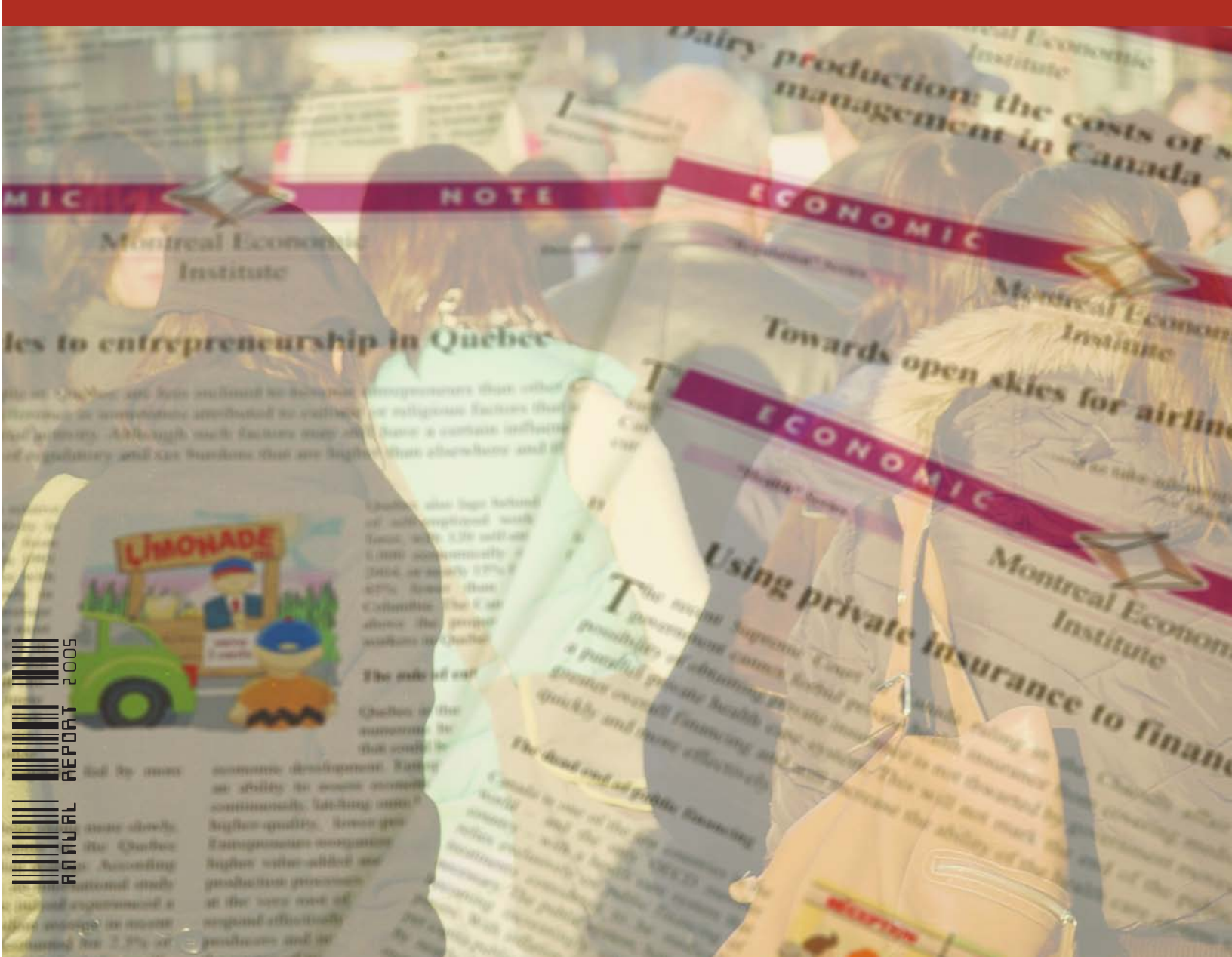




Montreal
Economic
Institute

Ideas for a More Prosperous Nation

ANNUAL
REPORT
2005



ANNUAL REPORT 2005

THE MONTREAL ECONOMIC INSTITUTE (MEI) IS AN INDEPENDENT, NON-PROFIT,
NON-PARTISAN ECONOMIC RESEARCH AND EDUCATIONAL INSTITUTE.

