26.7	N
21	New Mexico	10.7	N	51	New York	27.5	N
22	Kentucky	10.8	N	52	NB	28.2	N
23	New Hampshire	11.5	N	53	ON	28.8	N
24	Alabama	11.7	Y	54	NS	29.4	N
25	Montana	12.2	N	55	PEI	32.1	N
26	Missouri	12.6	N	56	BC	32.7	N
27	Delaware	12.9	N	57	SK	35.5	N
28	Vermont	13.0	N	58	MB	37.0	N
29	Indiana	13.2	N	59	NF	37.3	N
30	Iowa	13.5	Y	60	QC	40.2	N

Sources: Statistics Canada, 2006; and Hirsch and Macpherson, 2006.

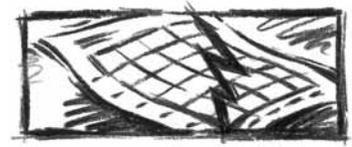
Note: The Canadian data includes public and private sector employees over the age of 15 years. It excludes self-employment. The US data includes all employed civilian wage and salary workers over the age of 16. The US data also excludes self-employed workers and a small number of unpaid family workers. Thus, the only material difference between the two data sets is the age of inclusion: 15 versus 16 years of age.

the United States. As figure 1 shows, Canada's 2005 total unionization rate (32.0 percent) is nearly 2½ times greater than the American rate (13.7 percent). In addition, while the Canadian rate seems to be holding steady, the US rate continues to decline.

Professors Daphne Gottlieb Taras and Allen Ponak (2001) of the University of Calgary have published an influential paper on this topic. They have concluded that the difference in dues payment requirements between the two countries has had a material impact on unionization rates. Specifically,

In Canada, we are suggesting that the financial security provided by the agency shop laws enhanced servicing and organizing activities, leading to higher union membership, which in turn generated more financial resources. In the US, in contrast, the weakening of financial security engendered by RTW laws reduced servicing and organizing resources, leading to loss of membership and further financial erosion. (p. 548)

In other words, Taras and Ponak argue that the Canadian standard, which requires members to pay their full union dues, affords unions the security and resources to undertake organizing campaigns, which ultimately strengthens their position. Conversely, because all American workers can opt out of non-representation-related union dues, and more importantly, because workers in RTW states can completely opt out of union dues, unions in the US have become weaker and have less ability to organize.



Unionization rates in 2005

The results of the differences in Canadian and American union membership and dues payment rules can be seen by observing unionization rates at the provincial and state levels. Table 1 gives the unionization rates for the 10 Canadian provinces and 50 US states for 2005.

*... the US has ...
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who do not want
to be forced to
join a union ...*

Table 1 contains a number of insights. For example:

- 9 of the 10 jurisdictions with the highest total unionization rates are Canadian provinces;
- Alberta, which has Canada's lowest unionization rate, ranks forty-eighth overall with a unionization rate of 23.6 percent; and
- All 15 jurisdictions with the lowest unionization rate are RTW states.

Equally telling is that there is a marked difference in average unionization rates

between RTW and non-RTW states: 7.1 percent versus 17.8 percent (see figure 1).

Conclusion

It is critical that Canadians better understand why our unionization rates are higher than those in the US. Such an understanding could lead to a straightforward debate about the economic implications of those higher rates. In addition, Canadians should know about the significant difference in the level and depth of worker choice between the two countries. While the US has made significant efforts to balance the rights of workers who prefer unions with the rights of workers who do not want to be forced to join a union and pay dues, Canada has moved in the opposite direction by affording unions significant advantages at the expense of worker choice. Knowledge of these differences is the first step in introducing better, more balanced labour relations laws in Canada.

Notes

¹The key US Supreme Court case is *Labor Board v. General Motors* (1963).

²The 22 US RTW states are: Alabama, Arizona, Arkansas, Florida, Georgia, Idaho, Iowa, Kansas, Louisiana, Mississippi, Nebraska, Nevada, North Carolina, North Dakota, Oklahoma, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, and Wyoming. Guam is also a RTW jurisdiction within the United States. For specific details of the RTW legislation in each of these states, please see the National Right to Work Foundation at www.nrtw.org.

³A landmark Canadian Supreme Court case in 1946, referred to as the Rand Formula, resulted in the imposition of mandatory dues payments by Canadian workers as condition of employment, regardless of union membership status (Rand, 1958). The Rand Formula has since been reaffirmed in *Lavigne v. OPSEU* (1991).

⁴There are other important explanations for unionization rates, including certification

rules and the size of the public sector. Please see Clemens *et al.*, 2005 for a summary of these explanations.

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Are BC's Labour Relations Laws Mainstream?

by Niels Veldhuis & Jason Clemens

Much has been made of the remarkable turnaround in BC's investment climate over the past five years. In 2001, pension and investment fund managers ranked BC the least attractive Canadian province in which to invest (The Fraser Institute, 2001). Today, BC is among the most attractive provinces in which to invest, next only to Alberta (Clemens *et al.*, 2006). Numerous changes in government policy have contributed to the province's improved climate: balanced budgets, restrained government spending, incentive-based tax relief, and a reduced regulatory burden. Unfortunately, one critical policy area, labour relations laws, has largely escaped reform. When compared with other North American jurisdictions, BC's labour relation laws remain biased, overly prescriptive, and uncompetitive. If BC is to become a more attractive jurisdiction in North America in which to invest, labour relations law reform must become a top priority.

A new study, *An Empirical Comparison of Labour Relations Laws in Canada and the United States*, summarized elsewhere in this issue, ranks BC's labour relations

laws 55th out of 61 jurisdictions (10 Canadian provinces, the Canadian federal jurisdiction, and the 50 US states) in terms of balancing needs of employers and employees and the promotion of labour market flexibility. Contributing to this woeful result was BC's dismal performance on two of the three main categories of labour regulation laws.

First, the good news: BC's laws governing the process by which unions gain and lose the right to represent workers are relatively balanced. Within North America, only Alberta maintains a more balanced set of regulations regarding union certification and decertification.

To achieve this balance, in 2001 BC significantly improved its certification rules by reinstating the secret ballot voting requirements for union certification. From 1993 to 2001, unions could be automatically certified if 55 percent of a bargaining unit signed union membership cards. This left workers exposed to undue pressure from co-workers and union representatives to sign a union card without recourse to a private decision made through a secret ballot vote.¹

However, the improved rules regarding certification and decertification is where

the good news ends. British Columbia fails miserably on the other two categories of labour relation laws: regulations pertaining to unionized firms, and union security provisions.

British Columbia ranks a dismal 58th out of 61 North American jurisdictions on its regulations pertaining to unionized firms. That is because once BC firms become unionized, labour relation laws are heavily biased in favour of the union.

For starters, BC is only one of six North American jurisdictions (along with Saskatchewan, Manitoba, Quebec, New Brunswick, and the Canadian federal government) that require employers to notify the union when it plans to introduce new equipment or machinery that might affect the collective agreement or employment. Moreover, unions in BC are permitted to grieve or otherwise object to the investment. Laws preventing or slowing down the introduction of new technologies also slow productivity growth, which ultimately makes the jurisdiction less attractive for investors.

