

A Better Frame of Mind for Fiscal Decision Making: The Lesson of Behavioural Economics

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INTRODUCTION

Government taxing and spending decisions ought to be accompanied by estimates of the benefits and costs involved. This rational calculation, however, is often distorted by various quirks in the ordinary way that both policy makers and citizens tend to perceive and respond to information; many of which have been identified by the emerging discipline of behavioural economics.

This article proposes the idea that these decisions may be orchestrated in a more rational manner, by being framed in ways that would assist governments to make more thoughtful, internally consistent and productive decisions, and that more rational decisions inherently lead to a better use of society's limited resources.

By attempting to understand the practical consequences of a particular expenditure, public officials may avoid possible emotional distortions, which may inappropriately motivate that particular expenditure.

PROPOSAL

The proposal herein is that governments should engage in a systematic cost-benefit analysis with respect to decisions regarding public funds. There are however, many difficulties when initiating a large-scale cost-benefit analysis with complex and nebulous variables such as 'public interest' at stake.

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For example, government officials might errantly start off with the idea that the current level of taxation is completely appropriate, and their job is merely to consider how that money might be best allocated among competing objectives. This way of thinking is reflected in the throne speech of the government of Canada in 2004.¹ It undertakes to find ways in which money might be cut from some programs so that it can be “reinvested” in others. The notion that there might actually be tax relief to the general populous was not acknowledged. The notion of maintaining the status quo of taxation is a problem that must be considered before Canada will benefit from efficient taxation and spending policies.

Balanced budget laws attempt to curtail government spending by preventing governments from levying new taxes, increasing rates or running a deficit. These laws may put a cap on a tendency for profligacy by a government whose time horizon is the next election, not the welfare of future generations. However, as above, budget laws do not force governments to fundamentally evaluate whether existing levels of taxation are appropriate. They can also prevent governments from making spending decisions that would be justified by a long-term cost-benefit analysis.

HOW TO MAKE BETTER DECISIONS? AN EYE ON BEHAVIOURAL ECONOMICS

The methodology proposed below will require governments to assess both the positive and negative impacts upon taxpayers and society before adopting any measure or large-scale actions. (Existing measures should also be periodically reviewed of course). Instead of government financial resources being viewed as a ‘given’ or a ‘constant,’ the government should be required to freshly consider, for each expenditure, and the fact that money is being removed from the hands of Canadians. A “taxpayer impact” analysis would be a necessary part of every major spending decision.

A significant difficulty when conducting this type of cost-benefit analyses is that the weight that decision-makers give to various outcomes is highly subjective. Some may be inclined to act in rational ways because they have the benefit of scientific expertise to support their position, while others rely on emotion and feelings [or dare we say election related opinion polls] to make their decisions. The latter is by

¹ Canada, *House of Commons Debates*, 002 (05 October 2004) at 1630 (Hon. Peter Milliken).

far the more dangerous of the two forms of justification and should be strongly guarded against.

“Behavioural Economics” is a branch of economic science that explores how human psychology affects decision-making in the real world. While neo-classical economics is generally concerned with how a rational actor would be expected to act; how that person would gather and analyze information, explore choices, and choose one that will tend serve his objectives, such as maximizing wealth or personal utility. Behavioural economics shows how the decisions of people tend to be distorted by emotion or defects in the reasoning processes (“heuristics”) they used to arrive at their specific decisions.

EXAMPLES OF HEURISTICS IN ACTION

In that context, we have to do our best encourage decision-makers to be aware of psychological distortions that tend to occur in policy analysis, and to equip them with tools they need to overcome them.

A review of the literature on behavioural economics, and common observations, suggest that the following distortions are typical in tax and spending decisions of government. A brief explanation of some of the concepts is necessary before delving into the substantial problems of government spending.

- “Entitlement” Theory: In all kinds of situations, participants believe that what they have obtained in the past is a strong guide to what they should continue to receive, even if circumstances have changed. Employees who are used to receiving a certain wage level have difficulty in accepting cuts even if the company is in danger of being run out of business. This is referred to as “sticky wages”. Consider the difficulty that established airlines in the United States have had in lowering labour costs to compete with new discount carriers who pay their employees significantly less). The employees are relying on emotion, and not logic, to make their decisions. Conversely, managers may have difficulty in accepting that employees should start receiving a larger share of overall revenues, even if the company remains profitable and competitive.²

² Recent studies at Princeton University imply that different regions of the brain are used when personal decisions are made as opposed to impersonal decisions – even when the final result is the same. If an individual had to physically push another in front of a moving train to save 5 lives down the tracks, a different part of the brain is

- Governments, it seems, believe that their existing “tax take” is also an entitlement. They see tax relief as a form of “spending” – of giving up what is rightfully theirs – rather than foregoing the removal of property from a taxpayer who presumptively should maintain ownership of the money in the first instance.

THE “AVAILABILITY” HEURISTIC:

- People tend to place far more weight (both in estimating probability and placing importance) on the outcome of a decision that is specific, visible and immediate rather than an abstract, general or distant outcome. For example, people are more afraid of plane crashes than car accidents, because they make the evening news and often show massive wreckage and fire. People are more afraid of being eaten by a shark than dying from a bee sting, although the latter is many times more likely.³ As the gruesome observation attributed to Josef Stalin goes, “a single death is a tragedy, a million is a statistic.”

Fundraisers for Third World communities often encourage potential donors to adopt a particular child [they mention the child’s name repeatedly], rather than give to a suffering community as a whole. Some recent studies have reported that different parts of the brain are activated when a decision is made that involves immediate, visible consequences connected to an individual as opposed to more abstract ones.⁴ A person might be willing to give money to a street person in her own town who

used than if the same person had to pull a lever, (switching the train tracks) that would

kill one person to save the other 5 down the line. One decision involves the emotional

centre of the brain, while the other involves the logic centre. Because it involves more emotion, it would be much harder to physically push someone to their death than

pulling the switch, even though the final result is the same – the death of a human being. See: Joshua D. Greene *et al.*, “An fMRI Investigation of Emotional Engagement

in Moral Judgement” *Science Magazine* 293 (September 2001) 2105, online:

<http://www.csmbm.princeton.edu/~jdgreene/NewGreene-WebPage_files/Greene-et-al-Science-9-01.pdf>.

³ “Shark Attacks in Perspective: Are sharks the biggest danger out there?” *Fish and Wildlife Research Institute*, online: Florida Fish and Wildlife Conservation Commission <http://research.myfwc.com/features/view_article.asp?id=12832>.

⁴ *Supra* note 2.

appears healthy but down on his luck. The same person might have no intellectual or emotional compunction at all about rejecting a solicitation to give money to hundreds of starving children in a far away country.

A scandal or mishap that is well reported and connected with a particular individual can move government policy, while a longstanding problem without a face can go on being ignored indefinitely.

To fully evaluate the alternatives and make the best choices, government decision-makers need to recognize these perceptual biases, to ensure that options with more general or distant outcomes have been identified and duly considered, not just those that are specific, visible and immediate.

HOW TO DETERMINE AN OBJECTIVE VALUE?

Assigning weights to emotional or behavioural factors in trying to arrive at an “objective” value to rank various options is to some extent arbitrary, and may possibly be a matter of public controversy.

If the dollar is the unit of common account for a cost-benefit analysis, then how what is the dollar value for each year of human life saved by spending on a particular measure? How much is each year of additional life gained through a particular treatment (such as cancer therapy) worth? It is better to do one’s best to carry out such weighting rather than engage in purely impressionistic decision making. There are limits, however, to how objective and acceptable such weighting can be.

Government officials must be able to present choices to government decision-makers in ways, which will assist in reaching a decision that can be made understandable and convincing to the public. Even if government officials are convinced by a cost-benefit analysis, their political masters must “sell” the measure to the public – which may not be readily convinced with number crunching.

This leads us to the distortion heuristic of the “unavailability” of large numbers.

WHEN DOES “BIG” BECOME “LARGE”?

An individual whose largest expenditure in their personal life is a house worth \$200,000 might have great difficulty – in finding “available” in their own knowledge and experience – an expenditure of two billion dollars of public funds. The amount is too large to accurately comprehend.

In my own experience as a bargainer for a large union of academics, I have seen highly intelligent people appear to be more concerned by a “large” increase in parking rates (which will cost them \$750 a year) than the denial of an expected incremental salary increase (which will cost them perhaps \$100,000 over a working career). Simply put, the parking fees are more “available” and thus seem “larger” than they really are. This perception results in a disproportionate amount of influence over the emotions of the employees and in their apparently paradoxical real-world response, i.e., “the smaller the stakes, the bigger the fight”...

WHEN DOES “SMALL” BECOME TINY?

A related phenomenon is that even small numbers can become meaningless in the frame of much larger ones. It may make little difference to us whether we pay \$150,000 or \$151,000 for a house, whereas the same \$1,000 might seem like a huge issue if it were added to the purchase price of a smaller item, such as a \$5,000 Jacuzzi tub. Why should this be so? It’s still \$1,000 of the individual’s money regardless of what is being purchased.

