FP COMMENT

WILLIAM WATSON

Picking apart Thomas Piketty

Suppose you live in a medieval village of a hundred people. The only tool is a single pick. What can we say about village life? One, it's a very valuable pick. Two, the guy who owns it is very powerful (though he'd better watch his back). And, three, everybody is poor. The pick-owner is a little less poor. But if 100 people have just one pick among them, that's dirt poor.

Now suppose there are 100 picks in the village and everyone owns one. We have complete pick equality. Some people may be better pick-wielders so we may not have complete income or influence equality. But things are much more equal than with just one pick. Even more important: the village is much richer. With 100 picks you can grow a lot more food.

Finally, here's the tough one: Suppose there are 100 picks but just 10 people own them. Ninety people have no picks. Pick equality is gone. But we do still have lots of picks. The 10 pick-owners will be richer and more influential than the 90. Will they be as powerful as the pick-owner in the one-pick village? Probably not. Will they rip off the rest of us as much when renting out their picks? Probably not.

With 10 pick-owners, if one charges an outrageous price (if he anticipates telecom behaviour, that is) one of the other nine will under-bid him. True, medieval villages were fond of guilds so maybe the pick-owners' guild will use its Friday-night meetings to collude on pick prices. But still. Life will be a lot better than in the one-pick village, even if it falls short of life in the rich, equal, 100-pick, 100-pick-owner village.

What's this all about? As Terence Corcoran reported here last week the French economist Thomas Piketty has a terrific new book out — terrific in the telling, not so much in the taxophilic conclusions — called *Capital in the Twenty-First Century*. In a nutshell, Piketty worries most economies will grow slower than

> Would drowning in capital be so bad?

they did in the 20th century, but even so will keep saving. If capital accumulation does outpace growth, then the ratio of capital to output rises and the past, i.e., old capital, increases its sway on the present.

Apart from his crisp, learned and often funny exposition, the beauty of Piketty's book is in the massive data sets it relies on, many of his own and colleagues' construction. These data show that in 1910 the capital-output ratio in the world's leading economies was roughly six. Thirty-five years later it was three, halved by high explosives, high anxiety and high taxes, i.e., two world wars, a debilitating depression and the confiscatory income taxation of the New Deal and like-minded regimes elsewhere.

Piketty sees the silver lining in all that destruction as being that in 1950: "old capital" was now much less powerful; post-war reconstruction offered abundant investment opportunities; and the baby boom juiced growth rates so societies could save lots without their capital-output ratio exploding and their social structures tilting back toward 1910.

After the Greatest Generation's unprecedented economic run, however, growth slowed and top taxes came down, which allowed top earners to start amassing big fortunes again. As a result, society is evolving in the direction of our example's third village: We've got lots of capital, picks a-plenty, as it were, and more every day. But the picks are owned by fewer and fewer people.

Piketty would much prefer today's incomes with 1950-1970s social structure (the second village), though obviously without the calamities that produced it. He argues we could get it if we hiked top marginal tax rates to 80% and imposed a progressive world wealth tax aimed at breaking up big concentrations of wealth.

Taxation that punitive wouldn't be as violent as 1914-45 but can we really be sure it wouldn't be as destructive? I'd be inclined to take my chances with Village Number Two: population stable, output, capital per unit of output and also capital per worker all growing, albeit not as quickly in the mid-20th century. Even if more and more capital is owned by fewer and fewer people, the capital-owners won't get the 5% real return that Piketty says capital pretty much always gets unless they keep that capital working. Which means the rest of us can earn income using it.

Would drowning in capital really be so bad, even if somebody else owned it?

Several decades following the vaccine's introduction, the measles death rate rose, largely because the vaccine made adults, expectant mothers and infants more vulnerable

Measles: The untold story

LAWRENCE SOLOMON

Early in the last century, measles killed millions of people a year. Then, bit by bit in countries of the developed world, the death rate dropped, by the 1960s by 98% or more. In the U.K., it dropped by an astounding 99.96%. And then, the measles vaccine entered the market.

After the vaccine's introduction, the measles death rate continued to drop into the 1970s. Many scientists credit the continued decline entirely to the vaccine. Other scientists believe the vaccine played a minor role, if that, noting that most infectious diseases similarly petered out during the 20th century, including some, like scarlet fever, for which vaccines were never developed.