BC's labour relations laws also have "successor rights provisions" that protect unions from ownership changes. These laws force new business owners to abide by existing collective agreements when a business is sold, transferred, or merged. Businesses that are failing because they are considered uneconomical are clearly hindered by these laws from reorganizing, which ultimately produces an economy that is not as dynamic or prosperous as it could be.

When labour disputes arise, unions again hold the balance of power in BC. The province is one of only four North American jurisdictions (as well as Quebec, Nova Scotia, and Newfoundland)² that prohibit the use of replacement workers in the event of a legal strike.



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This is especially troubling given that two recent academic studies published in *Labour Economics* and *Industrial and Labour Relations Review* find that employment and investment decrease in jurisdictions that ban the use of replacement workers (Budd, 2000; Budd and Wang, 2004).

Further, unions and employers in BC are forced into binding arbitration when they fail to negotiate a solution to a dispute regarding the existing collective agreement. Voluntary efforts to find a solution, such as mediation, are not permitted. As a result, the selection of arbitrators and members of the labour relations boards are critically important—both have the potential to exert great influence over the resolution of disputes.³

To make its labour relations laws conform more closely with those in other provinces, BC must alter successor rights, technological change, arbitration, and replacement worker provisions.

Perhaps the most damaging aspect of labour relations laws in BC is union security provisions that govern whether or not collective agreements can force workers to become union members and pay dues. In British Columbia, as in all Canadian jurisdictions, mandatory union membership is permitted in collective agreements and can be included as a condition of employment. Further, all workers covered by a collective agreement are required to pay full union dues.

The combination of allowing mandatory membership conditions and the remittance of full union dues results in a strong union bias. These union-security provisions make unions less responsive to employee demands than they would be if they had to compete for the right to represent workers, since members and dues are guaranteed.

The laws that govern union security in BC contrast starkly with union security provisions in the United States. In the US, a union-security provision in a collective agreement cannot require employees to join or maintain membership in the union in order to retain their jobs. In addition, US federal laws allow workers to choose when it comes to financially supporting union activities that are not directly linked to worker representation, such as political activities.⁴

Over the past five years, British Columbia has become an increasingly more attractive province in which to work and invest. While the province has made many positive improvements in policy, it has unfortunately done relatively little to reform its labour relations laws. These laws remain overly prescriptive and are heavily biased towards unions. If BC is to become a more attractive place to invest in North America, it must rework its labour relations regulations.

Notes

¹Queens University Professor Chris Riddell investigated the experience of British Columbia between 1978 and 1998. During this interesting period, mandatory voting was introduced in 1984, eliminated in 1993, and then reintroduced in 2001. Riddell (2004) found that union success rates fell by 19 percentage points after mandatory secret ballot voting was introduced. Riddell's previous study (2001), which used 1984-1993 data for British Columbia, similarly concluded that unionization success rates fell by 20 percent and the number of certification attempts fell by over 50 percent when mandatory secret ballot voting was implemented.

²BC and Quebec explicitly ban the use of replacement workers, while bans in Newfoundland and Nova Scotia are based on precedent-setting cases.

³Karabegović *et al.* (2005) empirically assess the transparency of labour relations boards in Canada and the United States. Part of the assessment involves determining whether biographies of board members are readily

available to the general public through board web sites and/or annual reports.

⁴Twenty-two US states have gone further and prohibited any forced dues payment by introducing Right-to-Work (RTW) legislation, more accurately described as worker choice laws. That is, workers in the states with RTW legislation can not only choose whether or not to be a member of a union, but they also have full discretion with respect to the payment of *any* union dues. See Godin *et al.* (2006) for more details.

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After the Gun Registry

by Gary Mauser

The gun registry is a failure and should be scrapped. But if it is scrapped, how will we be able to keep guns out of the hands of people who shouldn't have them?

I will argue here that it makes more sense to create a registry of people who *should not* have firearms, rather than a list of people who should, a “high-risk persons” registry, in other words. Given that our goal is to protect the public, it makes more sense to focus on the group that poses the greater risk. High-risk people are those who have proven themselves to be dangerous or violent. In contrast, gun owners merely have the potential to be dangerous.

There are many fewer high-risk people than there are guns or gun owners. There are between 2 and 7 million gun owners and between 12 and 15 million guns in Canada (Mauser, 2006). No one knows the exact number, but these are the best estimates available. In contrast, there are only an estimated 400,000 criminals and other high-risk individuals who should not be allowed to have firearms (Breitkreuz, 2004a).¹

First, let us review what we know: the gun registry is expensive and ineffective. At least \$2 billion has been wasted on it so far. It is error-ridden, ineffective,

and, most important, has not had any demonstrable effect on violent crime (Mauser, 2001, 2006). Specifically, the homicide rate has stayed the same since the registry was implemented in 1998 (see figure 1). As well, it is roundly hated, so hundreds of thousands of gun owners have refused to cooperate with it and register their guns.

The more that we learn about the gun registry, the more remarkable it seems that anyone could have ever thought such an unwieldy scheme would work. The gun registry has two parts to it. First, people who wish to own a gun are required to get a licence. Many people who had owned firearms for decades were required to get a licence just to keep them. Second, the firearm itself must be registered. This requires providing the government with a description of the firearm and a serial number. The vast majority of licensed owners (65%) or registered firearms (82%) have not been checked.² Thus, many errors have entered the system.³ Further, less than one-half of one percent of the guns in Canada are used for illegal purposes each year.⁴ Few of those misused firearms have ever been registered.

The problem isn't with firearms but with violent people. There is no more reason to fear hunters or target shooters just because they have guns than there is to fear cooks just because they have

sharp knives. Unfortunately, there are a lot of readily available ways to kill people, including knives, golf clubs, gasoline, bombs, and various poisons.⁵

For those with the intent to kill, guns are not even the most lethal option. Bombs are. The largest mass murders in North America have involved improvised bombs.⁶ Arson is as deadly as it is easy to do. In just one example, a jilted lover used a can of gasoline to kill 87 patrons in a Bronx dance hall in New York (Tomasson, 1991).⁷ If guns were somehow to disappear, violent people would still exist.

