

## THE PROBLEM WITH TRYING TO PREVENT “PRICE GOUGING”



**Student Contributor:**  
Standing for Freedom in Hong Kong

**Video Recommendation:**  
The Essential Joseph Schumpeter: Creative Destruction

**Student Contributor:**  
What the Increase in Public Debt Means for the Average Citizen

**Article:**  
Environmental Entrepreneurship Can Reduce Environmental Degradation



#### EDITOR

Ryan Hill

#### LAYOUT AND DESIGN

Carolina Wong

#### PRODUCTION EDITOR

Kristin McCahon

#### PHOTO CREDITS

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To receive a subscription, or to write to us about articles you read in this publication, contact us at:

*Canadian Student Review*  
1770 Burrard Street, 4th Floor  
Vancouver, British Columbia V6J 3G7

#### TEL

604.688.0221 ext. 538

#### FAX

604.688.8539

#### EMAIL

[ryan.hill@fraserinstitute.org](mailto:ryan.hill@fraserinstitute.org)

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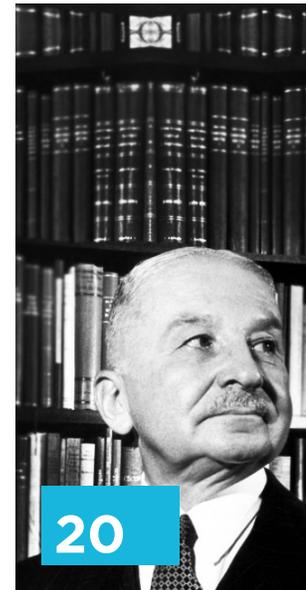
*Our mission is to improve the quality of life for Canadians, their families and future generations by studying, measuring and broadly communicating the effects of government policies, entrepreneurship and choice on their well-being.*

# Canadian STUDENT REVIEW

SUMMER 2020

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# WELCOME

Dear Readers:

I hope that you are enjoying the warmer weather and have found time to relax after what was surely a busy spring semester.

Among the articles in this edition is a fascinating commentary on the (even greater) backlog of surgeries that has formed as a consequence of a combination of the recent pandemic and government policy, and an in-depth book review of the Fraser Institute's newest addition to the Essential Scholar series: *The Essential Joseph Schumpeter*.

This edition also features articles by several of our student contributors. William Dunstan provides a commentary on the shortcomings of anti-price gouging laws, Brennan Sorge discusses the future of freedom in Hong Kong, and our newest student contributor, Nikki Wu, discusses our increasing public debt and the impact it will have on the average citizen.

We are also highlighting a short video from our *Essential Joseph Schumpeter* book on one of that scholar's most enduring ideas, creative destruction, along with a thought-provoking quote by the famous economist Ludwig Von Mises, and much more!

Have a wonderful summer! Between your trips to the pool and the beach, don't forget to check our [Education Programs Facebook page](#) to find out the latest on our fall webinars!

Regards,

Ryan



# THE PROBLEM WITH TRYING TO PREVENT “PRICE GOUGING”

WILLIAM DUNSTAN

Price gougers have emerged as the great villains of the COVID-19 pandemic. There is widespread disdain for those who profit off others’ desperation, and similarly widespread support for governments to outlaw this behaviour. These instincts are misguided. Raising prices for essential goods and services in response to changes in the market is essential for ensuring that these products are well supplied and distributed. Laws targeting price gougers hamper our ability to withstand crises; they should be scrapped.

“Price gouging” is a moral and legal term, not an economic one. Anti-price gouging (APG) laws generally come in the form of bans on “excessive” price increases on essential products (e.g., food, medical supplies, gasoline) during a government-declared state of emergency or crisis. What qualifies as an excessive price increase is subjective, so APG laws vary considerably by jurisdiction. Some governments cap price increases at a certain threshold, such as in California where prices are prohibited from rising more than 10 percent above their pre-crisis level (Giberson, 2011).