THE MEI PARTICIPATES IN DEBATES ON QUEBEC AND CANADIAN PUBLIC POLICY BY
PROVIDING WEALTH-GENERATING SOLUTIONS, PRIMARILY IN AREAS OF TAXATION,
REGULATION, HEALTH AND EDUCATION REFORM.

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(on December 31, 2005)

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JENI DIMITROVA, *Accounting Assistant*

LAURETTE DUPONT, *Administrative Assistant*

ALIA NEGM, *Administrative Assistant*



Montreal Economic Institute
6708 Saint-Hubert Montreal, Quebec H2S 2M6

Phone ▶ (514) 273-0969

E-mail ▶ info@iedm.org

Fax ▶ (514) 273-2581

Web ▶ www.iedm.org

CHAIRMAN'S MESSAGE

Freedom of expression is a key foundation of free and democratic societies. Without it, no other right or freedom can last. Being free to express oneself is hardly the end of the matter, however. For true debates about the future of society to occur, the media must allow for all opinions to be heard and must encourage real diversity of viewpoints.

In the last several decades, Quebec has not been short of debates on the national question. But in other areas of public policy, the notion of “consensus” has dominated until quite recently. A few influential members of the establishment would proclaim the solution to a problem – typically involving a new program or a new type of government intervention – and nobody was supposed to disagree. You may recall that challenging the effectiveness of the “Quebec model” of government interventionism was tantamount not so long ago to political suicide and to ostracism from the mainstream of society.

I am astonished, however, to note how much Quebec’s intellectual climate has changed in recent times. Real public discussion, with conflicting viewpoints, actually seems to have

come into fashion in the media. The work of the Montreal Economic Institute, with its continuously growing media presence, has clearly played a role in this phenomenon.

Television programs such as *Il va y avoir du sport* (Télé-Québec) and the late-evening newscast on TQS rely heavily on clashing opinions to boost their viewers’ interest. Researchers from the Montreal Economic Institute are called upon regularly.

Newspapers and magazines also seem to be providing more space for debate, with the MEI contributing more than 100 opinion pieces in 2005. In addition to having regular columns in influential publications such as *Le Journal de Montréal* and *Les Affaires*, our collaborators are invited to take part in pro-and-con debates in magazines such as *Affaires Plus* and *Protégez-vous*.



ADRIEN
POULIOT

CHAIRMAN'S MESSAGE

Our institute is sometimes the first – or even the only body – to propose bold solutions to public policy problems. It has contributed unquestionably to create a climate in Quebec that makes it more acceptable for people to think along divergent lines. This is the sign of a pluralistic society that has undergone change. Everyone should rejoice, including those who are not necessarily in agreement with us.

We cannot take this advance for granted, however. Well organized interest groups understand how this change in dynamics is threatening their traditional position as guardians of the Quebec version of political correctness. I do not doubt that they will attempt to recapture control over public debate. Our work is just starting, and we need your support more than ever in continuing to nourish healthy democratic discussion of public policy in Quebec.

In addition to much appreciated financial support from a growing number of generous donors, another form of assistance is also of great value to us, namely the work done by the members of our Board of Directors. Generous with their ideas, their management experience and their networks of contacts, they are excellent ambassadors among various groups for the Institute's work. I thank them for their devotion to the task, and I emphasize that two especially dynamic Quebec business people, Marcel Dutil of Groupe Canam and Stéphan Crétier of Garda World, have agreed to join us and contribute to the MEI's development. The outstanding quality of these two new board members offers additional proof that the MEI is a serious organization deserving of support from anyone who holds dear the progress of our society.

Adrien D. Pouliot
Chairman



“
It's a refreshing breeze for the Montreal Economic Institute to exist in Canada and to do the kind of work it is doing. I think, it makes a very important contribution to the public policy in Quebec.”