Table 1 shows the types of people who I believe should not have access to firearms. In principle, the government already keeps track of these people, or it should, because they have been judged to be dangerous to society. None of the people in these high-risk categories are

Table 1: An Illustrative List of People Who Should Not Have Guns in Canada

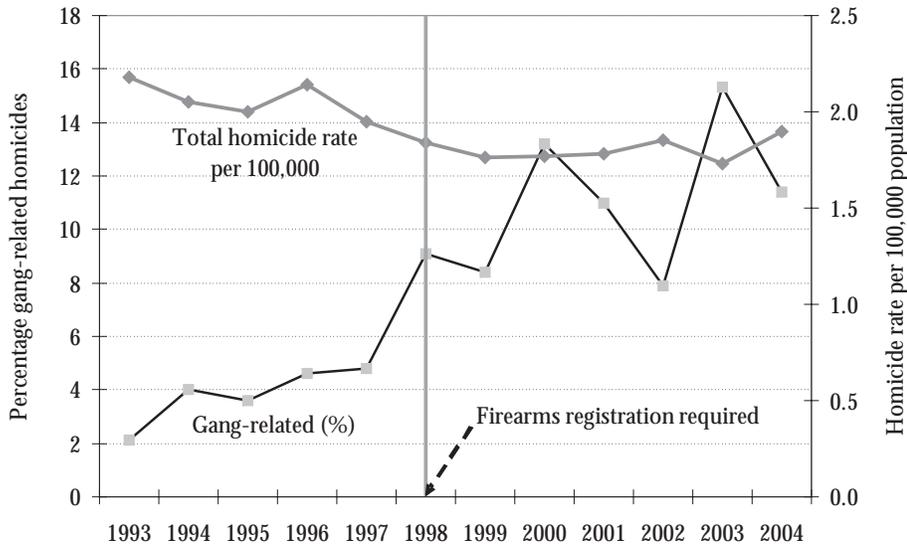
- Convicted violent criminals, prisoners, and parolees;
- Persons prohibited from owning guns by the courts;
- Persons with an outstanding criminal arrest warrant;
- Persons subject to restraining orders or bail conditions;
- Persons subject to a deportation order;
- Persons with refused or revoked firearm licences or certificates;
- Individuals who have threatened violence as identified in the Firearms Interest Police Database until cleared by a Chief Firearms Officer or the courts.



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Figure 1: Trend in Gang-related Homicide in Canada



Sources: Dauvergne, 2004; Dauvergne, 2005.

subject to the provisions of the Firearms Act. Unless ordered to do so by the court, they are not required to report changes of address the way all two million federally-licensed firearms owners are.

A registry of high-risk people is consistent with Canadian legal traditions. Courts are the preferred method of determining legal sanctions—not government bureaucrats. Denying firearms to an individual should be based on past behaviour, not the mere potential for causing harm. Instead of requiring individuals to prove they *can* be trusted, it is more compatible with individual liberty to put the burden of proof onto the authorities to prove any given individual should *not* be trusted. Criminals, by their actions, have shown that they are not to be trusted.

A list of high-risk individuals is useful. The best predictor of who should be allowed to have a gun is a person's criminal record, or lack of one. No test

has yet been developed by anyone—police, psychiatrist, or criminologist—that is better at predicting what an individual will do in the future than that individual's own records. Adults who have not yet committed a crime will

... put the burden of proof onto the authorities to prove an individual should not be trusted.

probably never do so. Of course predictions based on past behaviour are far from perfect, but they are still better than any other predictor.

Because there are fewer names on the list of high-risk people than on the list of gun owners, the former list should

cost less to assemble and to maintain. The criminal justice system already has lists of these people; all that needs to be done is to assemble the separate lists into one master list.

What would we do with a list of high-risk individuals? Not only would such a list help in deciding who should have a firearm, it would also protect the public by making it easier to keep track of dangerous people. For example, no national list now exists that can be used to monitor sex offenders, parolees with violent criminal records, people with court orders against them, or foreign nationals who have been ordered deported as dangerous to the public. As shocking as it may be, communication amongst the RCMP, provincial police forces, and Immigration Canada is woefully inadequate. The government should immediately create the proposed list of high-risk individuals and take steps to encourage both the RCMP and Immigration Canada to use it.

The new government has pledged to end the gun registry, but it cannot realistically do so without substituting for it some other method for keeping guns out of the hands of those who should not have them. The proposed list of high-risk individuals is both rational and cost-effective. Not only will society be safer if we keep track of high-risk individuals rather than guns and gun owners, but such a list will be less costly than the current gun registry.

Notes

¹This total was arrived at by adding the following estimates: a) approximately 200,000 convicted criminals who have been or should have been prohibited from owning firearms, b) 40,000 people with restraining orders or bail conditions, c) 30,000 illegal immigrants who have been ordered deported, d) 16,554 people whose firearms licences have been revoked or refused, and e) people for whom



33,742 armed and dangerous alerts have been issued by Canadian police agencies.

An unknown number of these individuals may occur in more than one category, so these estimates include double counting. However, this problem is at least partially offset by other categories of people where estimates are nonexistent, and the necessity of including approximately 20,000 net new violators each year. For more information see the *Report to the Solicitor General* (RCMP, 2003, figure 5, p. 26).

²1.3 million POL (Possession Only Licence) holders have not had criminal record checks out of the total 2 million licensed firearms owners, and 5.8 million of the 7.1 million registered firearms have not been verified (Breitkreuz, 2004b).

³Due to budget constraints, the government did not verify the information provided by many owners about themselves or the firearm they were registering. One imaginative Canadian even managed to register a soldering gun without the Canadian Firearms Centre knowing that it was not a "firearm" under the Canadian criminal code (Breitkreuz, 2002). If the owner claims his firearm does not have a permanent serial number, and many firearms do not, the government merely issues one in the form of a paper note that must be glued to the gun.

⁴Guns are involved in an estimated 40,000 crimes in Canada each year (Dauvergne, 2005; Sauvé, 2005).

⁵Anyone who thinks that bombs are not readily available has not taken chemistry or examined their surroundings with a murderous eye.

⁶The Oklahoma City federal building was destroyed by a bomb fashioned from fertilizer and fuel oil, while those who annihilated the Twin Towers in New York City used airplanes as if they were gasoline bombs.

⁷This case shocked the public with how easy it was for anyone to get gasoline. Nothing has changed since this tragedy.

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The Consequences of Questionable Research

by Brett J. Skinner

In November 2005, researchers from the University of Toronto's Rotman School of Business released a study comparing the prices of generic drugs in Canada and the US (D'Cruz, Hejazi, and Fleischmann, 2005). The study argued that generic drug prices in Canada and the US have been at *parity* for the past two years. This claim is important because it challenges the findings of previous research published by The Fraser Institute and other sources, which found prices for the same generic drugs to be significantly *higher* in Canada than in the US. Unfortunately, the Rotman study, which was prepared for the Canadian Generic Pharmaceutical Association (CGPA), used a flawed methodology to reach its conclusions. The methodological error resulted in a grossly inaccurate comparison of Canadian and US generic drug prices.

Aside from making normal adjustments for differences in the purchasing power of Canadian and US currencies, the Rotman study's authors used five criteria to compare Canadian and US prices on what they called an "apples-to-

apples" basis. According to the study, generic drug prices were compared only when the following five characteristics were the same in both countries:

1. Same active ingredient
2. Same dosage form (tablet, injection, etc.)
3. Same dosage strength unit of measurement (e.g. mg)
4. Same actual strength/concentration
5. Same pack size (e.g. number of pills, tablets, etc.)

The authors asserted that, "studies that do not match [prices] based on all of these five characteristics could produce misleading results" (D'Cruz, Hejazi, and Fleischmann, 2005, p. 2). This is a surprising claim because only four of the five criteria are standard in other well-known studies of drug prices, including those done by The Fraser Institute (Skinner, 2005), as well as Canada's own Patented Medicine Prices Review Board (PMPRB, 2003), the US Food and Drug Administration (FDA, 2003) and private consulting firms (PDCI, 2002; 2005).