The credit for the century-long decline, scientists generally agree, goes to improved nutrition and improved health care, side effects of the West's growing affluence. In the U.S., the death rate dropped by about 98%, from about 10 per 100,000 population a century ago to one fifth of one person by 1963, the year measles vaccines made their American debut. Both before and after vaccination started, victims tended to be poor.

A study in the *American Journal of Public Health*, "Measles mortality in the United States 1971-1975," found the measles death rate to be almost 10 times higher among families whose median income was less than $5,000 than among families whose income exceeded a modest $10,000. Families outside metropolitan areas, who tended to have poor health care, had three times the death rate.

An earlier, landmark study in the *American Journal of Epidemiology* by the Center for Disease Control's Roger Barkin found similar disturbing results of measles' toll on the disadvantaged. Here race entered the picture because black children were disproportionately victimized, not by the measles virus per se but by poverty. A poor black child and a poor white child had the same high chance of dying from measles, but because white children rarely lived in abject poverty, measles claimed the blacks.

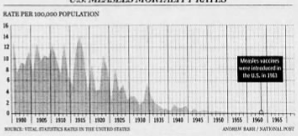
Measles didn't only discriminate by income — in another study, Baskin found that children with underlying diseases were particularly vulnerable, and that the "majority of this group were physically or mentally retarded, or both." The realization that measles was selective in whom it killed led Baskin to emphasize that vulnerable populations, rather than the general population, should be targeted for measles vaccination.

In the pre-vaccine era, when the natural measles virus infected the entire population, measles — "typically a benign childhood disease," as Clinical Pediatrics described it — was welcomed for providing lifetime immunity, thus avoiding dangerous adult infections. In today's vaccine era, adults have accounted for one quarter to one half of measles cases; most of them involve pneumonia, one-quarter of them hospitalization.

Also importantly, measles during pregnancies have risen dangerously because expectant mothers no longer have lifetime immunity. Today's vaccinated expectant mothers are at risk because the measles vaccine wanes with time and because it often fails to protect against measles.

U.S. MEASLES MORTALITY RATES

RATE PER 100,000 POPULATION



SOURCE: VITAL STATISTICS RATES IN THE UNITED STATES ANDREW BARR / NATIONAL POST

A study in Houston of 12 pregnant women and one who had just given birth, all of whom had measles, found one died, seven suffered pneumonia and seven hepatitis, four went through premature labour and one lost her child in a spontaneous abortion. A study of eight measles pregnancies in Japan found three ended in spontaneous abortions or stillbirths while four babies were born with congenital measles; two mothers endured pneumonia and one hemorrhagic shock. A Los Angeles study of 58 such pregnancies found 21 ended prematurely (three induced abortions, five spontaneous abortions and 13 preterm deliveries); 35 of the 58 mothers were hospitalized, 15 contracted pneumonia, and two died.

The danger extends to babies, whose bodies are too immature to receive measles vaccination before age one, making them entirely dependent on antibodies inherited from their mothers. In their first year out of the womb, infants suffer the highest rate of measles infections and the most lasting harm. Yet vaccinated mothers

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have little antibody to pass on — only about one-quarter as much as mothers protected by natural measles — leaving infants vulnerable three months after birth, according to a study last year in the *Journal of Infectious Diseases*. HIV-infected children, who may account for most recent measles-related child deaths, also suffer when their mothers have been vaccinated, since HIV further reduces the antibodies they inherit.

Factors such as these increased the death rate for adults and the very young, helping to reverse the decline in deaths seen in previous decades, according to a 2004 study in the *Journal of Infectious Disease*, authored by researchers at the Centers for Disease Control and Johns Hopkins Bloomberg School of Public Health.

Vaccines for measles have had spotty safety records. Soon after their introduction, the Vital Statistics of the United States began recording deaths from the measles vaccine, along with deaths from other vaccines. By 1970, one of the two original measles vaccines was withdrawn in Canada and the U.S. after causing atypical measles syndrome, a harsh disease triggering high rates of pneumonia. In 1975, the second original vaccine was withdrawn due to 103-degrees-plus fevers, among other severe side effects. Two variants of this vaccine also proved unsatisfactory. A measles vaccine then became part of the combination MMR (measles, mumps, rubella) vaccine in the 1980s, only to be withdrawn in 1990 by Canada and in 1992 by the manufacturer after reports from Canada, the U.S., Sweden and Japan blamed MMR for febrile convulsions, meningitis, deafness and deaths. A second version of MMR, now in widespread use, is believed safe by government officials.