**...ATTEMPTS TO RESTRICT PRICE GOUGING WORSEN ECONOMIC AND LABOUR MARKET CONDITIONS FOLLOWING A DISASTER.**

Other governments ban vaguely defined “unconscionable” or “grossly excessive” price increases, as Ontario did in its March 2020 anti-price gouging order. Additionally, many but not all jurisdictions with APG laws allow price increases insofar

as they correspond to the increased cost of doing business.

Comparisons between hurricane-struck counties in the United States with APG laws and those without APG laws show that attempts to restrict price gouging worsen economic and labour market conditions following a disaster (Tarrant, 2015). APG laws cause such economic harms by distorting price signals that would otherwise guide the market towards a position of efficiency. Disruptions caused by a natural disaster or a pandemic can increase the demand for essential products, reduce the supply of essential products, or both. Temporarily higher prices emerge naturally from such conditions, and these price signals encourage people to do three important things.

First, higher prices encourage consumers not to buy critical goods that they do not really need. Consider the hand sanitizer shortages that occurred early on in the COVID-19 pandemic. A lot of people suddenly wanted hand sanitizer, but demand varied between individuals. Someone who can arrange to rarely interact with others probably needs less hand sanitizer than someone who cannot. So, if prices rise to match increased demand, people with less need for hand sanitizer often refrain from buying it, thus alleviating shortages and leaving more supplies available for those who need them most. By artificially lowering prices, APG laws remove the disincentive to buy hand sanitizer that you want but do not really need.

Second, anticipation of higher prices encourages buyers and sellers to stockpile prior to a crisis, which reduces the strain on supplies in its aftermath. If

consumers expect that the price of gas will rise after a hurricane, some will take advantage of the lower pre-storm prices by filling up before the storm arrives. Gas sellers might arrange to carry extra supplies, too. However, as disasters like hurricanes can be unpredictable, sellers might only find it worthwhile to order extra supplies if they are allowed to charge inflated prices. A seller might reckon that there is a 30 percent chance that an incoming storm will hit hard and significantly boost the demand for gas. If the storm passes uneventfully, the seller will have to dump their extra supplies below cost. It would be worth taking the risk if, in the event of severe storm damage, they could sell gas at twice the normal price, but it might not be if APG laws cap prices.

Third, higher prices in crisis-stricken areas raise sellers' profits, which encourages businesses to find ways

to provide more supplies to these communities. These profit incentives are doubly important because increases in supply also cause prices to fall. Unregulated prices help return the market to a state where essential products are affordable and widely available.

APG laws can push businesses to avoid selling to hard-hit communities, even if these laws include exemptions for cost-based price increases. After Hurricane Ike in 2008, 17 gas retailers who were charged with price gouging in Tennessee paid significant financial penalties as part of settlements with the state. Most of these businesses denied any wrongdoing, but opted to settle as paying the penalties was cheaper than protracted litigation (Giberson, 2011). Faced with the risk of having to prove their prices are in line with their costs, many prospective sellers will decide not



to do business at all. For instance, despite the state allowing price increases that were attributable to sellers' cost increases, at least one major gas retailer reported closing its stations in Florida after Hurricane Katrina because it believed that it could not ensure compliance with state laws unless it sold its product at a loss (FTC, 2006). APG laws that only allow prices to rise in line with costs also interfere with the two other aforementioned benefits of higher prices; specifically, these laws reduce incentives to stockpile pre-crisis and to limit consumption of un-needed goods.

APG laws aim to protect those who are most affected in a crisis. Requiring businesses to sell essential products below market prices, though, is a terrible way to help those in need. Distributing products according

to willingness and ability to pay does not guarantee that these products will go to those with the greatest need, but this method works better than distributing goods according to who gets to the right store at the right time (as is often the case under APG laws). And if people do want to help others during an emergency, selling essential products at their market price and then donating profits to relief efforts would be a better targeted act of altruism than offering these products to everyone at below-market prices.