- Vernon L. Smith
2002 Nobel Prize Laureate for Economics

PRESIDENT'S MESSAGE

We will remember 2005 as a pivotal year in public policy matters, especially in the health care field. On June 9, the Supreme Court of Canada issued its much awaited verdict in the case of Dr. Jacques Chaoulli, ruling that the Quebec government cannot prohibit private health insurance in the coverage of medically required services.

Reform of the health care system has been a key focus of the Montreal Economic Institute since its very founding. This Supreme Court decision confirms the relevance and the forward-looking nature of our work, with which Dr. Chaoulli has been associated on a number of occasions. Whatever legislative action follows from the court ruling, it clears away a significant logjam in public debate on reform of the health care system.

The Montreal Economic Institute continued to pursue this theme in 2005, publishing two Economic Notes, one dealing with the myths surrounding the U.S. system and the other, related to the Chaoulli case, on the experiences of OECD countries in financing health care through private insurance. Two cross-Canada opinion

polls sponsored by the MEI also nurtured this debate: they showed a startling advance in the openness revealed by people in Canada, especially in Quebec, to the idea of allowing the private sector to expand in the health care field.

These polls, conducted by recognized firms, complement our studies in stirring interest among the media and decision-makers. In indicating that a large proportion of the public supports the conclusions of our research, they add weight to our arguments.

SUBSTANTIAL MEDIA COVERAGE

As emphasized by our board chairman in his message, the media in Quebec are showing an increasing willingness to stir debate and are less hesitant to air views that only a few years ago seemed too controversial to be worthy of attention. This opening has coincided with spectacular growth in the MEI's media visibility.



**MICHEL
KELLY-GAGNON**

PRESIDENT'S MESSAGE

GROWTH IN THE NUMBER OF NEWS STORIES COVERING MEI'S WORK IN PRINT AND BROADCAST MEDIA

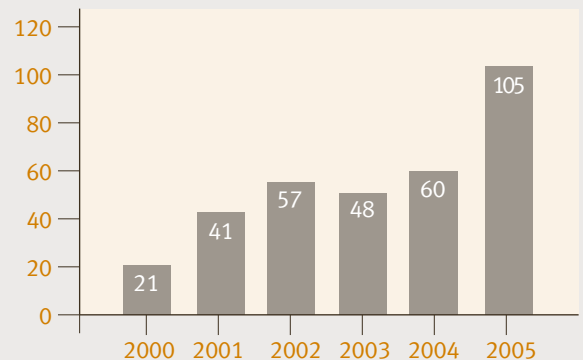


Following a rapid increase over preceding years, our visibility nearly doubled last year. Some 1,350 articles and reports mentioned our institute in 2005, compared to 757 in 2004. The total value of this media coverage was estimated at \$11.8 million by public relations specialists, up 48% from the previous year.

This visibility is extraordinary not only because of its scope but also due to its quality and geographic diversity. More than 100 opinion pieces written by our researchers and collaborators were published in newspapers and specialized magazines. In September, the MEI made a breakthrough in *Le Journal de Montréal*, Quebec's most widely read daily paper, where our collaborator Nathalie Elgrably now has a column each Wednesday on public policy issues. Very few think tanks anywhere in the world can boast of reaching the general public as directly and regularly from as broad a platform.

The MEI's work has been a focus of discussion not only in the Montreal media but in every region of Quebec. Some of our publications have also stirred interest right across the country. We have had a regular presence – at least once a month – on the Opinion page of the *National Post*. We can state without exaggeration that, even with its offices located in Quebec, the Montreal Economic Institute has become a recognized and respected voice all across Canada. And with more than half a million unique visitors in 2005, our bilingual Web site is reaching an even wider public, not only in Canada but around the world.