Despite the claims of the Rotman authors, it is in fact their own addition of the fifth criterion that has the effect

of producing misleading and inaccurate results on Canada-US drug price comparisons.

First, the Rotman authors correctly converted prices to a common dosage unit (e.g., price per mg). This method properly controls for differences in pack sizes between Canada and the US, truly making price comparisons "apples to apples." However, after making this adjustment, the Rotman authors then compared similar pack sizes in Canada and the US. This completely defeats the purpose of doing the conversion to a common dosage unit in the first place.

It is common to have larger pack sizes at discounted prices in the US. Larger pack sizes allow American consumers to get more for their money, or in other words, to reduce the price per unit. There is no legitimate rationale for excluding these cases. By including only the *least* economical sales of US generic products, the Rotman authors introduced a selection bias that skewed the price comparison results and produced a misleading measurement.

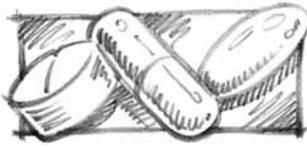
the Rotman study ... used a flawed methodology ...

It is telling that even after selecting only the highest priced generic drugs available in the US market to compare to Canadian generics, the authors could still only produce a result showing that Canadian and US prices were the same.

Additionally, the Rotman study only compared Canadian and US generic



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Dubious Research

prices at the *wholesale* level, despite claiming in the study's title that it was based on "Comparisons of *Retail* Prices of Generic Prescription Drugs" [emphasis added]. The study's authors later clarify their unusual definition of retail prices by saying that the study measured the "prices paid *by* drug retailers to wholesalers and manufacturers," [again, emphasis added] not *to* drug retailers by consumers, as would normally be the case (D'Cruz, Hejazi, and Fleischmann, 2005, p. 3). This confusing use of terminology is important because comparing prices at the wholesale level is meaningless to consumers who must pay retail prices.

Nevertheless, previous research by the PMPRB, the FDA, and others using

more traditional methods has consistently found that both the wholesale and retail prices of Canadian generics are higher, on average, than for the same drugs in the US.

FraserInstitute research from 2005 on generic prices at the retail level (using data from IMS Health Incorporated, Canada's leading drug data agency) on a sample of the 100 top-selling generic products in 2003 (representing two-thirds of the entire Canadian generic market), showed 74 percent of the generic products available in both countries were more expensive in Canada. Further, the Canadian prices for this group of higher-priced generics were 116 percent greater on average than for the same drugs in the US. The average price

difference over the entire top 100 was 78 percent higher in Canada (Skinner, 2005).

Previous Fraser Institute research has shown that a lack of price competition in our generic industry, caused by various government policies, is what makes prices so high in Canada relative to the US, where the same kind of interference in pharmaceutical markets does not exist (Skinner, 2004; 2005).

There is an old saying that "ideas have consequences." In this case, misleading analyses like that produced by the Rotman study have the potential to adversely influence the public policy choices of governments. The constraints of time and the need for specialized knowledge mean that policy makers

must rely on the advice of learned experts like the Rotman researchers.

The consequences of making the wrong choices based on such flawed policy research are not to be taken lightly. In this case, estimated losses to Canadian consumers and taxpayers from public policies that encourage inflated generic drug prices range from between approximately \$2 billion and \$5 billion (in 2003 dollars) annually (Skinner, 2005). That is a very steep price tag for Canadians to pay.

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Why Canada Needs to Strengthen its Borders

W by Martin Collacott

hen the Liberals departed from office some months ago they left the Conservatives with the task of re-establishing a climate of mutual respect and support with the United States. While it is expected that Stephen Harper and his government will make significant progress in this area, it is also important that they examine closely what needs to be done to strengthen continental security and, in so doing, help to ensure that our border with the US remains as open as possible to the movement of people and goods. To achieve this, Canada will have to undertake major improvements in a number of aspects of border security, particularly in the area of who is allowed to enter our territory.

While surveys indicate that a majority of Canadians believe we could one day be the target of a major terrorist attack (Doyle, 2005), this concern has not been translated fully enough into practical measures, particularly in the area of border controls. In comparison, the Americans have substantially increased

their surveillance capacity as well as the number of border patrol agents along our border. They are also in the process of introducing measures for screening and tracking visitors so it can be determined if they leave when they are supposed to. For its part, Canada is not considering measures on anywhere near the same scale.¹

Canadians continue to have every reason to be concerned about terrorists and their sympathizers on our soil. The Canadian Security Intelligence Service (CSIS) has not been reticent about making it clear that extremists continue to have a significant presence in this country. While the organization has been given additional resources since September 11, 2001 to monitor such individuals, many still enjoy relative freedom of movement. This was apparent in the Air India trial, when witnesses for the prosecution were intimidated, presumably by those sympathetic to the accused. In the end, the Crown was unable to get a conviction despite an investigation and trial that lasted almost two decades and cost an estimated \$130 million.



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Following the events of 9/11, the Canadian government passed what appeared to be tough legislation to put a stop to terrorist fundraising in Canada. Supporters of the Liberation Tigers of Tamil Eelam have been particularly active in this area and it is believed that one of the main sources of financial support for their insurgency and terrorist attacks in Sri Lanka have been the substantial funds they have been able to extract from the Tamil community in Canada (Collacott, 2000; 2005). On March 14 of this year, Human Rights Watch reported that a “massive” Tamil Tiger fundraising effort had been under way in Toronto since last year, with contributions of up to \$100,000 being demanded of individual families and businesses in the Tamil community (Bell, 2006). While no charges have as yet been laid under the terrorist fundraising legislation, the new government has, at least, added the Tigers to the list of outlawed terrorist groups—something the previous government refused to do despite the fact that CSIS recommended on three occasions that such action be taken.

Islamic terrorists constitute the greatest threat since, among the various groups operating in this country, it is they who are most likely to launch a major attack on Canada, or use it as a base from which to target the United States. As described in my recent paper, *Canada's Inadequate Response to Terrorism*, the favoured route by which Islamic terrorists have gained entry to Canada has been by claiming refugee status (Collacott, 2006). Our current refugee determination system has a host of shortcomings and is in need of major reforms to address problems extending well beyond its vulnerability to exploitation by terrorists.

Exercising more effective control over who we allow into the country as well as ensuring the departure of those who are supposed to leave will not come without a price tag. In addition to changes needed in the refugee system itself, improving the current situation will involve substantial increases in resources for visa offices abroad so they can pay more attention to security-related issues. It will also require more personnel staffing our border posts, as well as better systems for screening and tracking visitors entering and leaving the country.

Canadians continue to have every reason to be concerned about terrorists on our soil.

While it will take some time for the Americans to put fully in place the various measures they are planning to strengthen their side of our common border, their resolve to do so is clear. The gap between the steps they are taking and what we are doing is likely to widen as they continue to be concerned about possible security threats from the Canadian side. Should there be another serious terrorist attack in the United States, or for that matter in Canada, a major blockage of cross border movements for an extended period of time might well ensue because of heightened US security concerns. This would cause some disruption to the American economy—but relatively minor in scale when compared to the devastating effect it would likely have on ours. Our exports to the US in 2005 were equivalent to 27 percent of our GDP, while

their exports to us equalled only 1.4 percent of their GDP (Government of Canada, 2005).