Put simply, people are better off when they can buy water, gas, or hand sanitizer at high prices than when they cannot find these goods at any price. Laws that seek to prevent price gouging make bad situations worse. ◆

*William Dunstan is a Public Affairs and Policy Management student at Carleton University. He has a passion for the power of markets to improve people's lives and for developing policy that allows this to occur.*



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# COVID-19

## How the Pandemic and Recession Could Change Canada

COVID-19 HAS DRAMATICALLY CHANGED THE WORLD WE LIVE IN. TO HELP MAKE SENSE OF IT ALL, THE FRASER INSTITUTE REGULARLY POSTS COMMENTARIES ON THIS TOPIC. [CLICK HERE](#) TO FOLLOW WHAT OUR ANALYSTS ARE SAYING AND TO STAY UP TO DATE.

# HUGE BACKLOG OF SURGERIES UNDERScores NEED FOR SWEEPING HEALTH CARE REFORM IN BC

MACKENZIE MOIR, BACCHUS BARUA, AND ALEX WHALEN

As the pandemic continues, the COVID—and non-COVID—health implications are becoming clearer in British Columbia. The Horgan government estimates it will take up to two years to complete the 30,000 cancelled “non-urgent” surgeries and address the additional 24,000 patients waiting for surgery referrals. Thankfully, the BC government’s response plan includes private clinics, but broader health-care reform is needed.

First, it’s important to clarify that most “non-urgent” surgeries (often called elective procedures) are not optional. Rather, they are medically necessary treatments scheduled or planned in advance including hip and knee surgeries, and cardiac bypass and stent procedures. In BC, cancellations of these procedures have already had fatal consequences. According to the BC government, the backlog is “more significant than anything we have ever faced.” While likely true, the province’s health care system faced major challenges before COVID-19.

For example, prior to the outbreak, British Columbians waited 12.7 weeks (on average) in 2019 to see a specialist after a referral from a GP—and then an additional 11.3 weeks to receive treatment after consultation with a specialist (for a total of 24 weeks). In 2019, these delays left 166,195 patients in the province waiting to receive treatment after seeing a specialist.

The knee-jerk response from governments across the country, including in BC, is often to spend more money on health care. Given the rapid deterioration in government finances, this isn’t realistic. BC’s budget

deficit is projected to reach \$8.8 billion this year. Debt is also rising sharply. Simply put, most provinces, including BC, are struggling with deficits and mounting debt. And federal finances are in worse shape than most provinces. The Parliamentary Budget Officer recently estimated that Ottawa’s deficit would eclipse \$252 billion this year. This is the highest level on record and doesn’t include billions in additional spending announced over the last few weeks.

But even if governments could afford to spend more on health care, it’s unclear that increased spending would improve the system. Even in the pre-COVID world, there was mounting evidence that Canada spends more on its universal health care system than other countries that provide universal care, while performing poorly in key areas. For example, despite being one of the highest-spending universal countries in the OECD (as a percentage of the economy), in 2017 Canada ranked low on the number of doctors (2.8 per 1,000, ranking 26th of 28), acute care beds (2.0 per 1,000, ranking 26th of 27), MRIs (10.4 per million, ranking 21st of 26) and CT scanners (15.9 per million, ranking 21st of 27), on an age-adjusted basis.

In contrast, countries such as Australia are also struggling to clear their own elective surgery backlog, but have more doctors (4.0 per 1,000, ranking 6th of 28), MRIs (15.4 per million, ranking 11th of 26), and CT scanners (69.9 per million, ranking 2nd of 27) after adjusting for age. And fewer Australians (8 percent) were waiting four months or longer for elective surgery than Canadians (18 percent) in 2016, the latest year of comparable data.

So why the disparity between countries?

Simply put, other universal health care systems embrace, to varying degrees, the private sector. Australia, for example, uses parallel private health care to augment its public system, allowing physicians to practice in both the public and private sectors, and it contracts out the delivery of services to private hospitals. In Canada, we limit or effectively prohibit private sector involvement in a significant portion of health care.

As noted, however, BC's COVID backlog response will include limited partnership with private clinics. This type of initiative is not without precedent in Canada.

In 2010, the aptly-named Saskatchewan Surgical Initiative used private clinics to provide publicly funded surgeries and helped Saskatchewan lower its wait times from Canada's longest (28.8 weeks in 2008) to the shortest by 2015 (13.6 weeks). It's also worthwhile noting that private clinics in Saskatchewan provided services at a lower cost per procedure than public hospitals.