GROWTH IN THE NUMBER OF OPINION PIECES PUBLISHED BY THE MEI IN NEWSPAPERS AND MAGAZINES



INFLUENTIAL PUBLICATIONS

Our director of publications has by no means had a restful year: the number of publications produced by the MEI went from 14 in 2004 to 25 in 2005! As in each of the last six years, the



Report Card on Quebec's Secondary Schools, produced with the Fraser Institute and published in partnership with *L'actualité* magazine, reached more than a million parents, students and educators, along with an abundance of

media reactions.

Among our other publications (listed in this *Annual Report* and all downloadable free of charge from our Web site), two dealt with Quebec labour law, in particular anti-scab measures and the effects of the high rate of unionization. Our researchers also delved into public finance, air transport, the supply management system in agriculture, recycling of industrial waste, and a number of other topics.



The publication that unquestionably made the biggest splash in the past year was the Research Paper written by our research director, Valentin Petkantchin, on government monopoly in the distribution and sale of alcohol in

Quebec. This study compared the performance of the Société des alcools du Québec (SAQ) with the Ontario monopoly (LCBO) and the liberalized market in Alberta, concluding that it would be in the government's interest to privatize the SAQ and allow competition in this sector.

Apart from our *Report Card on Secondary Schools*, this study generated the greatest media interest in the MEI's entire history. It led to more than 200 articles and reports. As these lines are written, early in 2006, controversy over the suggested SAQ privatization still rages in the media. The quality of media coverage has been extraordinary, not only in Quebec but also in the rest of Canada, which accounted for a third of all references.

Both of Canada's national dailies, *The Globe and Mail* and the *National Post*, as well as the *Montreal Gazette* and *The Windsor Star*, ran editorials urging Ontario and Quebec politicians to act on the conclusions of our study. Columnists in *La Presse*, *Le Journal de Montréal*, *Le Devoir* and the weekly *Les Affaires* also commented on the study. They all praised its quality and pertinence. The study also led to excellent coverage in the electronic media. For instance, Mr. Petkantchin took part in a televised debate with former Quebec Premier Bernard Landry.

"Valentin Petkantchin, Research Director of the Montreal Economic Institute, a private think-tank, issued a solid paper [...]. There is no compelling reason for governments to remain in the liquor business."

- *The Globe and Mail* (Editorial), October 6, 2005

"The study by the Montreal Economic Institute puts forward solid arguments in favour of [the SAQ's] privatization."

- *Le Journal de Montréal & Le Journal de Québec* (Jean-François Pouliot), October 10, 2005

"The Ontario government's arguments against privatizing the provincial liquor monopoly, already intellectually thin, became thinner on Tuesday with the release of a Montreal Economic Institute study [...]."

- *The National Post* (Editorial), October 6, 2005

"The study by the Montreal Economic Institute [...] effectively and rigorously brushes aside any final arguments that could be made by proponents of state presence in such an industry."

- *La Presse & Le Soleil* (Alain Dubuc), October 8, 2005

PRESIDENT'S MESSAGE

This experience shows strikingly that we can influence public debate and opinion when we rely on rigorous, well argued research. The MEI ended the year more than ever as an indispensable player when it comes to discussing public policy in Quebec.

A FORUM FOR DEBATE

The Montreal Economic Institute is not just a publishing house producing studies that nurture debate in the media but is itself a place where prestigious personalities come to cross swords in public. In 2005, we organized two debates on controversial themes, namely the value of new medications and the impact of the Kyoto environmental treaty. Participants included Quebec Environment Minister Thomas Mulcair.

Speakers such as *Wall Street Journal* columnist Mary Anastasia O'Grady, as well as Jacob Sullum of the American magazine *Reason*, brought us their analyses of current topics. Mr. Sullum's talk was given not only in Montreal but also in Toronto the following day, marking the first public event organized by the MEI in the Ontario capital. The year ended vibrantly with the first Jean A. Pouliot Lecture, to be held annually in honour of this pioneer of Canadian television. Prof. Vernon Smith, who shared the 2002 Nobel Prize in economics, spoke before more than 150 guests at the Ritz-Carlton in Montreal.