Governments routinely work with very large numbers. In the context of spending a billion dollars on a program, a saving of \$1 million may seem trivial, as it is such a small proportion of the total sum. This however, does not change the fact that we are still talking about a million dollars.

A BETTER FRAME OF MIND?

- The “frame” in which a choice is presented is crucial to the decision to implement the action or not. A government may find it easier to win public acceptance for a tax deduction or credit to support an industry than to provide it with a direct subsidy, even though the end result can be similar or even identical. In making public policy decisions, the frame in which a decision is evaluated should include considerations of a variety of measures to achieve the government objective, not merely carrying on the program or doing nothing. It should also consider how the same money could have been used to achieve other governmental objectives.

REMOVING SELF-INTERESTED PARTIES

Another concern of both behavioural and neo-classical economics is that self-interest can distort decisions. Decision-makers tend to favour decisions from which they obtain personal benefit –it’s only human nature. That may involve direct rewards, such as being able to go on an

enjoyable trip abroad on “government business,” or it might mean enjoying the opportunity to exercise discretionary authority; which many people find appealing. There can also be political reward: a program might be appealing that enables a government minister to be at the ribbon-cutting ceremony for a new building paid for by the taxpayers. An alternative program that leads to equal construction at the taxpayer’s expense, through tax relief or generally available tax credits, might be of less interest to the politician than building it directly and cutting the ribbon. All other things being equal, we should have relatively more confidence in decisions that do not result in any such personal benefits to the decision-maker.

THE PROPOSAL:

The proposal here is based on trying to find ways to overcome some of these distorting factors and heuristics. The key features are:

- The taxpayer impact of each proposed program should be considered, rather than taking their contribution as an entitlement.
- The cost of programs should be “framed” in ways that make the impact on taxpayers more understandable and potentially important and affecting to decision-makers, by avoiding the problems associated with “large” and “small” numbers.
- The benefits of the potential government program should be compared not only to the status quo, but also to other, potentially less costly or more efficient means of achieving the same objectives. The analysis should include the foregone opportunities we as society have lost as a result of this expense.
- Consideration should be given to the extent to which the program, including the spending on it, potentially undermines the program’s objective.
- There should be a transparent and publicly-available analysis and presentation of who benefits from the program and who bears the cost. The winners and losers should be assessed within government and within the general population.

THE METHODOLOGY

We will present our analysis by looking at two situations in which in the opinion of many Canadians – including the authors – are embarrassing boondoggles: situations in which the cost was greatly disproportionately to any possible benefit. While these might be seen as easy targets, the stubborn and deplorable fact remains that government of Canada saw fit

to spend the money, and likely will follow their spending models in the future. The methodology we present will attempt to show precisely why these were boondoggles, and how decision-makers might have seen and felt things differently so as to avoid engaging in them.

We will conclude by suggesting how the lessons learned from these cases might be applied to more difficult decisions – such as funding a new national day care program, or a national identity card programs.

THE GOVERNOR GENERAL

The spending habits of former Governor General Adrienne Clarkson seem to be a logical starting point when it comes to analyzing public expenses. While in office, she was the subject of much debate after her grossly over budget “circumpolar” travels, and other lavish expenses such as staying in the \$1,000 a night Empress Hotel at the taxpayers’ expense.⁵ Moreover, by her own admission she is “above politics”⁶ and as such, she should not mind a little academic scrutiny.

The Governor General went on a “Modern North Tour” in 2003 – a tour comprised of herself and 59 other high profile Canadians to attend Finland, Iceland and Russia. The goal of the tour was to introduce Canada to the rest of the world. The Governor General’s total annual travel budget that year was a not insignificant \$19 million dollars. Remarkably, however, \$5.3 million was spent on this 3-week northern excursion alone. It is of note that the original estimates for her northern tour were only \$1 million. The \$4.3 million in costs that were in excess of budget were blamed on “difficulties in the logistics of northern travel.”⁷ No further explanation was given.

The former Governor General’s public relations staff would have been fools to cite specifics of the cost overrun. To do so would have created an identifiable point for Canadians to gripe about. By remaining vague we neither really know why the trip was so costly nor have any specific target upon which to vent our frustrations. It seems remarkable that her staff was unable to plan a trip in “northern regions” without being more than 400% over budget.

⁵ John Williamson, “6th Annual Teddies Waste Awards” *Canadian Taxpayers Federation* (02 March 2004), online: CTF <http://www.taxpayer.ca/main/news.php?news_id=287>.

⁶ “I am Above Politics’: Clarkson” *CBC News* (20 September 2003), online: CBC News <<http://www.cbc.ca/stories/2003/09/19/clarkson030919>>.

⁷ Tim Harper, “Graham Wants Clarkson to Limit Travel” *Canadian Press* (8 January 2004).

PROPOSAL 1: MAKING THE IMPACT OF THE TAXPAYERS REAL AND AFFECTING

How Much Money is \$5.3 Million? How Much is \$19 Million?

An Example of Re-Framing

With the exception of a few people in the world, most of us have no idea how much money \$5.3 million truly is, or how long it would take to earn for the average person.

Politicians are aware of the underlying psychological principles of marketing and consequently try to make public expenses seem less personal to the individual. Thus the decision to spend tax dollars becomes easier to accept for the general populous.

Diluting the Cost

Often costs represented to the taxpayer are amortized over a large group of people over a fixed time period to lessen the impact of the expense. The theory is that we as individual taxpayers feel less personally affected by the purchases becoming more willing to support them. For example, a public ad campaign hoping to exert pressure on Ottawa to increase funding of national health care will cost \$1.5 million dollars, yet is justified on the grounds that it will only cost \$0.05 per Canadian.⁸ The result is that regardless of political affiliation, a nickel seems a small price to pay to “ensure” that the government will continue to fund hospitals and clinics.

British Columbia recently spent over \$16 million on a revamped water system which they advertised at a cost of only \$0.33 per month, per resident of B.C.⁹ As explained by the proponents of this purchase – “[f]or the cost of an apple a month the people of B.C. can have clean water.” Statements such as these raise support for expenditures by suggesting that the cost is not significant. After all, who wouldn’t trade an apple for clean water?

When something becomes personal and “human”, rather than abstract, it often receives a disproportionate amount of attention. In the above example politicians attempt to “de-personalize” decisions so that they may be accepted, but the opposite can also occur.

⁸ Susan Aiken, “Premiers Launch ad Campaign Taking Aim at Federal Health Care Spending” *Canadian Press* (7 March 2004).

⁹ Dirk Meissner, “An Apple a Month Will Pay For Clean B.C. Water Says Minister” *Canadian Press* (8 October 2002).

George Radwanski made national news for having a fancy lunch at the taxpayer's expense,¹⁰ which is fairly insignificant in the greater scheme of things; yet the Human Resources Development Canada (HRDC) scandal in 2000 that cost hundreds of millions of tax dollars did not result in a large group of people being disciplined.

The HRDC scandal probably received more total media coverage than did Mr. Radwanski's lunch, but not as much as one would expect given the large disparity in what each of these events cost the taxpayers. By having an identifiable person like Mr. Radwanski, we are more able to vent our frustration at a specific target. Other examples of this effect are how Richard Nixon is synonymous with Watergate, Oliver North with the Iran-Contra Affair, and Martha Stewart with ImClone, yet we all forget who the other people involved were. It's just human nature.

Common techniques for expense justification can also target the public's emotions in the hopes of increasing support. When the National Action Committee on the Status of Women wanted their budget increased from \$8 million to \$30 million—they rallied behind the slogan that “[a] woman is worth more than a cup of coffee,”—a cup of coffee being roughly the value that each Canadian would have to pay annually for this increase in funding. No one would dispute that a woman is worth far more than a cup of coffee; however, the real goal of the Committee was to raise \$24 million dollars. Other than the emotional reaction the Committee invokes from such a comparison, coffee had nothing to do with it. It was all about money.

There are countless other examples of large monetary sums being decomposed into seemingly less substantial figures so they seem less significant. Alberta increased its education budget by \$0.50 per student per day,¹¹ (a “mere” \$3.3 billion dollars). For \$0.18 cents per person per year, Canadians can sleep safer knowing that \$5 million has been spent to help protect us from terrorist biological and chemical attacks.¹² Even our neighbours to the south break down massive expenditures with the “cents per day” marketing technique. Each American pays only \$0.09 per day for the next six years to fund the \$375 billion highway expansion project.¹³

¹⁰ Allison Dunfield, “Radwanski resigns” *globeandmail.com* (23 June 2003), online: The Globe and Mail <<http://www.theglobeandmail.com/servlet/story/RTGAM.20030623.wradd623/BNStory/National>>.

¹¹ Eoin Kenny, “Parents, Liberals Demand More Funding for Schools” *Canadian Press* (10 May 1999).

¹² Dennis Bueckert, “Alliance Criticizes Bioterrorism Preparedness” *Canadian Press* (29 October 2001).