The impact of COVID-19 on the provincial health care system underscores the need for greater flexibility to increase treatment options for patients within a universal framework. Simply throwing more money at the system is not a viable solution. ♦

[Read more on our blog here.](#)



# THE ESSENTIAL JOSEPH SCHUMPETER: AN EASY AND ACCESSIBLE INTRODUCTION TO AN IMPORTANT AND COMPLEX THINKER

The Fraser Institute has put together a series of very useful introductions to the key ideas of some great thinkers in its *Essential Thinkers* series. The Institute started with *The Essential Hayek* (by Donald J. Boudreaux) and then moved on to *The Essential Adam Smith* (James Otteson), *The Essential John Locke* (Eric Mack), and *The Essential Milton Friedman* (Steven Landsburg). The most recent contribution to the series comes from Russell A. Sobel and Jason Clemens. They introduce us to *The Essential Joseph Schumpeter* in yet another volume that can be downloaded for \$0 and, at just a few dozen pages, read very quickly.

Schumpeter (1883-1950) was a brilliant economist and, apparently, quite a character. He is said to have boasted that his goal in life was to become the world's greatest economist, the world's greatest lover, and the world's greatest horseman. When someone asked him how things were going, he said that things weren't going so well with the horses. Between that kind of sly wit, his brilliant mind, and his disciplined work ethic, you can see how Schumpeter became one of the twentieth century's most interesting economists. Fortunately, his ideas (and not just his quick wit) warranted it.

Schumpeter was very prolific, but four key works stand out: *The Theory of Economic Development* (German edition 1911, English edition 1934), *Business Cycles* (1939), *Capitalism, Socialism, and Democracy* (1942), and the posthumously published, incomplete, but still very important *History of Economic Analysis* (1954). Schumpeter was the complete scholar, asking and

answering very big questions while appreciating and understanding their intellectual history and context.

This has some important implications for cottage industries about what this or that thinker *really* meant or the nature of social processes very generally. Understanding all this stuff at a very deep level requires more than just knowledge of what has been published in the *American Economic Review* in the last year. Schumpeter argued that to really understand Karl Marx one must read all three volumes of *Capital*, the entirety of *Theories of Surplus Value*, and have a strong working knowledge of British political economy, French socialism, and the German philosophical tradition. That's a tall order, but the Bible exhorts us to "get understanding." I think it's worth it (I admit my view is idiosyncratic).

One of Schumpeter's most important contributions is a rethinking of how we understand *competition*. As Sobel and Clemens point out, Schumpeter's main criterion for whether or not a market was competitive concerned its contestability. The relevant question was not "how many firms are in this industry" but "what are the barriers to entry that are preventing firms from coming up with substitutes?" The workhorse models of perfect competition that economists use to understand so many things are of great value as models; however, if Schumpeter is right, then they are limited in their ability to tell us how the world *should* be.

**Note:** This review originally appeared on [AIER.org](http://AIER.org)

Sobel and Clemens explain Schumpeter's argument in the context of an interesting example: Hawaiian pizza, which, it turns out, is actually Canadian—"The creation of Hawaiian pizza is often credited to Sam Panopoulos, who first cooked one at the Satellite Restaurant in Ontario, Canada in 1962"—and is now the most popular pizza in Australia (*Essential Joseph Schumpeter*, p. 9). My wife and I have an inside joke referring to "feta cheese and spinach pizza" because early in our relationship I apparently told her *repeatedly* about the amazingness of the feta cheese and spinach pizza at Tut's on the strip in Tuscaloosa, Alabama. The point Sobel and Clemens make is that there are many thousands of possible combinations of pizza toppings. Economic progress happens when we stand back and let innovators like Sam Panopoulos try something new and see if it works, where "works" is judged by the difference between consumers' willingness to pay for dough, sauce, cheese, ham, and pineapple combined into a pizza and their willingness to pay for dough, sauce, cheese, ham, and pineapple used for literally anything else. Karl Marx and Friedrich Engels were right:

The bourgeoisie cannot exist without constantly revolutionising the instruments of production, and thereby the relations of production, and with them the whole relations of society. Conservation of the old modes of production in unaltered form, was, on the contrary, the first condition of existence for all earlier industrial classes. Constant revolutionising of production, uninterrupted disturbance of all social conditions, everlasting uncertainty and agitation distinguish the bourgeois epoch from all earlier ones. All fixed, fast-frozen relations, with their train of ancient and venerable prejudices and opinions, are swept away, all new-formed ones become antiquated before they can ossify. All that is solid melts into air, all that is holy is profaned, and man is at last compelled to face with sober senses his real conditions of life, and his relations with his kind. (Chapter I. Bourgeois and Proletarians, *Manifesto of the Communist Party*, [www.marxists.org](http://www.marxists.org))

One would definitely get the impression from online debates about the propriety of pineapple as a pizza topping that Panopoulos has in fact "profaned"

something that is "holy." Fortunately, he didn't have to ask anyone's permission—and as measured by market tests, he has improved his fellows' "real conditions of life."

Innovation, according to Schumpeter—his famous "perennial gales of creative destruction" —drive both economic development and business cycles. His arguments have been formalized and extended by Philippe Aghion and Peter Howitt, and economic historians like Joel Mokyr and Deirdre McCloskey have highlighted the importance of innovation and, importantly, a culture that embraces innovation. Economic progress doesn't come about from there being an infinite number of price-taking buyers and sellers of products identical to the original iPhone. It comes from the fact that Apple introduces a newer, better iPhone every year. Competition, for Schumpeter, is not entry and exit or expansion or contraction of output in perfectly competitive markets. It's the introduction of new products and new ways of doing things.

Barriers to entry are of utmost importance. Sobel and Clemens point out that about 700,000 American businesses succeed every year and another 600,000 fail. There is constant churn. Both, I suspect, are too low, and I think Schumpeter would agree. A lot of businesses don't get a chance to succeed or fail because they are crushed by taxation and regulation very early on—or because the aspiring innovator looks at the regulatory burden she will be expected to bear and decides it simply isn't worth it.

Schumpeter makes an argument that will strike a lot of lay readers as counterintuitive. We should welcome (or at least tolerate) business failures because they free up resources that are being wasted and that, importantly, will continue to be wasted if the businesses don't fail. I'm reminded of something I recall H. Ross Perot saying during his ill-fated Presidential campaigns in 1992 and 1996, that we want big American companies to be *growing*. That's only the case if those companies are creating value, on net, as measured by market tests of profits *and* losses. Losses tell firms that they are wasting resources and provide a stern warning: turn from your wicked and wasteful ways, and start producing goods and services that people are willing

to “vote” for with the fruit of their labour and the sweat of their brow. Or else.

This, of course, depends on the institutional context, and alas, there are a lot of businesses that “succeed” that shouldn’t. Their “success” comes from bailouts (airlines after 9/11, banks during the Great Recession, airlines and hotels during COVID-19), protectionism (sugar cane farmers in Louisiana and Florida, sugar beet farmers in North Dakota), subsidies (in their introductory textbook, Tyler Cowen and Alex Tabarrok point to farmers in California who spray subsidized water on subsidized crops growing on subsidized land), or some combination of these.

Schumpeter’s story begins in earnest in 1901 at the University of Vienna, which was at the time one of the world’s great universities—“comparable to Oxford and Cambridge,” in the words of Sobel and Clemens. He was a classmate of Ludwig von Mises and a student of Eugen von Boehm-Bawerk—a couple of decades later, he would take Boehm-Bawerk’s old post as Austrian Minister of Finance. If I recall correctly, Boehm-Bawerk taught a seminar on Marx that included as students Schumpeter, Mises, Rudolf Hilferding, and Otto Bauer. To digress, to have been a (German-speaking) fly on the wall for that seminar would have been amazing. Schumpeter started his graduate training in 1908 and, having already made some important scholarly contributions, he was certified to teach. Unable to remain at Vienna, he started at the University of Czernowitz (in modern Ukraine), where he wrote the first version of *The Theory of Economic Development*. He moved to the University of Graz in 1911. After a split from his first wife, he became Austrian Minister of Finance in 1919. Schumpeter left academia in 1921 to pursue a financial career. He became very rich but lost everything when the market crashed. He returned to academia in 1925, taking an appointment at the University of Bonn, and spent a considerable amount of time for the rest of his life repaying debts he had incurred as a result of his ill-fated financial adventures.