In the circumstances, a major priority for the new government should be to strengthen our controls over who is allowed to enter the country, including those who come here as refugee claimants, as well as remove those who should not be here. Some critics may argue that such action on our part would constitute an infringement of our sovereignty inasmuch as one of the outcomes of doing so would be to reassure the Americans that we do not pose an undue risk to their safety. The fact is, however, that we should be taking such measures for our own sake in order to exercise more effective control over our borders and ensure our own security and independence.

Note

¹For a more detailed examination of these and related issues, see Collacott, 2006.

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The Rising West

by Jason Clemens,
Niels Veldhuis, &
Milagros Palacios

Canada's three western provinces are quickly becoming a major economic force in Canada. Unfortunately, many have dismissed the West's ascendance and success as a short-run aberration based on rising commodity prices. While strong commodity prices are certainly part of the explanation, the impact of sensible and prudent tax policy cannot be ignored. Western Canadian governments of all stripes, from Progressive Conservatives in Alberta, to Liberals in British Columbia, to New Democrats in Saskatchewan, have all dramatically reduced personal income and business taxes. Indeed, with improved investment climates, lower taxes, and generally more vibrant economies, the fortunes of Western Canadian provinces will continue to rise.

The economies of BC, Alberta, and Saskatchewan are clearly leading the country. From 2002 to 2004, inflation-adjusted economic growth averaged 3.7 percent in Alberta, 3.6 percent in Saskatchewan, and 3.4 percent in British Columbia compared to the national average of 2.5 percent (Statistics Canada, 2005).

While official Statistics Canada data are not yet available for 2005, recent economic forecasts show similar results (Scotia Economics, 2006). Going forward, Western Canada's dominance is expected to continue. Forecasts indicate that Alberta, British Columbia, and Saskatchewan will lead the country in average economic growth. Specifically, inflation-adjusted economic growth is expected to average 4.4 percent in Alberta over the next two years (2006 and 2007), 3.7 percent in British Columbia, and 3.2 percent in Saskatchewan (Scotia Economics, 2006). In comparison, the national economy is expected to grow 2.8 percent this year and 2.7 percent in 2007. Ontario and Quebec, meanwhile, are expected to continue to experience less than stellar economic growth: 2.3 percent and 2.1 percent, respectively in 2007 (table 1).

Similar trends are evident in the labour market. Between 2002 and 2004, British Columbia and Alberta experienced the highest job creation rates in Canada, well above the national average. These two provinces are expected to continue this pace, creating jobs at more than twice the rate of Ontario and Quebec.

Alberta, British Columbia, and Saskatchewan have all benefited from

growth-enhancing tax reforms aimed at improving the incentives for work, savings, investment, and entrepreneurship.

Alberta leads the way

Alberta began the movement towards greater competitiveness by creating Canada's only single-rate personal income tax in 2001. Five years later, Albertans remain the only citizens in the country that do not face increasing provincial personal income tax rates as their incomes increase.

Alberta was also the first government in Canada to begin to reduce, and eventually eliminate, corporate capital taxes, which are now broadly recognized as an extraordinarily costly and counterproductive way in which to raise revenues (for details, see Clemens *et al.*, 2002). Alberta also reduced its corporate income tax rates from 15.5 percent in 2000 to 10.0 percent in 2006.

British Columbia's revolution

Alberta's ground-breaking changes were followed by a transformation in British Columbia. In 2001, the province's newly-elected Liberal government introduced a 25 percent across-the-board personal income tax cut. As a result, BC went from having one of the highest top marginal tax rates in the country to one of the lowest.

The new government also introduced critical business tax relief. It eliminated the general corporate capital tax over a two-year period and reduced corporate income tax rates from 16.5 percent (one of the highest in the country) to 13.5 percent. Last year, it further reduced the general corporate income tax rate to 12.0 percent, the lowest in the country apart from Alberta.

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Table 1: Real GDP and Employment Growth, Annual Average Change

	Real GDP Growth					Employment Growth				
	2003	2004	2005 ^e	2006 ^f	2007 ^f	2003	2004	2005 ^e	2006 ^f	2007 ^f
Canada	2.0	2.9	2.9	2.8	2.7	2.3	1.8	1.4	1.3	1.0
NL	6.2	-1.4	1.8	4.8	2.2	2.4	1.4	-0.1	1.0	0.9
PEI	1.5	1.8	1.9	2.0	1.9	1.5	1.5	1.9	1.1	1.0
NS	0.9	1.4	2.0	2.4	2.8	2.1	2.6	0.2	1.0	0.7
NB	1.7	2.0	2.4	2.6	2.5	0.3	1.7	0.1	0.9	0.8
QC	2.1	2.3	2.4	2.2	2.3	1.6	1.7	1.0	0.9	0.8
ON	1.6	2.7	2.4	2.0	2.1	2.9	1.7	1.3	1.0	0.8
MB	1.8	2.3	2.7	2.9	2.8	0.7	0.9	0.6	0.8	0.7
SK	3.8	3.4	3.4	3.2	3.1	1.5	1.1	0.8	1.0	0.8
AB	3.1	4.3	4.6	4.8	4.0	2.8	2.3	1.5	2.1	1.8
BC	2.7	4.0	3.8	3.8	3.5	2.8	2.3	3.3	2.4	1.8

^e = estimated

^f = forecasted

Source: Statistics Canada (2005), *Provincial Economic Accounts*; Scotia Economics (2006), *Provincial Forecast Update, March 2006*; calculations by the authors.

The land of living skies joins the party

Saskatchewan, the long-heralded home of socialism, has now joined Alberta and British Columbia by pursuing strong pro-growth, incentive-based tax relief. Since 2000 the province has reduced personal income tax rates and increased the thresholds at which the different rates apply, making the province's personal income tax rates amongst the most competitive in Canada.

Early in 2006, Saskatchewan tabled an historic budget which will significantly reduce the province's business taxes (Saskatchewan Department of Finance, 2006b). Using the model from Alberta and BC, Saskatchewan will dramatically reduce corporate income tax rates from 17 percent (the highest in Canada) to 12 percent by July 1, 2008. Notably, there is an immediate 3-percentage point reduction in the corporate income tax rate to 14.0 percent. The rate will further be

reduced by 1 percentage point per year for the next two years.

Saskatchewan will also phase out the corporate capital tax for all non-financial companies, excluding Crown cor-

... the impact of sensible tax policy cannot be ignored ...

porations, by July 1, 2008. In addition, it has eliminated the tax for all new investments in the province as of the beginning of July this year. This change is perhaps the most important not only because of the high economic costs associated with this particular tax, but also because it signals a marked change in the province's economic philosophy.

Conclusion

Canadians should not underestimate the economic effects of having the three Western provinces generally aligned on tax policies. With improved incentives for work, savings, investment, and entrepreneurship, economic activity will continue to shift westward. Sensible personal and corporate tax regimes have laid the foundation for improved productivity and lasting prosperity in the West. It is to be hoped that Western Canada's success will entice other provinces and the federal government to emulate them by implementing pro-economic growth, incentive-based tax relief.