¹³ “Study Finds Support for Gas Tax Increase Crosses Political Spectrum” *ConstructionEquipmentGuide.com* (1 October 2003), online: Construction

A glaring problem with figures like this is there is no way to measure which taxpayers are actually paying. The \$0.09 cents a day for the American roads will not actually be paid by every American each day. Due to progressive tax systems in both the United States and Canada, there are many millions of very low-income people that pay no income taxes at all.

It is thus deceptive to imply that these costs can be amortized over the population as a whole, since the real burden falls much harder on people who pay higher taxes.

To help avoid the distorting effects of the “problem” with large numbers we will provide some simple breakdowns to help illustrate how large the \$5.3 million paid for Ms. Clarkson’s Modern North Tour really is.

How long do People have to work to earn \$5.3 Million?

The average wage for a person in the “Sales and Service” occupations was \$12.22 an hour. Service and sales is the largest type of employee in Canada, comprising about 26.5% of the total workforce.¹⁴ (Figures according to 2004 statistics).

To earn enough money to pay for Ms. Clarkson’s Modern North Tour an average service worker must work 433 715 hours; the equivalent of 54 214 eight-hour days. This breaks down to an 8-hour workday, 365 days a year for 148.5 years.

Okay, that’s not very helpful since the numbers are still too large to comprehend, and also requires our “average service worker” to live well beyond the constraints of biology, even with “free” healthcare.

But what if we have a thousand average service workers? A thousand people would still have to work eight hours a day for 54 consecutive days, from January 1st to February 23rd, to cumulatively earn \$5.3 million, and turn over all of their earnings in order to fund the Modern North Tour.

People in ‘Management Occupations’ are the highest paid employee group, with an average wage of \$29.15.¹⁵ However, they comprise a much smaller percentage of the total workforce than “Sales and Service” employees at only 7.1%.

Using the same method as above, the average “Manager” must work:

Equipment	Guide
http://www.constructionequipmentguide.com/story.asp?story=3752&type=sidebar .	

¹⁴ Statistics Canada, *Canadian Statistics* (Canada: Average hourly wages of employees by selected characteristics and profession, unadjusted data, by province (monthly)), online: <http://www.statcan.ca/english/Pgdb/labr69a.htm>.

¹⁵ *Ibid.*

- 181 818 hours, or
- 22 727 days, or
- 62.2 years.

Or, a thousand average managers would be required to turn over all of their earnings for days worked from January 1st to January 23rd in order to fund the Modern North Tour.

Finally, if we were to consider a thousand people working for minimum wage – assuming a wage of \$7 an hour, they would have to work 8 hours a day from January 1st to April 5th to pay for this trip. None would be able to keep a cent for themselves in the first 94 days of the work year.

How many people have to pay tax to earn \$5.3 million?

Instead of looking at specific employment groups, we could also consider Canada as a whole. The average Canadian [for all types of employment] earned \$31,163.69 in taxable income in 2000, the most recent data available and paid \$5,744.43¹⁶ in income taxes for that year. This means that approximately 170 average Canadians would have to forfeit their entire taxable income, or alternatively 922 average Canadians would have to give up the income taxes paid to pay for this one excursion. However, this trip was funded solely Federal average taxes paid listed above include both the provincial and federal income tax components. Assuming according to a conservative standard that the average taxpayer pays 2/3rds of their taxes to Ottawa, and the remaining 1/3rd to their specific province, the average taxpayer therefore pays \$3,829.62 in federal income tax each year, (with the \$1,914.81 remainder paid to the province). This would mean that 1 383 average taxpayers would have to pay 100% of their federal income taxes to pay for the circum polar trip.

How likely is it that the government would have reconsidered this expense had her trip been framed as such? expense.¹⁷

“Alternative Accounting”: What did Canada give up?

The opportunity cost of the Governor General’s travels can be seen by considering what else the Canadian taxpayer could have benefited from with these same tax dollars. There are of course virtually unlimited

¹⁶ “Income Tax Paid: By Group 1999 Tax Year” *Canadian Taxpayers Federation*, online: CTF <http://www.taxpayer.com/pdf/Tax_Statistics_on_Individuals_1999.pdf>.

¹⁷ It might be recalled here that the costs of the trip were underestimated at the time of budgeting, so it is possible that the government actually would still have gone ahead. The problem of “lowball” estimates of program costs is one that governments must address at the same time as they finds ways to define and express those costs in more meaningful terms.

alternative possibilities for this \$5.3 million; however, we realize that it is impossible to address all, so we will only touch on this issue.

Educating Canadians:

Instead of spending \$5.3 million on the Modern North Tour to educate Europeans about Canada, our government could have paid for 4 years of medical school for 505 students.¹⁸ Doing so would greatly reduce the shortage of doctors in Canada. Alternatively, the government could have paid for a 3-year law degree for 1 056 students.¹⁹ Or, 335 people could have benefited from a 4-year science degree for the price of the former Governor General's trip.²⁰

It is worth noting that this expenditure was only a portion of her annual budget. Each year our government could be granting free post secondary educations to a large group of people instead. Anytime we see on the news a story about a shortage of trained people in a particular field, we should think about the Modern North Tour and how exactly it benefited Canada.

In Canada regarding criminal matters, people are guaranteed a right to be represented by legal counsel, and be advised on their legal position. Legal aid is essential in ensuring that these rights are provided to all Canadians such as those earning lower incomes who might not otherwise be able to afford such representation. Canada's Legal Aid program however, is constantly in financial difficulty.

Stepping away from the Modern North Tour for a moment to consider the total annual travel budget from 1999-2003 of \$19 million, it is staggering that this amount is about equal to what the entire province of Manitoba spent on its legal aid budget in 2002.²¹ This is more than the combined legal aid budgets of Nova Scotia, New Brunswick, and Prince Edward Island. This sum would cover the combined legal aid budgets of the Yukon, the Northwest Territories and Nunavut for the next two years.²²

It is unclear how many people were unjustly convicted because they were not aware of their legal rights due to an under-funded legal aid program, but it is probable there are those who may be unjustly in

¹⁸ Statistics Canada, *Canadian Statistics*, (British Columbia: Average undergraduate tuition fees for full-time students, by discipline, by province), online: <<http://www.statcan.ca/english/Pgdb/educ50k.htm>>.

¹⁹ *Ibid.*

²⁰ *Ibid.*

²¹ Statistics Canada, *Canadian Statistics* (Selected legal aid statistics (Staff lawyers providing services)), online: <<http://www.statcan.ca/english/Pgdb/legal18f.htm>>.

²² Statistics Canada, *Canadian Statistics* (Selected legal aid statistics (Revenues)), online: <<http://www40.statcan.ca/101/cst01/legal18a.htm>>.

prison due to the financial limitations of the legal aid system. At the very least they will have a lot of time to reflect on public spending patterns as they languish in prison.

The \$19 million would have gone a long ways of educating Canadians in one form or another, but unfortunately now represents a lost opportunity as the funds were used instead to meet with European dignitaries.

Does Adrienne Clarkson's budget cost lives? Maybe!

Many people assert that human life is priceless. This is certainly an attractive notion; however, by observing how people behave and make decisions it is clear that we do put a monetary value on human life. If life were truly priceless we would have stoplights on every street corner or the use of automobiles would be outlawed. Children would be kept indoors, having to play in padded rooms wearing full body armour. Reality is much different.

People increase their risk of death by speeding in exchange for arriving at their destination faster. People exchange life expectancy for the short-run enjoyment they receive from smoking, fast food, or alcohol and drug use. People are willing to work jobs that greatly increase their chance of dying in exchange for an increase in remuneration.

There are always competing interests when it comes to public spending. Many dangers in our society can be technically reduced to almost nil. However, at some point, the law of diminishing returns sets in. To devote resources to reduce a specific danger does nothing to address other dangers. Even if the Governor General did not go on trips, her budget may not have been used to save lives. However, some insight can be gleaned by illustrating how inexpensive it can be to prevent some premature deaths – and hopefully people become more critical of large meaningless numbers so often used in public spending campaigns. Thus, another way to try to convey to the public how much a large sum of money truly is, can be expressed in terms of human lives.

How Much is a Person's Life Worth?

There have been many attempts to peg the value of a statistical human life ("statistical life") to a specific monetary amount. Studies have listed the estimated value of a statistical life between \$700,000 and \$16.3 million with the most commonly used figure of \$6.1 million, as determined by the Environmental Protection Society (EPA).²³ People implicitly put values on their own lives. Essentially if a person will freely

²³ Frank Ackerman & Lisa Heinzerling, "If It Exists, It's Getting Bigger: Revising the Value of a Statistical Life" (October 2001), online: Global Development and Environment Institute <<http://www.ecoeco.org/Documents/ValueofLife.pdf>>.

accept a 1% one-time chance of dying for a one-time payment of \$10,000, they have implicitly valued their expected life at \$1,000,000. This figure does not account for the increase in remuneration people would ask for as the chance of death increases, but it's a clue that there is at the very least some outside limit as to the value of life.