THE MINISTER OF SUSTAINABLE DEVELOPMENT, THE ENVIRONMENT AND PARKS, THOMAS MULCAIR, DURING A DEBATE ON THE KYOTO ACCORD, NOVEMBER 29, 2005



MARY ANASTASIA O'GRADY, MEMBER OF THE WALL STREET JOURNAL EDITORIAL BOARD, VISITING THE MEI ON MAY 13, 2005



THE MEI'S FIRST PUBLIC EVENT IN TORONTO, HOSTING JACOB SULLUM, SENIOR EDITOR OF REASON MAGAZINE, SEPTEMBER 28, 2005



A DEBATE ON THE VALUE OF NEW DRUGS, BETWEEN JOEL LEXCHIN (RIGHT) FROM THE UNIVERSITY OF TORONTO AND FRANK LICHTENBERG (LEFT) FROM COLUMBIA UNIVERSITY, APRIL 7, 2005

Our staff and associate researchers also addressed varied audiences during the year, among them the *Association québécoise du transport et des routes*, the University of Montreal students' federation, the *Centre des sciences de Montréal* and the *Association des constructeurs de routes et de grands travaux du Québec*. This allowed us to reach thousands of people interested in specific elements of our work.

The Montreal Economic Institute also took part in various public hearings, in Ottawa as well as Quebec City. We submitted briefs to the Quebec Department of Health and Social Services during the development of its policy on tobacco use and to the federal Industry Department's task force on the regulatory framework for telecommunications. Our research director testified before the Committee on Social Affairs of the Quebec National Assembly as part of its hearings into policy regarding medications. These actions enable us to transmit our message directly to decision-makers.

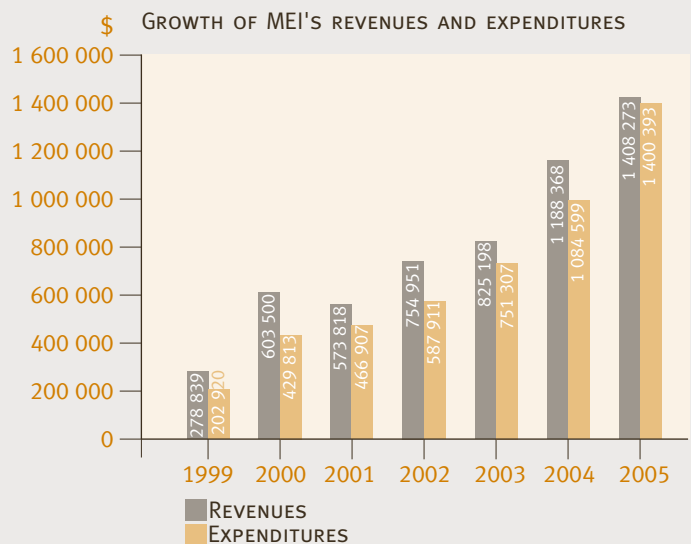
A MAJOR CONTRIBUTION

Attentive minds may have noticed the new logo appearing on the cover of this *Annual Report*. While maintaining essentially the same image, we wanted to freshen it a little, also adding our new slogan. We noticed over the years that, because of our name, some people thought our studies dealt only with the economy of the Montreal area. In fact, we are concerned with public policy affecting Quebec or Canada in their entirety.

In drawing up a record of our achievements in 2005, in particular the spectacular growth in our media visibility, I can see that the dynamism of our small 12-person team is second to none. But without the help from our supporters and donors, as well as from everyone who has assisted us in

one way or another, our own contribution to the progress of Quebec and Canadian society would not be what it is. We would have no impact without them.

Again this year, they proved to be very generous, enabling us to maintain an excellent financial situation. Our fundraising and other income (subscriptions and sales of publications, registration fees for lectures, etc.) rose 18,5% in 2005, reaching \$1,408,273. Our spending was up 29%, standing at \$1,400,393. We thank them sincerely and urge them to renew their support in 2006, helping make our achievements even more impressive next year!