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How Much Tax Do You Really Pay?

by Niels Veldhuis & Michael Walker

The first question people ask about Canada's tax system is: How much tax do I *really* pay? Thirty years ago, average Canadians would have had a difficult time finding an answer to that question. In 1975, however, The Fraser Institute embarked on a project to find out how much tax, in all forms, Canadians pay to their respective governments, federal, provincial, and local. *How Much Tax Do You Really Pay? Your Real Tax Guide* was published by the Institute in 1976 and provided average Canadians with a non-technical, do-it-yourself manual so they could calculate how much tax they really pay. Last month, we released the 30th anniversary edition of that book, now entitled *Tax Facts*. Although the series has undergone many changes and now contains much more detail than the original publication, most of the core features remain. Below are highlights from *Tax Facts 14*.

The not-so-obvious taxes

Most Canadians have little difficulty determining how much income tax they pay—a quick look at their income tax return or pay stub gives them that information. The amount of other prominent, direct taxes they pay, such as

Employment Insurance, Canadian Pension Plan premiums, and property taxes are also relatively easy to determine as they are either deducted from worker's pay cheques (in the case of EI and CPP) or assessed annually (as property taxes are). Most people are, however, unaware that the direct taxes listed above account for only half of their total tax bill.

There are a host of other taxes that are not so obvious. First, while Canadians are painfully aware of sales taxes, calculating the amount they pay requires that they track all of their purchases of taxable goods and services. Apart from those taxes, built into the price of goods and services are a class of taxes of which Canadians are largely unaware. The most significant of the "hidden" taxes are import duties, excise taxes on tobacco and alcohol, amusement taxes, and gas taxes. Finally, most Canadians are unaware they ultimately pay the employer's portion of payroll taxes such as EI and CPP premiums and other taxes levied on corporations. In other words, although businesses pay these taxes directly, the cost of business taxation is ultimately passed onto ordinary Canadians.



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In 2005, the average Canadian family (families and unattached individuals) earned an income of \$60,903 and paid total taxes equaling \$28,467. Of the \$28,467 in total taxes paid, income taxes accounted for only 32 percent or \$9,097 (table 1). Sales taxes, social security taxes, and many other taxes accounted for the other two-thirds of the tax bill.

The Canadian Consumer Tax Index

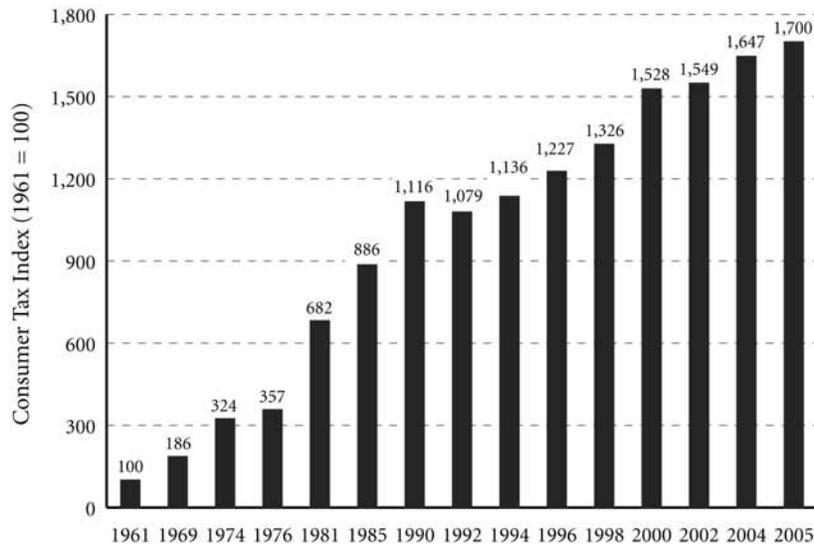
Tax Facts 14 updates The Canadian Consumer Tax Index (CCTI) which tracks how the total tax burden of the

Table 1: Tax Bill of the Average Canadian Family, 2005

Total cash income	\$60,903
Taxes	
Income taxes	\$9,097
Sales taxes	4,662
Liquor, tobacco, amusement, and other excise taxes	1,853
Auto, fuel, and motor vehicle licence taxes	745
Social security, medical, and hospital taxes	6,127
Property taxes	2,191
Import duties	217
Profits tax	2,520
Natural resource taxes	471
Other taxes	585
Total taxes	\$28,467
Taxes as a percentage of total cash income	46.7%

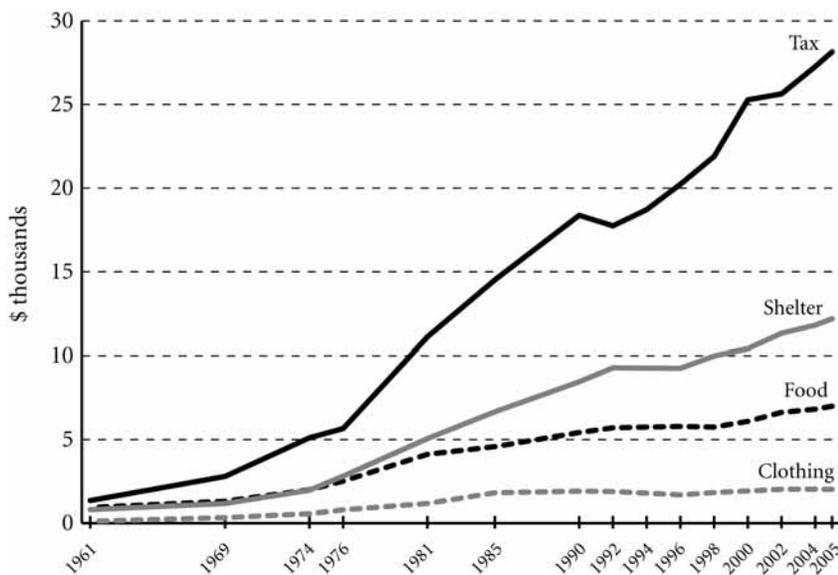
Source: The Fraser Institute's Canadian Tax Simulator, 2005.

Figure 1: The Canadian Consumer Tax Index, 1961-2005



Source: *Tax Facts 14*, table 4.1.

Figure 2: Taxes and Basic Expenditures of the Average Canadian Family, 1961-2005



Notes: Data for some years have been interpolated; all years shown have full data. All expenditure items include indirect taxes. *Nota bene* that measurement of shelter has changed; see note on table 4.4 for more information.

Source: *Tax Facts 14*, table 4.4.

average Canadian family has changed since 1961.¹ The “consumer” is the tax-paying family who is thought of as consuming government services. The CCTI is constructed by dividing the tax bill of an average Canadian family by the average tax bill of an average family in 1961, and then multiplying by 100, for each of the years included in the index. The CCTI has a value of 100 in 1961 and values in subsequent years reflect the percentage increase over the 1961 value. The value of the Canadian Consumer Tax Index for 2005 is 1,700, which indicates that the tax bill of the average Canadian family has increased by 1,600 percent since 1961 (figure 1).