Further evidence to support that life does not have infinite value can be seen in many common business practices. A car company may not use a \$4.50 part on its fuel tanks if the expected payout from lawsuits and settlements is only \$2.40 per unit - even if using the more expensive part means saving lives.²⁴ We all know companies consider these things when they make products, and yet we as consumers continue to purchase them, as the costs are lower. An automobile could be made much safer but few of us wish to pay hundreds of thousands of dollars for a car that would be essentially indestructible. Life may be valuable, but it is certainly not priceless.

Using the EPA figure as a guide to the value of a statistical life, (\$6.1 million), the former Governor General's annual travel budget of \$19 million cost about the equivalent of 3 statistical lives. This figure is not that impressive by itself, since a statistical life is too abstract to really care about and no one even knows this imaginary person. Merely having the \$6.1 million in federal coffers would not save the statistical life either. To save lives the money needs to be used in a program that will increase the life expectancy of a person, or reduce a public danger that costs society lives.

Some programs, such as the U.S. Federal Aviation Administration Safety Measures, are very effective in terms of "cost per life saved," coming in at a relatively low \$23,000 per statistical life saved. Other programs are ridiculously ineffective from an economic point of view, such as the \$260 million "per life saved" benzene storage regulations.²⁵

We should now consider what we have foregone in terms of human life to allow the former Governor General an annual travel budget of \$19 million.

Alternative Accounting – Extending Lives with the Governor General's Budget?

Breast cancer is a major contributor of death for women in Canada. It is well known that mammograms are an effective way to detect cancer at an early stage and thus decrease the mortality rate of this disease. Even

²⁴ Max Boot, "Your Money or Your Life? That Depends" *Wall Street Journal* (4 March 1998).

²⁵ Robert W. Hahn, "*Risks, Costs, and Lives Saved*" (New York: Oxford University Press, 1996) at 135-166.

with this knowledge there are still waiting lists for mammograms, and remote areas of the country where this service is not readily available.

The Mount Sinai School of Medicine estimates that, when early screening is performed on the entire female population, the average cost would be \$24,000 for every year a woman's life is extended as a result of the early detection of cancer.²⁶

The \$19 million travel budget equates into 791 years of life that we could have extended if the money were used in a breast cancer detection program instead of a travel budget. In other words, 79 women could have lived for another decade if we used the same funds to pay for early breast cancer screenings. Even older women (ages 69-79) would still benefit from breast cancer detection programs. The cost per life-year extension is slightly higher at \$66,773,²⁷ but this still equates to 284 life-years that could have been saved. Thus, 28 older women could have extended their lives by a decade.

The same study found that computed tomography for people in the high risk demographic for lung cancer also benefited from early detection at a very cost-effective rate of \$2,500 per life year saved. For \$19 million, 7 600 life-years could be gained, or again, 760 people could have lived for another 10 years. PAP smear tests for cervical cancer cost approximately \$50,000 per life-year saved.²⁸ 38 women could have extended their lives by a decade if the funds Adrienne Clarkson spent on her annual travel budget were allocated elsewhere.

Early detection likely also creates a financial savings for the health care system overall since the person is a) is deferring death and b) may die from an illness that is less costly to the public health system than cancer treatment; which tends to be expensive as it often requires long-term care. This is to say nothing of the positive externalities the individual receives from not dying of cancer; which is certainly one of the more feared forms of death.

We are aware that the above figures would require extra costs to establish the infrastructure for the screening programs and are no longer simply referring to the Governor General's Modern North Tour, but are using her entire travel budget. Our goal with this comparison is simply to convey how relatively inexpensive it can be to extend a persons life in the context of alternative uses of the same resources.

²⁶ "Lung Cancer CT Screening is Cost-Effective, Weill Cornell Study Shows" *Cornell University* (18 August, 2003), online: Weill Medical College of Cornell University <http://web.archive.org/web/20030822221531/http://www.med.cornell.edu/news/press/2003/08_18_03.html>.

²⁷ "Screening Mammograms May Have Limited Benefit For Elderly Women", (1999) 282 *JAMA* at 2156-2164, online: *Doctor's Guide* <<http://www.pslgroup.com/dg/14ec1a.htm>>.

²⁸ *Supra* note 26.

Simply put, if Adrienne Clarkson had to stay at a “Motel 6” instead of the Empress Hotel so that one of our grandmothers could live another few years, most people could accept this, and still manage to sleep well at night. The real question should be; even in the Empress Hotel with its fine sheets – if she knew that it would cost someone’s grandmother her life, how could the former Governor General sleep at night?

Our elected representatives have hundreds, if not thousands of competing interests that they must concern themselves with. We are also aware that even if Adrienne Clarkson hadn’t gone on the Modern North Tour there is no proof the funds would have been allocated to the above education opportunities and life saving examples. These demonstrations are merely alternative ways of expressing the price of the voyage. Hopefully we have conveyed the notion that by looking at expenses differently in may be easier to see the cost in context of foregone alternatives.

PROPOSAL 2

What Alternatives Could Canada Have Used for the Same Goal?

Clearly there was a conscious decision that it would be beneficial to Canada as a whole to have increased awareness about our country in other northern countries. However, even if we accept the decision to undertake this activity, we as taxpayers should still be concerned that it was done efficiently. We should ask if there were any other ways we could have spent this public money and had better results.

According to Vilfredo (1848-1923), economic optimality is where there is no way to improve the position of any party without making another party worse off. (Also known as “Pareto Optimal”). So, assuming that Canada still spent the \$5.3 million – is there a way that we could have increased the value of our purchase, or the value that the other countries received?

If our goal was to increase awareness of Canada and its unique culture, then we must consider whether this goal may have been fulfilled more efficiently than sending a plane of 60 [presumably wealthy] Canadians on an all expenses paid excursion for 3 weeks.

Other Ways to Disseminate Canadian Culture?

Canada has produced many great films in recent years, such as the 2003’s Genie winning “Saddest Music in the World,”²⁹ or “My life

²⁹ “The Saddest Music In the World”, Dir. Guy Maddin, DVD, MGM Home Entertainment, (2003), online: IMDb <<http://www.imdb.com/title/tt0366996/>>.

Without Me,”³⁰ the critically-acclaimed winner of both the Atlantic Film Festival and the Berlin Film Festival. Perhaps Canada could have staged a film festival in several major European cities, granting free admission and refreshments for the same cost as the Modern North tour.

A film festival would have likely appealed to more European citizens than the arrival of Canadian dignitaries, and attracted a more diverse group of participants. Also, a film festival seems to be a more logical way to disseminate Canadian culture to a large group of people than sending a small group of people to meet another small group of people.

Yann Martel wrote the wonderful book “Life of Pi” in 2003, which is still on the Amazon.com³¹ bestseller list for fiction, and rightly won the prestigious Man-Booker Prize. Instead of having him personally attend this trip we could have sent 950 000 copies of his work to homes in Europe. (16.80\$ per book plus \$3.20 Shipping)

Or, Canada could have created “gift baskets” and had sent them to people in Europe. For example, it could contain a DVD showcasing some of the many great tourist locations, natural wonders and business opportunities Canada has to offer. This, combined with a small bottle of Canadian maple syrup, a hockey puck with a maple leaf emblem and a cute stuffed animal beaver holding a miniature Canadian flag could be produced relatively cheaply and shipped to thousands of households in Europe.

Assuming a cost of \$60 per gift-basket, 90 000 European homes could have received a present showing them that Canada wants to strengthen relations with their families and their country. Assuming an average of three persons per dwelling, over 90% of the residences in the country of Iceland could receive one of these baskets.³²

Returning briefly to the discussion of tuition, we could ask, how many Scandinavian exchange students could have come to Canada for an entire school year? Or conversely, how many Canadian students could have been given a free year of education in Europe, for the cost of the Adrienne Clarkson’s travels. Estimating a cost of \$25,000 to fly, accommodate, feed, pay tuition and provide spending money for 8 months per exchange student, we could have granted 760 people the opportunity to represent Canada while learning about another culture. Again, this is an alternative use for the annual travel budget for the Governor General. Thus, every year we could instead be sending 760

³⁰ “My Life Without Me” Dir. Isabel Coixet, DVD, Sony Pictures Classics, (2003), online: IMDb <<http://www.imdb.com/title/tt0314412/>>.

³¹ Yann Martel, *Life of Pi* (Canada: Random House of Canada, 2001), online: <<http://www.amazon.com/gp/product/0156027321/qid=1093287747/sr=8->>.

³² 293 966 people as of 2004, see: “Iceland Population”, *Oindex Mundi*, online: CIA World Factbook <<http://www.indexmundi.com/iceland/population.html>>.

people to different countries to showcase Canadian people's talents abroad and have them return to Canada more educated about the world.

What are the Short-Run/Long-Run Implications of these Alternatives?

An important point to consider when we analyze public spending decisions is the short-run/long-run benefits that this expense may provide to Canada, and also the costs (if any) of inaction.