MEI PUBLICATIONS IN 2005

January – *The perverse effects of anti-scab measures*

Economic Note on the economic impact of anti-scab measures

February – *Dairy production: the costs of supply management in Canada*

Economic Note on the economic impact of supply management

March – *The economic costs of the capital tax*

Economic Note on the negative consequences of taxes on capital

March – *La valeur de la sécurité d'emploi*

Le Point de l'IEDM on the value of job security

April – *Should cigarettes be banned in public places?*

Economic Note on the economic aspects of this ban in Quebec

April – *L'effet bénéfique des nouveaux médicaments sur la longévité et la capacité de travailler*
Le Point de l'IEDM on the impact of new patented drugs on quality of life and the economy

April – *A Canada Strong and Free*
Discussion paper written by Mike Harris and Preston Manning on federal government policies

April – *Les contorsions comptables des gouvernements du Québec*
Le Point de l'IEDM on the Quebec government's accounting twists and turns

April – *Reconciling profits and sustainable development: Industrial waste recycling in market economies*
Economic Note on industrial waste recycling in a market economy

April – *Concilier profits et environnement: le recyclage des déchets industriels dans une économie de marché*

Research paper (in French with bilingual executive summary) on industrial waste recycling in a market economy

May – *Towards open skies for airlines in Canada*

Economic Note on liberalizing air transport markets

June – *Two myths about the U.S. health care system*

Economic Note on some of the myths about the American health system

July – *Should we be protected against foreign outsourcing?*

Economic Note on the phenomenon of foreign outsourcing

August – *Entretien ménager dans les écoles: les avantages de la sous-traitance*

Le Point de l'IEDM on the advantages of subcontracting school cleaning services

August – *The consequences of a strong union presence in Quebec*

Economic Note on the economic consequences of the high rate of unionization in Quebec

September – *Conflit de travail dans les Centres de la petite enfance: les ratés de la réforme*

Le Point de l'IEDM on childcare funding in Quebec

October – *Is government control of the liquor trade still justified?*

Research paper on the justifications and economic consequences of a government monopoly on liquor sales

October – *Caring for Canadians in a Canada Strong and Free*

Second part of a discussion paper by Mike Harris and Preston Manning on federal government policies

October – *Report Card on Quebec's Secondary Schools, 2005 Edition*

Annual evaluation of the performance of Quebec's high schools

November – *Les impacts positifs de la concurrence entre les écoles*

Le Point de l'IEDM on the impact of competition among schools

November – *Using private insurance to finance health care*

Economic Note on private health care funding

November – *Should cigarettes be banned in public places?*

Economic Note on the economic aspects on such a ban in France

December – *Obstacles to entrepreneurship in Quebec*

Economic Note on the impact of a heavy regulatory and tax burden on new business start-ups

December – *Les recettes et les dépenses du gouvernement fédéral*

Le Point de l'IEDM on the federal government's revenue and expenditures

MEI CONFERENCES AND ACTIVITIES IN 2005

January 19 – *Public-Private Partnerships and Their Impact on Civil Engineering and Road Construction*

Presentation by Paul Daniel Muller, MEI Associate Researcher, at the annual congress of the Association des constructeurs de routes et de grands travaux du Québec held in La Malbaie, Quebec

January 20 – *More Efficient Public Services Through Public-Private Partnerships*

Presentation by Paul Daniel Muller, MEI Associate Researcher, at a symposium on public-private partnerships held at the Université du Québec à Chicoutimi

February 1 – *The Economic Benefits of Reducing Income Taxes*

MEI luncheon speech with Norma Kozhaya, MEI Economist

February 12 – *Annual MEI / Fraser Institute Student Seminar*

Seminar on public policy organized for CEGEP and university students

March 17 – *Mises Institute 2005 Austrian Scholars Conference*

Presentations by Martin Masse, MEI Director of Publications, and Valentin Petkantchin, MEI Research Director, at this conference held in Auburn, Alabama

April 7 – *The Overall Impact of New Drugs*

MEI public debate on the impact of new, patented drugs between Frank Lichtenberg (Columbia University) and Joel Lexchin (University of Toronto)