Safety aside, vaccines repeatedly failed worldwide in the 1980s and 1990s. As described in "Measles Elimination in Canada", a 2004 report authored by Canadian government officials and academics, "despite virtually 100% documented one-dose coverage in some regions, large outbreaks of measles involving thousands of cases persisted ... Clearly, because of primary vaccine failure, Canada's one-dose program was insufficient."

The solution finally arrived at — adding a second dose for children — initially seemed to tame measles outbreaks. But in recent years, the new vaccination regime, too, has been failing, with widespread outbreaks again occurring, including among those who have received the recommended dose and especially among infants too young to be vaccinated, and thus unprotected because their mothers had been vaccinated. Now health experts, scrambling to find solutions, are suggesting numerous reforms, including earlier child vaccinations and second doses for adults.

Clearly, the science is not settled, making for parents a numbers game of the decision to vaccinate their children. Some parents rely on the press or health authorities to interpret the numbers. Others defy the authorities and weigh the risks in the numbers differently, in deciding what's best for their own families. Who are these others? According to a survey in *Pediatrics*, unvaccinated children in the U.S. have a mother who is at least 30 years old, who has at least one college degree and whose household has an annual income of at least $75,000. In the absence of studies showing vaccinated children to be healthier than those unvaccinated, the parents in these educated households have determined that the numbers argue against vaccination.

Financial Post

Lawrence Solomon is research director of Consumer Policy Institute.

CIBC: Ontario's apologist

NIELS VELDHUIS AND SEAN SPEER

CIBC World Markets' latest Economic Insight disagrees with a Fraser Institute study comparing Ontario's worrying level of indebtedness to California. Our study found that California's US$144.8-billion debt pales in comparison to Ontario's $267.5-billion government debt, despite California having a larger economy and population. Per person, Ontario's debt exceeds California's five-fold.

CIBC however defends Ontario, claiming the Fraser Institute study misses "the fundamental point" that Canadian provinces and U.S. states "aren't peers" and that comparing them "is folly."

In reading the CIBC's Economic Insight, one of course must ponder just who exactly is missing the point.

CIBC's Economic Insight says provinces and states cannot be compared because "provinces are endowed with great fiscal flexibility, including sovereign-like taxing powers, an unchecked ability to run budget shortfalls." Meanwhile U.S. states, "exhibit less fiscal flexibility; they're generally prohibited from running operational shortfalls, must clear higher hurdles when it comes to raising taxes and face more binding constraints on issuing debt."

If the CIBC authors had actually read our studies they would have come across a three-page section "Stating the Obvious — U.S. States Are Different from Canadian Provinces," where we explain that unlike our provinces, U.S. states have constitutions that can restrict the fiscal powers of the respective state governments.

As CIBC notes, California, like most other U.S. states, has a constitutional mandate for a balanced budget. However, that requirement only applies to the annual operating budget, which in California is referred to as the General Fund. In addition to its General Fund, California has two other funds for state-level spending: the Special Fund and the Bond Fund that in 2012-13 com-

> CIBC wants people to 'forget comparisons of Ontario to California'

prised 28% of state spending. When all three funds are included, the scope for debt accumulation is much greater and any proper analysis should include all three funds, as ours does.

CIBC wants people to "forget comparisons of Ontario to California," saying "it's more relevant to stack up Ontario vs. Alberta" and other provinces.

Again, had the CIBC economists actually read our report they would have realized that Ontario was compared to other provinces. Ontario has the second highest level of net debt in the country at 37% of GDP, next to Quebec. Moreover, Ontario is accumulating debt at a faster pace. Without reforms, Ontario will soon be Canada's most indebted province.

CIBC jumps to Ontario's defence noting "Quite simply, not all provinces are endowed with equal opportunity. When it comes to economic performance, Canada's resource-rich Western provinces have enjoyed a pronounced edge over Central and Eastern Canada." It seems that the CIBC authors want us to believe that Ontario's higher debt is because the west has resource riches. CIBC says nothing about Ontario destroying its investment climate through a host of bad policies.

But the CIBC saves the best for last, finding a "silver lining for the more distressed provinces." Because the federal government is set to balance its budget next year, there is a "potential for a more accommodating federal government in Ottawa." What exactly does that mean? Well, according to the CIBC, "deploying stimulus dollars at the federal level may help."

CIBC's answer for Ontario is a bailout. We'd rather Ontario (and CIBC) get its priorities right.

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