We as taxpayers should ask: "From each of the alternatives, including not spending the money at all, what benefits will Canada receive immediately? In 5 years? In 20 years?" Consider the following simple example, and ask what intuitively makes more sense:

The "Modern North" Tour

- **Immediate benefits**
 - National news, hopefully in all participating countries.
 - Marginal Increase in awareness about Canadian culture among foreign diplomats.
 - 60 Canadians enjoy a free trip to wonderful destinations.
- **5 year benefits**
 - Possible benefits from tourism.
 - Hopefully influx of investment in Canada.
- **20 year benefits**
 - Perhaps a few of the dignitaries will think fondly of their trip. (many will be dead)
 - Possible employment and tax base benefits from business capital influx.
- **Cost of inaction**
 - Likely negligible. Circum-polar countries would think of Canada in the same way that countries not visited think of Canada.

"Student Exchange Program"

- **Immediate benefits**
 - 760 young people get to travel for 8 months instead of 60 established people for 3 weeks.
 - Increase in contact/integration with other cultures.
- **5 year benefits**
 - Increase in educated populations in all participating nations.

- Increased number of people who learn about alternative cultures.
- Hopefully more business contacts formed between nations.
- **20 year benefits**
 - Positive externalities of having educated people disseminate their learning.
 - Possible increase in income tax as a result of relations between countries.
 - Larger number of people who traveled will think back fondly of their travels.
- **Cost of inaction**
 - Students pay their own way and attend school in Canada. Some people likely forego an education.

Obviously using this methodology, there will be a great deal of speculation as to what alternative will provide greater benefits in the long run. However, in this situation the student exchange program certainly looks more useful on its face, simply due to the increase number of people that benefit from the exchange for a greater length of time. Also, there is something satisfying about providing a free education to a young person, rather than a holiday to a financially established adult.

Hidden Dangers?

Finally, it should be remembered that, paradoxically, there is a danger that the goal of a program may be hindered by the means taken to achieve it. These effects can be difficult to anticipate, but an attempt should be made to factor them into any public decision.

The tour by the former Governor General and her entourage was supposed to enhance Canada's prestige and profile in foreign lands. Doing so depends on the Governor General being viewed by Canadians as a figure of respect and worthy of fiscal support. Foreign officials, journalists and ultimate publics can be expected, sooner or later, to have some idea of the extent to which Canada is sending over someone whose is held in high regard at home. The large cost and doubtful benefit of the tour by the Governor General and her entourage may have undermined both the prestige of the office in Canada and the extent of taxpayers to tolerate such further ventures.

PROPOSAL 3

The Taxpayer or the Decision-Maker: Who Benefits and who is Accountable?

Is it Efficient to Give People a “Free Ride”?

It’s hard to determine with any degree of accuracy if any of the proposed alternatives would have been more effective at promoting Canada than the path that was ultimately taken. After all, hindsight is 20-20. Even so, there were 60 people who at the very least were getting free flights and free meals in nice restaurants in foreign countries that were all directly paid for by the Canadian taxpayer.

The Canadian *Income Tax Act*³³ requires that a worker who gets a meal by virtue of employment must pay tax on part of that meal.³⁴ Perhaps for voyages like this tour, similar policies could be enacted. Aside from the Governor General herself, her high-profile retinue were not government employees and under current legislation, they do not have to pay income tax on such meals and flights.

The Modern North flight itself cost \$307,000. Perhaps there should be a way to tie the costs to the actual people on the trip. The 60 people could have paid \$5,000 each to cover the cost of the flights, which would likely be less expensive than what a commercial carrier would charge for the same series of flights.

There is of course no way of knowing the financial position of the individuals on this trip, but it is probably a safe assumption is that none of them would have been deterred from traveling if they had to pay a fraction of their personal expenses such as half of their food or alcoholic drink expenses. If any of these people would have refrained from attending this trip because the Canadian taxpayer wasn’t footing 100% of the bill, then perhaps they are not the type of people we want introducing Canada to the rest of the world in the first place. At the end of the day it should be seen as an honour to be present on this tour. If it means buying your own wine at a dinner or paying a portion of a meal, then maybe that’s a fair price to pay for the honour of representing Canada.

A Presumption Against the Decision-Maker

The former Governor General herself was at least a public servant and therefore had some justification for having her room and board paid

³³ *Income Tax Act* (R.S.C. 1985, c. 1 (5th Supp.))

³⁴ S. 6(1) of the *Income Tax Act* holds that any benefit “By virtue of employment is taxable.”

while she was traveling abroad. However, she was directly involved in the decision to go on these various excursions. Such involvement can become problematic when we consider how people can make decisions based on their own self-interest.

Instead there ought to be a presumption that the decision-maker cannot benefit personally from a decision she makes. For example, the Governor General could have planned the Modern North Tour – but she would not be allowed to attend at the taxpayer's expense. If she had wished to go she would have to pay her own way to ensure that when she planned the trip it was truly for the benefit of Canada, and not for a self-interested motivation such as a free trip or hubris. It is not a complicated concept to remove the decision-maker from the benefits that are achieved by that specific decision. For years siblings have had the arduous task of cutting the last piece of cake in half, knowing that the other sibling has the first choice of the pieces. The decision-maker has an incentive to make the pieces equal of they will find themselves with the smaller piece. With the present system, public servants have the incentive to cut the largest piece of the taxpayer's cake and keep it for themselves.

Obviously we need to come up with create ways to tie the decision to the actual decision-maker since [unfortunately] real life is more complicated than cutting cake. Perhaps for every five days of international travel, the Governor General should lose one day of her personal holiday time. Or, as an incentive to keep costs under control, for each \$1,000 of food and drink she and her entourage consumes she could personally foregoes "\$x" of salary. As long as there is some direct personal cost to public decision-makers, they are more likely to make decisions where they do not personally benefit unless it really is for the good of the nation.

Why are we Taxed for this Expense? The Status Quo has got to go!

An important consideration should involve a look into the tax coffers where the public spending is coming from. Canada is the fifth most heavily taxed country in the world.³⁵ It is therefore reasonable to believe that many people in Canada would welcome a tax cut. As mentioned above, politicians tend to presumptively assume that taxation is the norm, and that people should be taxed rather than allowing people to keep the money they have earned. Regardless of what one thinks of George W. Bush, he had it right when he said: "It's your money, I'm just

³⁵ Bruce Winchester, "International Tax Comparisons" *Canadian Taxpayers Federation*, online: CTF <http://www.taxpayer.com/pdf/International_Tax_Comparisons.pdf>.

giving it back to you,”³⁶ when he announced a series of tax cuts. As Prime Minister, Paul Martin, on the other hand, was quite clear when he said that he would ensure that his ministers would only “re-invest” money from other budgets if they needed funds. The idea that these areas had surpluses that the taxation levels should be decreased was not mentioned. It seemed that, to Mr. Martin, the background levels of taxation were simply acceptable.

Even the origins of taxation have roots in this phenomenon. Income tax was only a “temporary” war measure when first enacted during World War One.³⁷ Now, nearly a century later, it would seem that income taxes are here to stay. No one is advocating that we return to the time of no income tax and forego the current social programs made possible through income tax. Instead, the argument is that Canadians should be reluctant to accept current levels of taxation simply on the basis that they have always been taxed at that level. Paying \$100 in taxes to fund a school is a good idea. Paying \$100 in taxes because that is what you have always paid is not.

A great example of the acquiescence to a tax can be seen in our very recent history. In 1993, the Tories lost the election largely due to the implementation of the consumption-based Goods and Services Tax (GST), yet when the Liberals took over and kept the GST despite saying they would “scrap” it, the public was no longer concerned with the consumption tax. Time had passed and the GST was now part of the tax structure and people had gotten used to the idea of paying this extra tax. Canadians had simply accepted it.

A parallel example of the acceptance of the status quo can be illustrated with medical fees. Many Canadians would be in an uproar if they had to pay providers directly for even a portion of their medical care. We already pay high taxes or government premiums so that we don’t have to pay the medical bill. However, we are all used to the idea of paying a small deductible for private health insurance and dental plans. Why are these two things different? Both involve the individual spending money for health benefits. The reason is simple: we are used to paying the deductible whereas we are not familiar with paying doctors directly.

This should not be the case. The public should not just accept the costs associated with the status quo simply because it’s the status quo. Neither should our politicians.

³⁶ George W. Bush, “President Calls on Congress to Pass Economic Security Package – January 22, 2002” (Remarks by the President to the Employees of Cecil I. Walker Machinery Company, 22 January, 2002) [unpublished], online: Social Security Administration <<http://www.ssa.gov/history/gwbushstmts2.html>>.

³⁷ Canada, *1914-1918-Effects of World War I on the Canadian Economy* (Key Economic Events), online: Government of Canada <<http://canadianeconomy.gc.ca/english/economy/1914ww1.html>>.

Should the Public be Heard in a Democracy?

Perhaps there is a need for annual hearings where people selected at random from the population discuss both the negative impact of taxation, and the positive impact government programs have had on their lives. By doing so, we can hope that politicians will be able to hear from reasonable people who can try to put a human story behind our present system. The stories may be uplifting, or conversely they might be depressing. But as long as they can impart the idea that real people are affected by political decisions, our tax dollars may be more wisely spent.