April 11 – *Competitive Tendering for Quebec's Public Transit Systems*

Presentation by Valentin Petkantchin, MEI Research Director, at the annual congress of the Association québécoise du transport et des routes held in Laval, Quebec

May 13 – *Aerospace Industry & the Role of Governments*

MEI luncheon speech with Mary O'Grady, member of the *Wall Street Journal's* editorial committee

May 19 – *Austrian Approach to the Third Duty of the Sovereign in the Wealth of Nations*

Presentation by Valentin Petkantchin, MEI Research Director, at the Université d'Aix-Marseille

May 19 – *A Different Approach to Investment*

MEI luncheon speech with Chris Leithner, Managing Director at Leithner & Co. Pty. Ltd.

May 23 – *The Environment in 2005: Is it Utopian to Try to Reconcile Economic Development, Respect for the Environment and the Fight Against Poverty?*

Participation of Pierre Desrochers, MEI Associate Researcher, in a debate organized by Société Radio-Canada at the Musée national des beaux-arts du Québec, in Quebec City

September 27 – *Tobacco Today, Fast Food Tomorrow? The Tyranny of Public Health*

MEI luncheon speech with Jacob Sullum, Senior Editor of *Reason* magazine in Montreal

September 28 – *Tobacco Today, Fast Food Tomorrow? The Tyranny of Public Health*

MEI luncheon speech with Jacob Sullum, Senior Editor of *Reason* magazine in Toronto

September 29 – *Would Tuition Fee Hikes Reduce Accessibility to University Studies?*

Round table discussion held by the Fédération des étudiants et étudiantes du campus de l'Université de Montréal with Norma Kozhaya, MEI Economist

October 26 – *Adapting to Survive: An Airline Industry Overview*

Presentation by Pierre J. Jeannot, OC, CQ, former President and CEO of the International Air Transport Association and MEI Associate Researcher, at the 14th Cannes Airline Forum

November 17 – *The Role of Private Health Insurance in the Wake of the Chaoulli Decision: Towards a Parallel System?*

Round table discussion held at the Université de Montréal with Valentin Petkantchin, MEI Research Director

November 19 – *Categories of Private Health Insurance in OECD Countries*

Presentation by Valentin Petkantchin, MEI Research Director, to the 15th general council of the Action démocratique du Québec (ADQ), at Boucherville, Quebec

PUBLIC CONSULTATIONS 2005

November 22 – *Eliminating Poverty Here and Abroad*

Participation of Norma Kozhaya, MEI Economist, in a debate held at the CEGEP de Lanaudière in Joliette

November 23 – *Youth Forum on Climate Change*

Participation of Pierre Desrochers, MEI Associate Researcher, in a debate on the Kyoto Protocol held at the Centre des sciences de Montréal

November 29 – *Is Kyoto necessary?*

MEI public debate between Professor Ian Clark (University of Ottawa) and the Quebec Minister of Sustainable Development, the Environment and Parks, Thomas Mulcair

December 8 – *First Jean A. Pouliot Lecture*

Dinner speech with Dr. Vernon L. Smith, 2002 Nobel Prize Laureate in Economics

February 15 – *Development of Quebec Anti-Smoking Legislation*

MEI brief submitted to Quebec's Minister of Health and Social Services

May 3 – *Price Control and Value of New Drugs in Quebec*

Presentation of a brief by Valentin Petkantchin, MEI Research Director, to the National Assembly's Social Affairs Committee during the consultation on Quebec's drug policy

August 15 – *Regulatory Framework for Future Telephone Technology*

MEI brief submitted to the federal Telecommunications Policy Review Panel



2005 OPINION POLLS

- APRIL** ▶ Canadians' opinion on access to private health care
- JUNE** ▶ Quebecers' opinion on tobacco use in bars and restaurants
- JUNE** ▶ Quebecers' opinion on the Supreme Court of Canada ruling on the prohibition to pay for health care covered by Medicare
- OCTOBER** ▶ Quebecers' opinion on the privatization of the retail trade of alcohol
- DECEMBER** ▶ Canadians' opinion on access to private health care