The dramatic increase in the CCTI from 1961 to 2005 is a product of a number of factors. First, there was a dramatic increase in incomes over the period and, even with no change in tax rates, the family’s tax bill would have increased substantially. In 1961, the average family had an income of \$5,000 compared to \$60,903 in 2005; this increase in family income alone would have produced a 1,118 percent increase in the tax bill from 1961 to 2005. The second contributing factor was an increase in the average family’s effective tax rate from 33.5 percent in 1961 to 46.7 percent in 2005.

To gauge the significance of the increase of the tax bill on Canadian families it is necessary to compare its evolution to the average family’s other major expenditures. Figure 2 compares the average family’s total tax bill with spending on such basic needs as food, clothing, and shelter. As figure 2 clearly shows, taxes have grown much more rapidly than any other single expenditure. Taxes rose by 1,600 percent from 1961 to 2005, while expenditures on shelter increased by 1,006 percent, food by 481 percent and clothing by 439 percent.



What benefit do families receive for their taxes? Did the average family's returns from government spending increase by as much as the tax bill? While it is relatively simple to calculate how a Canadian's tax dollar is spent by the various governments, it does not answer the questions above. Whether or not our own personal benefits from government have increased relative to the rapidly increasing price we pay (taxes) is a question each of us can only answer for ourselves. For this reason, *Tax Facts* does not discuss the benefits that government spending creates.

The relative tax burden

The next thing Canadians want to know is how fair the tax system is. How much tax are other Canadians are paying? Are some people paying more or less than others?

To answer that question, *Tax Facts* examines the relative income and tax position of Canadians. Families are arranged according to their income from highest to lowest: 10 percent of the families with the lowest incomes are selected to make up the first of 10 income groups called deciles. The second income decile represents the next 10 percent of families, and so on. Finally, three broad income groups are created based on the income deciles. The lowest income group includes all of the families in the bottom three deciles; middle income group includes the next four deciles; the upper group includes the top three deciles.

Table 2 shows the distribution of income and taxes for selected years. In 2005, the top 30 percent of families earned 60.3 percent of all income in Canada and paid 66.3 percent of all taxes. The bottom 30 percent earned 7.8 percent of all income and paid 4.3 percent

cent of all taxes. Who belongs to the club of the top 30 percent of Canadian families? A family is included in the top 30 percent when its cash income exceeds \$76,939. The average family income in this group is \$132,919.

In 2005, the top 30 percent of families earned 60.3 percent of all income in Canada and paid 66.3 percent of all taxes. The bottom 30 percent earned 7.8 percent of all income and paid 4.3 percent of all taxes.

It is important to note that these figures present only a snapshot of the number of Canadians who fall into various income groups at one point in time. For most families, their incomes change over time. Most young people start out in the low income group and work up to the middle or high income group. Given their initial lack of experience, their incomes start out low. Their incomes peak when they hit middle age, the prime earning years, and then begin

Table 2: Distribution of Income and Taxes Among Various Income Groups

Year	Lower 3 deciles* (%)	Middle 4 deciles* (%)	Upper 3 deciles* (%)
Decile distribution of income before tax (%)			
1961	10.8%	35.6%	53.6%
1985	10.2%	35.1%	54.7%
1996	7.3%	30.9%	61.8%
2005	7.8%	31.9%	60.3%
Decile distribution of taxes (%)			
1961	8.7%	30.6%	60.9%
1985	7.1%	33.6%	59.4%
1996	3.8%	27.8%	68.3%
2005	4.3%	29.4%	66.3%

*A decile is one of 10 income groups where each groups consists of 10 percent of the total number of Canadian families. The first income group contains the 10 percent of the families with the lowest incomes, and the last income group contains the 10 percent of the families with the highest incomes.

Source: The Fraser Institute's Canadian Tax Simulator, 2005.

to fall as they approach retirement. In other words, there is less inequality in the long term because many families will initially have low income and low taxes, then a middle level of income and taxes, and possibility high income and tax levels as they move through their lives.

The rags-to-riches tax burden

The above discussion demonstrates how progressive our tax system is and how it imposes ever-increasing burdens on people as they earn more income. What about an individual who had started off in 1961 with meagre earnings and had

worked his way up the ranks of income earners? What kind of message does our tax system send to this person? To answer these questions we created a hypothetical situation—a Canadian whose income grew from half of the average income in 1961 to double the average income in 2005.

This fictitious Canadian earned \$2,750 in 1961 and paid a total of \$960 in taxes. During the next 44 years, his income grew steadily and at such a rate that by 2005 he was earning \$122,657 a year and paid taxes amounting to \$61,083. While the income of our hypothetical person increased by 4,360 percent from 1961 to 2005, the amount of taxes he paid increased by an astonishing 6,387 percent.

Conclusion

For all the money that Canadians pay to government, most know little about the Canadian tax system. *Tax Facts 14* was created to provide Canadians with the basic knowledge needed to engage in a rational debate about taxation. Within its pages is a simple tool that will help Canadians discover how much tax they really pay. It takes a bit of work but arriving at the final result requires only a few minutes and some calculator strokes. Taxation is the most significant economic aspect Canadian's lives. Can we afford not to know how much tax we really pay?

Note

¹The CCTI does not track a particular family's tax burden from 1961 but rather the tax burden of a family that was average in each year.

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Minimum Wage, Maximum Folly

by *Walter E. Williams*

About a fortnight ago, my wife alerted me to an episode of Oprah Winfrey's show titled "Inside the Lives of People Living on Minimum Wage." After a few minutes of watching, I turned it off, not because of the heart-rending tales, but because most of what was being said was dead wrong.

Here's why. The show claims that 30 million Americans earn the minimum wage of \$5 an hour. Actually, the federal minimum wage is \$5.15 an hour, and 17 states mandate a higher minimum wage that approaches \$7 an hour. At one point, Oprah did manage to clear up this aspect of the show's errors.

The US Department of Labor reports: "According to Current Population Survey estimates for 2004, some 73.9 million American workers were paid at hourly rates, representing 59.8 percent of all wage and salary workers. Of those paid by the hour, 520,000 were reported as earning exactly \$5.15" (Bureau of Labor Statistics, 2005).

Workers earning the minimum wage or less tend to be young, single workers between the ages of 16 and 25. Only about two percent of workers over 25 years of age earn minimum wages. According to the same department, 63

percent of minimum wage workers receive raises within one year of employment, and only 15 percent still earn the minimum wage after three years. Furthermore, only 5.3 percent of minimum wage earners are from households below the official poverty line; 40 percent of minimum wage earners live in households with incomes \$60,000 and higher; and over 82 percent of minimum wage earners do not have dependents.

The US Department of Labor also reports that the "proportion of hourly-paid workers earning the prevailing Federal minimum wage or less has trended downward since 1979" (Bureau of Labor Statistics, 2005).