Balanced Budget Laws to Ensure Accountability?

There have been attempts at trying to minimize extra taxation by the use of balanced budget laws. If a public official wished to spend more money, they must appropriate it from another government budget and not run a deficit to cover the costs. Policies like this should be encouraged by the public – and a close look should be paid to the areas where the funding was appropriated from. If they didn't really require the funds for this year, perhaps they don't for the next year and taxes could be reduced.

However, policies like this can also go awry. Often balanced budget laws look positive on the surface since the local government is not running a deficit, or if it does it must be under budget by the equivalent amount in the following year. The problem is that the incumbent government can just raise taxes to not run a deficit in the first place. A study by the Fraser Institute shows balanced budget laws are not effective at preventing government spending and may resulting in a very real risk of the government inflating to an unnecessary size.³⁸

The Fraser Institute advocates for “Tax and Expenditure Limitations” instead.³⁹ These laws would simply limit the growth in government to coincide with the growth in incomes of the people. By doing so, taxes cannot rise faster than incomes, so people should not have their lives affected by taxes more than they already are. “Tax and Expenditure Limitations” could help curb the casual acceptance that it is normal to just increase taxes when the government wished to make an expense.

³⁸ Jason Clemens *et al*, “Tax and Expenditure Limitations: The Next Step in Fiscal Discipline” (2003), online: The Fraser Institute, <<http://www.fraserinstitute.ca/admin/books/files/TaxExpendLimts.pdf>>.

³⁹ *Ibid.* at 20.

Part II

A SECOND EXAMPLE OF “ALTERNATIVE ACCOUNTING”

The Federal Gun Registry

The federal government’s “Gun Registry” program is supposed to save lives. At least that was its primary purpose. The registry was also meant to send a message to the world that Canada does not approve of unregulated firearms, and that we are increasing our efforts to catch criminals who use guns while committing crimes. In addition, it was supposed to be a nice little revenue generator for the government - but we will address its financial failures shortly. The goal of saving lives is by far the most important objectives in our society. However, a closer look reveals that the implementation of the gun registry might actually cost many more lives than it saves.

The first problem is determining exactly how much the gun registry actually has cost Canadians, which is in itself is a contentious issue. Several figures have been used publicly, some as high as 2 billion dollars. For the purposes of this paper we will use the figure of \$1 billion.⁴⁰ We use this figure as it is a nice round number and we can be reasonably sure that the Gun Registry in fact has cost much more. Thus, we are being conservative in our estimations of foregone purchases and the lives that could have been extended or saved by an alternative allocation.

PROPOSAL 1: ALTERNATIVE FRAMING

How many people had to work to pay for the Gun Registry?

Again, the average sales and service worker makes an average of \$12.22 an hour.⁴¹ This breaks down to 1 000 people working 81 833 hours each to pay for the registry.

- 1 000 people have to work 365 days a year for 28 years.
- 10 000 people have to work 365 days for 2.8 years.
- 100 000 people have to work 102 days (from January 1st until April 12th) to earn enough.

Remember – this is assuming they don’t need the money for food, shelter or various utilities during this time.

⁴⁰ “Gun registry cost soars to 2 billion” *CBC News* (13 February 2004), online: CBC News <http://www.cbc.ca/stories/2004/02/13/gunregistry_rdi040213>.

⁴¹ *Supra* note 14.

Canada's "high income" earning managers who earn \$29.15 an hour and are a much smaller percentage of the total workforce at 7.1% also have to work a staggering amount of time.

- 1 000 managers have to work roughly 11 $\frac{3}{4}$ years of voluntary work.
- 10 000 high-income people would still have to donate over a year of their time to fund the Gun Registry.

Since we are presumably looking at ways to save lives, we should consider how many health care workers we could have hired for this same amount. The average wage of a person in the medical profession is \$22.49 per hour.⁴² This means that we could have had 1 000 extra health care workers, fully compensated for the next 15 years. The reduction in waiting times and reduced stress for patients likely would have saved many lives.

Using the same above average amount of tax that a person pays per year (\$5,744.42)⁴³ we can see how many people's taxes are wholly allocated to the Gun Registry.

A staggering 174 082 "average taxpayers" taxes were entirely used up in the creating of the registry. However, using the same assumption that only 2/3rds of this amount is federal income tax, we see that it takes the yearly contribution of 261 122 average taxpayers to total a billion dollars.

Canada Could Have Lowered Taxes Instead?

Another way to consider the tax implications is to look at taxes that were not repealed instead of having the government actively spending the money. This brings us back to the point that society assumes that taxes are the norm. Just because there has historically been a fuel tax in Canada, we assume that it must remain.

- The entire province of B.C. could have had all of its gasoline taxes removed for the 2002-2003 year if the Gun Registry funds were to reduce the tax burden on commuters. Every one in B.C. could have saved 32 cents a litre on gasoline for an entire year, and there still would have been \$160 million left over.⁴⁴
- Alberta could have had 23-cent reduction for almost two years instead of the gun registry.⁴⁵

⁴² *Ibid.*

⁴³ *Supra* note 16.

⁴⁴ "Filling the Infrastructure Gap: Gas Tax Honesty Day" *Canadian Taxpayers Federation*, online: CTF <<http://www.taxpayer.com/pdf/GasTaxReport2002.pdf>> at 29.

⁴⁵ *Ibid.* at 30.

- Manitoba could have had a 26-cent/litre reduction in gasoline for 4 years and still had \$100 million left over.⁴⁶
- Five provinces – New Brunswick, Nova Scotia, Prince Edward Island, Newfoundland and Labrador, and Saskatchewan could have enjoyed over a 40% reduction in fuel costs for a year instead of the money spent on the Gun Registry.
- The entire country could have foregone the GST component (7%) on their gasoline for 11 months with a billion dollars.⁴⁷

Does the Gun Registry Save or Cost Lives?

Returning to the issue of saving lives, it is beyond dispute that Magnetic Resonance Imaging machines (MRIs) are an invaluable tool for health care. Canada trails behind other OECD (Organization for Economic Cooperation and Development) countries with respect to MRIs per-million population. The OECD average is 4.2 MRIs per million, while Canada has approximately 2.5 per million.⁴⁸ We can see by the following graph from a study⁴⁹ at the Fraser Institute how far Canada trails the rest of the developed world in this regard.

⁴⁶ *Ibid.* at 32.

⁴⁷ *Ibid.* at 28.

⁴⁸ Garry Breitkreuz, “Canadians Needed and Wanted MRIs. The Liberals Gave Them A Useless Gun Registry!,” online: Firearms Facts Update <<http://www.garrybreitkreuz.com/publications/mri.htm>>.

⁴⁹ “Executive Summary” (August 2002), online: Fraser Forum <<http://www.fraserinstitute.ca/admin/books/chapterfiles/Executive%20Summary-pages1-6.pdf>>.

**Executive Summary Chart 2:
MRI Machines Per Million Population in the OECD***



*Figure does not include Japan, which has an inordinately high number of MRI machines and CT scanners.

Source: OECD, 2002, 2001

The Fraser Institute reports that in 2004, in Alberta alone there are over 15 000 people on the MRI waiting list, with the mean wait time in Calgary of 105 days.⁵⁰ Ontario waits are slightly shorter, coming in at a mean of 77 days.⁵¹ For voluntary MRI scans there is a 150 day average waiting list in Canada, all the more staggering when we consider the United States has a three-day wait time for the same procedure.⁵² This may be largely a function of the American free market “pay as you go” system, but is also a strong indication that Canada does not have an efficient level of MRI machines.

⁵⁰ “Magnetic Resonance Imaging – Volumes and Wait Times 2002/2003 Quarter 3: October 1 to December 31, 2002” (23 April 2003), online: Alberta Health and Wellness Standards & Measures Branch <<http://web.archive.org/web/20040731060813/http://www.health.gov.ab.ca/about/funding/pdf/MRI.pdf>> at 2.

⁵¹ Karey Iron, Raymond Przybysz & Andreas Laupacis, “Access to MRI in Ontario: Addressing the Information Gap” (July 2003), online: Institute for Clinical Evaluative Services, <http://www.ices.on.ca/file/Access%20to%20MRI%20in%20Ontario%20-%20Addressing%20the%20information%20gap_printer%20friendly.pdf> at 4.

⁵² *Ibid.*

Garry Breitkreuz, Member of Parliament for Yorkton - Melville, Saskatchewan addressed the issue of saving lives when he asked in 2002 “[w]hat would save more lives – a gun registry or 238 new MRI machines?”⁵³

This is indeed an interesting point that should be considered. The average cost for an MRI has declined since Mr. Breitkreuz statement, and is now approximately \$2.5 million per unit,⁵⁴ as opposed to the \$4.5 million price tag he was using for his initial analysis. However, we will also factor in operating costs, which will also require about \$500,000 per year.⁵⁵ The cost of the machine coupled with ten years of service is then \$7.5 million dollars. Dividing this figure into a billion dollars, we see that Canada has foregone 133 MRI machines, fully serviced, that could have in service saving lives and reducing wait times for the next decade. This would bring Canada up to approximately 7.5 MRIs per million people, better than the average OECD country but still trailing several European countries.

Other Programs to Save Lives?

One can only speculate as to how many lives would have been saved, or at least improved, if a billion dollars were spent on other social programs such as feeding the homeless, chemical dependency rehabilitation programs, safe sex education in schools, clean needle programs, vaccinations for children or even shelters and counselling for victims of domestic violence. The list is practically endless, yet is one that should be considered if we are truly interested in saving lives.

But how many lives do we need to save in one of these programs to become more efficient at reducing premature death than the gun registry? What is the threshold to improve the efficiency of our spending?

Holding the position that we are not attacking the utility of the gun registry per se, we must briefly look at the firearm deaths in Canada to determine how many lives we are trying to save to at least maintain Pareto efficiency.

In the 1990s there were on average, 171 homicides, 48 accidental deaths and 946 suicides involving firearms per year⁵⁶. Presumably, the primary target of gun control is the category of “accidental deaths”, as it is questionable if a homicide or suicide will be deterred merely by the gun

⁵³ *Supra* note 48.

⁵⁴ “Health Care Cost Drivers” April 2004), online: Nova Scotia Department of Health <http://www.gov.ns.ca/health/downloads/Budget-Cost_Drivers.pdf>.

⁵⁵ *Ibid.*

⁵⁶ “Firearm Deaths, 1970-1999,” online: Coalition for Gun Control <<http://www.guncontrol.ca/Content/jan2003.firearmdeaths.PDF>>.

having being registered. The logic is that people responsible enough to register their firearms will now consciously turn their minds to their weapons and store them in a proper fashion, thus reducing the chance of accidental death. We do however accept that there will be some marginal benefit in the other two categories of firearm deaths as the mere availability of firearms that are poorly stored logically contributes to their use in both homicides and suicides.

Be that as it may, we as Canadians should consider other policies to reduce deaths caused by firearms that may be more effective than a registry system.

PROPOSAL 2: ALTERNATIVES

Alternative ways to Reduce Firearm Related Deaths?

There are an estimated seven million firearms in Canada.⁵⁷ Presumably, some of these are firearms are no longer in use, and just take up space in the closets and storage rooms of many Canadians. Many people likely have no use for these guns anymore and would be glad to be rid of them, but they just need an incentive.

“Gun Buyback”

Existing gun buyback campaigns such as “Toys for Guns” in the United States, have thus far proven effective. There is no reason to think that this would not be the case in Canada.⁵⁸ If our government took the billion dollars that was used on the gun registry and offered \$500 per firearm to people willing to give up their weapons, we could buy [with the intent to destroy] up to 2 million firearms. There could be different rates for different types of weapons as well. The automatic assault rifles and handguns could be worth more than an old single shot shotgun, thus we could more accurately target the desired weapons we want to protect society from.

It would not have to be a direct exchange of “Money for Guns,” either. There are many different ways the government could reduce the number of existing firearms, which in turn will presumably result in less firearm related deaths.

Canada could consider trying new and inventive methods to reduce the amount of firearms that exist in the public. For example, people with

⁵⁷ Mel Duvall, “Canada Firearms: Armed Robbery” (1 July 2004), online: Baseline <<http://www.baselinemag.com/article2/0%2C1397%2C1620245%2C00.asp>>.

⁵⁸ Ben Schmitt, “Gun buyback offering food, gas” *Detroit Free Press* (6 September 2002), online: Detroit Free Press <http://web.archive.org/web/20020921103105/http://www.freep.com/news/loc way/guns6_20020906.htm>.

parking tickets or speeding tickets could voluntarily forfeit a firearm in satisfaction of the fine from the specific driving infraction. Perhaps Crown prosecutors could be empowered to accept the voluntary forfeiture of a firearm in exchange for a reduced fine/sentence for people convicted of summary offences. These sorts of programs would cause many excess firearms in the country to eventually be rounded up and destroyed instead of being stolen and used in crimes or causing a fatal accident around the house. Granted if these were long-term programs a black market for old firearms may be created and there may be an influx of weapons from the USA. Consequently, whether we implement a gun buyback or another program it will have to be a relatively short time period, and we would also need to step up USA/Canada border security for its duration.

Canada Gets “ATF” Police?

Another possible method of achieving a reduction in deaths is to use the billion dollars to fund a special branch of the RCMP; much like the United States’ Alcohol, Tobacco and Firearms (ATF) force. (Our force would not be as concerned with tobacco or alcohol.)

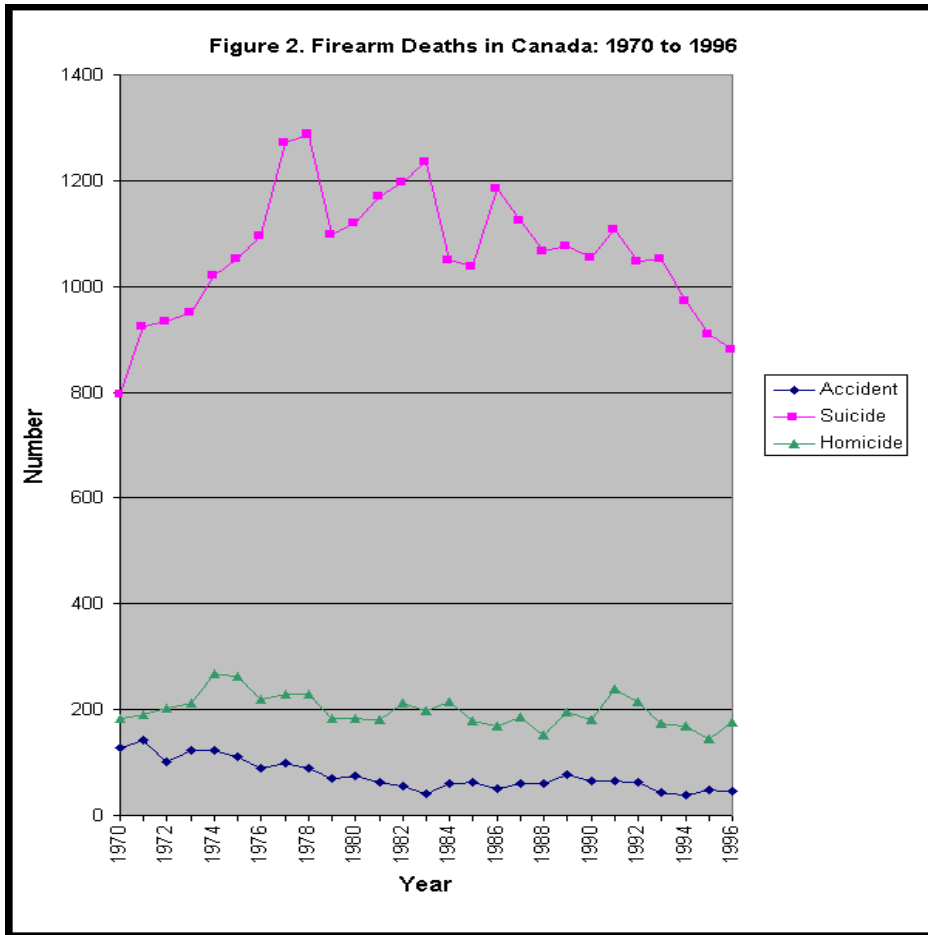
We could hire 500 new officers fully paid for the next 20 years at \$50,000 a year, with the sole purpose of reducing firearms and firearm related crime. Besides their usual investigative functions as officers, these special constables could travel to schools and workplaces giving seminars on safe gun handling and storage. This police force could also use the billion dollars to reward people who “tip off” the police about those who possess illegal firearms.

Combating Depression?

As seen by the following graph⁵⁹, suicide accounts for the largest component of firearm deaths. If saving lives caused by firearm death is the goal, perhaps the best method would be to devote more money into programs to combat and treat depression. A billion dollars would train a lot a great deal of psychiatrists, social workers, and nurses. The money could provide a large amount of free medication and therapy to combat depression. Or, we could dedicate this money into a public ad campaign that encourages people with depression or suicidal tendencies to not be afraid, but instead to come forward and seek help. This would hopefully benefit some of the people that would have otherwise committed suicide

⁵⁹ “Firearm Deaths In Canada” *Firearms Research Unit* (March 1999), online: Canadian Firearms Centre <http://web.archive.org/web/20021218072915/http://www.cfc-ccaf.gc.ca/en/research/other_docs/notes/death/default.asp>.

by firearm, as well as helping those people that were considering killing themselves by another method.⁶⁰



What are the Long-Run/Short-Run Implications?

Gun Buyback

- Immediate Benefits
 - Significant reduction in total firearms among Canadian citizens.

⁶⁰ In 1999, 151 people committed suicide with a firearm. 3,272 people committed suicide that year using a method that did not involve firearms. See: "1999 Leading Causes of Death for Canadians," online: <http://web.archive.org/web/20040219125250/http://www.cufoa.ca/pdfs/leadin_gcauses99b.pdf>.