Another issue that's not often taken into consideration is the difference between what a worker takes home in pay and his total compensation. Employers must pay for legally-required worker benefits that include Social Security, Medicare, unemployment insurance, workers' compensation, health and disability insurance benefits, and whatever paid leave benefits they offer, such as vacations, holidays and sick leave. It is tempting to think of higher minimum wages as an anti-poverty weapon, but such an idea doesn't even pass the smell test. After all, if higher minimum wages could cure poverty, we could easily end worldwide poverty simply by telling poor nations to legislate higher minimum wages.

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Poor people are not poor because of low wages. For the most part, they're poor because of low productivity, and wages are connected to productivity. The effect of minimum wages is to cause unemployment among low-skilled workers. If an employer must pay \$5.15 an hour, plus mandated fringe benefits that might bring the employment cost of a worker to \$7 an hour, does it pay to hire a person who is so unfortunate as to have skills that permit him to produce only \$4 worth of value per hour? Most employers would view hiring such a person as a losing economic proposition.

Two important surveys of academic economists were reported in two issues of the *American Economic Review*, May

1979 and May 1992. In one survey 90 percent, and in the other 80 percent, of economists agreed that increasing the minimum wage causes unemployment among youth and low-skilled workers.

Minimum wages can have a more insidious effect. In research for my book *South Africa's War Against Capitalism* (1989), I found that during South Africa's apartheid era, racist unions, who'd never admit blacks, were the major supporters of higher minimum wages for blacks.

Gert Beetge, secretary of South Africa's avowedly racist Building Workers' Union, in response to contractors hiring black workers, said, "There is no job reservation left in the building industry,

and in the circumstances I support the rate-for-the-job [minimum wages] as the second best way of protecting our white artisans." Racists recognized the discriminatory effects of mandated minimum wages.

I'm trying to decide whether ineptitude explains the errors in Oprah's show or a deliberate attempt to mislead.

Reference

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Institute Director Honoured

Jason Clemens, the Institute's director of fiscal studies, has been named a recipient of *Canada's Top 40 Under 40*TM for 2005.

*Canada's Top 40 Under 40*TM is a prestigious national award program that annually honours 40 Canadians under the age of 40 in the private, public, and not-for-profit sectors. The program, now in its 11th year, is managed by its founding sponsor, the Caldwell Partners. Other sponsors include the *Globe and Mail*, CGA-Canada, Air Canada, and *Privilege Magazine*. The 2005 Recipients of *Canada's Top 40 Under 40*TM were profiled in a special feature *The Globe and Mail* on May 2nd. Jason and his peers were selected from over 1,200 nominees by an independent advisory board comprising 29 business leaders from across Canada. Honourees were chosen on five key criteria including: vision and leadership; innovation and achievement; impact; community involvement and contribution; and strategy for growth.

Jason was modest about his selection, however. "*Canada's Top 40 Under 40*TM award is a recognition of the tremendous achievements of The Fraser Institute in general, and the Fiscal Studies Department specifically, rather than an individual award for me alone. Like any organization, The Fraser Institute is only as good as its people. Thankfully, I have had the honour and pleasure of working with some of Canada's best over the last decade, which has enabled us as a group to accomplish wonderful things," he said.

Fraser Institute Executive Director Mark Mullins was delighted with Jason's award: "Jason exemplifies the qualities that go into a *Top 40 Under 40*TM winner. He strikes his game plan at work, articulates it to his colleagues, builds support through the Institute, and then, most often, executes the tasks well above expectations. He is a resourceful and tenacious team player—and I am very glad that he is playing on our side of the field. The recognition of his efforts, past and present, is well deserved. Way to go, Jason!"



Director of Fiscal Studies, Jason Clemens, with his children Erin and William.

Embrace the Discount Card!

by John S.P. Robson

Canada's federal privacy commissioner recently warned that stores give out bonus or discount cards so they can collect information on your shopping habits. What?!? Next she'll be telling me that not one of those 28 nice Nigerians really got my name from associates as a suitably discreet and honest partner for a brazen fraud. And here I thought they just wanted to give me money because of my winning smile.

Privacy commissioner Jennifer Stoddart seems to find my smile more vapid than winning. "We're concerned that Canadian consumers, many of them, don't really understand that the purpose of loyalty programs is to collect information on you," she was reported as saying (*Ottawa Citizen*, April 4, p. A3). Since a poll last September showed that 97 percent of us belong to at least one such program (see *Daily Telegraph* online, April 22 edition), we're either totally stupid, or a lot smarter than she thinks.

I, for instance, already knew merchants sought profit. I even read it in a textbook somewhere. Besides, I was getting a bit suspicious as I've been collecting air miles since they were ground miles and haven't gotten as far as Pickle Crow. Another clue was e-mails from retailers telling me other people who bought the same book or CD I did then went on to purchase something so unappealing I'm tempted to return the first one. Could it be part of a marketing scheme? In a store?

It's not all about information. I think one bookstore sells me a discount card because if I shop there enough they make less per book but more in total,

and if I don't, they pocket most of the price of the card. I didn't have a shelf of books fall on my head leaving me stunned and vulnerable to exploitation; I happen to think it's a good deal for both of us, even if the privacy commissioner doesn't like it.

It is not obvious to me what sinister use Ms. Stoddart thinks could be made of knowledge of my book purchases. For instance, I own Milton Friedman's *Free to Choose*, Stalin's *Foundations of Leninism* and Hitler's *Mein Kampf*, so I must be a libertarian communist Nazi. Unless I'm just trying to be well informed. I also buy books by Louis L'Amour, Rex Stout, and Sax Rohmer. And if merchants think "people who bought *Mein Kampf* also bought *The Island of Fu Manchu* and a Johnny Cash double CD" is a cunning marketing plan, so much the worse for them.

Frankly I'm a lot more worried about information the government collects on me. First, it's totally involuntary. Second, the state is a lot less competent and more obnoxious than the worst department store (try getting a refund from a government if a policy disappoints). Third, politicians tend to lie a lot; remember how the Social Insurance Number would never, ever be used for anything but pensions? But as you have just paid your taxes it isn't necessary to go into detail. Instead, let me note that there are a lot of things in this world worse than having stores where you



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shop know what products you like.

For instance, a web search to discover where Pickle Crow is (slightly northwest of nowhere, Ontario) also revealed an on-line dating service: "Pickle Crow Love." Is it not obvious that such a service benefits clients by collecting at least enough of their personal information to know they both live in the same difficult-to-reach locale? You want choice, sure, but it has to be relevant choice.

A British survey just found over a third of shoppers are so bewildered by supermarkets offering 50 kinds of bread roll and sugar, over 100 types of shampoo, and a selection of violins that they flee to specialty shops where they don't have to leap over deck chairs to get at the meat. I sympathize. In my bachelor days I remember staring at a wall of specialty shampoos wondering what happened to the kind that washes dirt out of hair. It's nice that some candy bars now come in dark chocolate. But what's with low-fat brownies? Which is where I whip out my trusty loyalty card.

You see, Madame Commissioner, if I tell merchants what I want, then it's more likely they'll put it on their shelves, and even try to tell me it's there. Especially if I let stores monitor my shopping habits and you don't let them monitor yours, it improves my chances of finding the products I want. More bison burgers and classic books, less soy latte and anti-market tracts.

I'm loyal to the store and vice versa. That's why we're both smiling. 📖