- Firearm owning population at least turns their minds to their weapons, and re-evaluates the benefits of owning.
- Possible increase in safe storage as a result of considering their guns.
- Some people that need money will now have a safe market to sell their firearm.
- Possible positive economic stimulus effect from monetary infusion.
- Canada sends message to the world regarding the danger of firearms
- 5 Year Benefits
 - Potential reduction in accidental deaths due to accidents.
 - Marginal reduction in homicides and suicides.
 - Fewer weapons stolen in break-ins to be used in future crimes.
- 20 Year Benefits
 - Same as 5-year benefits.
 - Noticeable reduction in average yearly firearm related deaths will have saved a substantial number of people.
- Cost of Inaction
 - Historic levels of firearm related suicide, accidents, and homicide will likely remain the same.
 - Government has a billion dollars to reduce taxes, or to spend elsewhere.
 - May avoid possible political backlash of perception that the government is “rewarding criminals” with the “gun buyback” program.

Depression Awareness Programs:

- Immediate Benefits
 - Potential reduction in suicides from all causes, not just firearm related suicides.
 - Increase in the quality of life in some depression sufferers.
- 5 Year Benefits
 - Some of the people who sought treatment will have been saved.
 - Increase in awareness and understanding for mental illness in our society.
- 20 Year Benefits

- As above.
- Cost of Inaction
 - Historic levels of firearm related suicide, accidents, and homicide will likely remain the same.
 - No reduction in suicide for non-firearm related causes.
 - Many people continue to suffer from a reduction in the enjoyment of life.
 - Government has a billion dollars to reduce taxes, or to spend elsewhere.

PROPOSAL 3: ACCOUNTABILITY

Public Accountability?

It is difficult to think of appropriate ways to “tie” boondoggles like the gun registry to a specific person and hold them accountable for their decisions.

We can't just “take away” a few holiday days as proposed above for fiascos as large as the gun registry. Losing a few days of vacation is disproportionately small when compared to the cost of these fiscal disasters.

There should instead be a way at the very least to tie the boondoggle to the party that created it in the first place. The Liberal Party of Canada created the gun registry, and - perhaps through no fault of their own - let a program that was to cost only a few million dollars balloon into over a billion dollars.

Why should the Canadian taxpayer bear the full burden for an expense that they may have been willing to accept at a price tag of a few million, but might not have at the price tag of one billion? No other business transactions are run that way. A contractor cannot say that a project will cost “\$x” and then deliver a bill for 1 000 times “\$x” without getting further approval. It defies common sense [and basic contract laws] that Canadians allow our government to be run this way.

The same argument could be made for the “Sponsorgate Scandal” or the “HRDC” scandal. No one person in government is responsible for it, but someone must have known about it at some point, and if they didn't they were at the very least incompetent in the performance of their duties and should be accountable.

Vicarious liability is acceptable in our tort law, so why should it not be acceptable for holding our governments responsible for the actions of individual members of their party? When waste and corruption occurs in our governments to this extent, it is the party that should pay for the

loss, not the public. It should not matter if it was an individual person making the mistake, or a string of errors that cannot be attributed to any specific individual. The party itself should be accountable and not the public.

The political party could have an outright fine to be paid out of their pool of private donations, or reductions could be imposed in the amount of money they receive for each vote as allocated by the campaign finance rules. Anything that would deter political parties from gross mismanagements of public funds would suffice to help ensure accountability.

Application to Day Care? Some Final Thoughts...

In 2004 the government of Canada proposed a national day care program. The federal government would fund 100 000 day care facilities. The justification offered by the government is that “early education” is an important factor in producing healthy and productive citizens.

Our methodology would require government to consider seriously the cost to Canadian taxpayers of this program. It would not be decisive if the money could be “found” out of government surpluses or cuts in other programs. Government would be forced to face the extent to which more days of the lives of hard working Canadians would be devoted to paying for these programs.

There might be “benefits” in the sense that more Canadians with young children might be able to work and pay taxes. On the other hand, some Canadians might find that the tax burden, in addition to the already heavy load on Canadians, makes it difficult to fulfill the preference they would otherwise have for staying at home with their children or simply not having children. Do we know whether long-term intellectual and emotional development is served or disserved by having children in day care rather than in parent’s homes? Might not tax relief be another way of promoting early childhood education, by enabling more parents to stay at home with their children?

To what extent are parents who cannot be at home with their children arranging to have their children looked after on a one-on-one basis by relative, friend or paid help? To what extent does the taxation of such parents to pay for a day care program, and relative availability of institutional day care, mean that these alternate caregivers are displaced? How many of these alternative caregivers rendered unemployed?

Who will benefit from the program? In effect, will one family that chooses to have a stay-at-home parent - assuming this option remains affordable - in effect provide subsidies to those who do not? What are the advantages or disadvantages of providing a tax break or credit to all

Canadians with children, and let them make their own decision as to whether to raise the children at home or place them in paid day care?

Health Care?

Spending on health care is the greatest challenge to the public finance in Canada. It consumes an ever-increasing proportion of federal and provincial budgets. The Romanow Commission appealed to “values”, and proposed that the problem be “fixed” by spending projected surpluses on the health care system.

There are problems with the Romanow report beyond its indifference to the issue of over taxation of the population.

The consideration of “values” and “principles” is extremely narrow. The report does not consider other possible principles, such as the freedom of a Canadian to make her own decisions, and spend her own resources as she sees fit.

The value of “solidarity” and “equality” are indeed worthy of respect. But what about a principle such as that proposed by John Rawls: that inequality is acceptable to the extent that it provides ameliorating effects to the less advantaged. If Canadians were permitted to pay more for premium service – at least with some elective procedures - there might be more money in the system to pay, and keep specialists who would otherwise leave the country, rendering them unavailable. There might also be more money spent on equipment that would be available to all, not only those who pay for the premium service. Another principle worthy of consideration is that citizens who can should pay some part of the health care they consume. It is a principle that is observed with provincial drug plans, and it encourages the responsible use of scarce resources. Making a service free might cause some citizens to make demands on it they would forego if they had to bear a modest part of the actual cost. That makes scarce resources less available to others.

The appeal to established “values” amount to an excuse for refraining from a genuinely searching and imaginative analysis. One might ask whether the \$20 million spent could have been better used on buying medical equipment, paying for diagnostics, expediting cancer surgery, or leaving more money in the hands of taxpayers to take their own steps to improve their health – such as taking a vacation or signing up with a gym.

The point that is most germane to this study, however, is that the Romanow Report exhibits no interest whatever in the impact on Canadians of maintaining the current high levels of taxation, or increasing them to maintain the current system. However, people should consider the possibility that the very high taxes in Canada [used to fund health care] may cause a great deal of stress related illness. Heart disease, the number one cause of death in Canada, is positively

correlated with stress. Stress in turn is positively correlated with people working too hard. Thus, a potential vicious circle is created. Canadians may have to work harder than they should simply to fund the health care program, and as a result of being overworked, are now more likely to become ill and place strain on the health system.

Also, higher taxation rates may induce health care personnel, particularly doctors, to emigrate to a country with lower taxes such as the United States. This reduction in health care staff may result in increased wait times, resulting in more stress and an increased danger to the health of patients in general.

WHAT CAN WE DO?

No country is wealthy enough to afford the prolonged misallocation of resources by those who govern it. Canada is no exception. We are a country that places great value on human lives, as evidenced by our desire to provide a clean and safe country with universal health care to all its citizens.

However, we are also a country of limited resources, and hopefully this paper has shown that each time a dollar is misallocated we may be overtaxing people, and in some cases risking their very lives. This is not what Canada is all about. People who jeopardize the core value of maintaining life by poor public spending decisions must be held accountable.

The public has a duty to ensure that this is so, by carefully considering, and in some cases scrutinizing, decisions to spend public funds. Hopefully, some of the proposed ways of re-framing public decisions will aid people in their deliberations of what they are told by politicians, and as a result are more able to make an objective and informed choice.

Canadians must remember that first and foremost we are human beings, and as such are susceptible to irrational and emotive responses that may not be in our best interest. Only with constant vigilance against these psychological phenomena can we move forward and reduce the real dangers that our society faces, be they literally life threatening or merely the risk of over taxation.

We are aware that the above examples of “Alternative Accounting” have been applied to rather easy targets. However, as mentioned above, the fact that boondoggles occur in the first place implies that some people have trouble seeing the true extent of their costs. The public must be vigilant with smaller expenditures as well as the large, to ensure they are done efficiently and with accountability. Tax dollars and human lives can be squandered in many ways, not just with the easy targets like the “Modern North Tour or the Gun Registry.

108 Underneath the Golden Boy

By being more critical of public decisions, considering opportunity costs, the risks of hidden dangers, and the long-term benefits of possible alternatives, Canadians can ensure that our tax dollars are spent wisely. We should hold our leaders accountable for distortions, both intentional and otherwise. Combating the emotive and irrational psychological responses towards public spending can be done. Often things just need to be looked at in a different light to see what they truly are.