In 1926, he was struck by a triple tragedy. First, his mother died. Not long after, his new wife Anna Josefina Reisinger and their newborn daughter both died during childbirth. The losses devastated him. As Thomas McCraw put it in his biography of Schumpeter,

In order to function at all, he looked for some way to keep drawing on the support of Johanna [his deceased mother] and Annie [his deceased wife]. In his diary, he began to refer to them as his *Hasen*, a German pet name for dear ones (its literal meaning is ‘rabbits’). Week after week, he would write ‘O Mother and Mistress, help me,’ and ask for the strength to do his research and writing.... His salvation came from work and still more work, all sustained by these ritualistic appeals to his wife and mother. (*Prophet of Innovation*, 2007: 151-152)

In 1932, Schumpeter crossed the Atlantic to join the faculty at Harvard, where he excelled both in his writing and in his teaching. His external gregariousness masked his inner darkness. As McCraw writes,

Light-hearted at chipper in public, Schumpeter lived an altogether different life in private—a continuing, desperate internal struggle with melancholy. His weekly diary entries still began with thanks and appeals to the *Hasen*, then lapsed into something like self-flagellation over the slow progress of his research. (*Prophet of Innovation*, 2007: 212)

Schumpeter’s dark nights of the soul, I think, might be a welcome balm for graduate students and other scholars frustrated by the (lack of) progress of their own work. If *even Schumpeter* struggled to get his work done, then maybe the rest of us should lighten up on ourselves a little.

Sobel and Clemens take us through brief and easy analyses of Schumpeter’s theory of economic development (driven by innovation) and his theory of business cycles (where major innovations draw capital into the newly innovative sector with the cycle happening as the economy adjusts to the new technological and commercial possibilities. In Schumpeter’s most famous book, *Capitalism, Socialism, and Democracy*, he makes a lot of arguments about the democratic process that would later be carried forward by the public choice school of economics. Indeed, as Sobel and Clemens note, Anthony Downs explicitly acknowledges his intellectual debt to Schumpeter in his 1957 book, *The Economic Theory of Democracy*. There is not, Schumpeter argued, a single

“common good,” and likely drawing on his experience as Austrian Minister of Finance he explained, as James M. Buchanan and Gordon Tullock would also do some two decades later, that we cannot assume political actors have the “public interest” in mind—or if they do, that their conception of the public interest is accurate. To Schumpeter, and as the philosopher Jason Brennan would argue in his 2016 book *Against Democracy*, “politics makes us mean and dumb.”

Schumpeter also argued that capitalism sowed the seeds of its own demise, but with a twist. Where Karl Marx saw capitalism falling because of an uprising by the proletariat, Schumpeter saw it falling because the intellectuals and the bourgeoisie would turn against it. They both agreed that socialism would replace capitalism. For Marx, this was inevitable and a good thing. For Schumpeter, it was inevitable and a bad thing. In a sense, Schumpeter was right: communism and socialism have never happened because of revolutions from below. They have always been revolutions led by intellectuals.

Joseph Alois Schumpeter made enduring and important contributions that have stood and will continue to stand the test of time. The specific institutional and historical context in which he wrote—the Keynesian Revolution that started in earnest shortly before the publication of his *Business Cycles*, and the enthusiasm for central planning within the political arena and the economics profession that provides a backdrop against which we can think about various editions of *Capitalism, Socialism, and Democracy*—makes him an important and illuminating figure in intellectual history *per se*. *The Essential Schumpeter* is a useful introduction to the man and his ideas, and both the text and the accompanying videos will serve students, instructors, and interested lay people very well. ♦

[Download your free digital copy of the \*Essential Schumpeter\*, here.](#)

*Art Carden is a Senior Fellow at the American Institute for Economic Research. He is also an Associate Professor of Economics at Samford University in Birmingham, Alabama and a Research Fellow at the Independent Institute.*

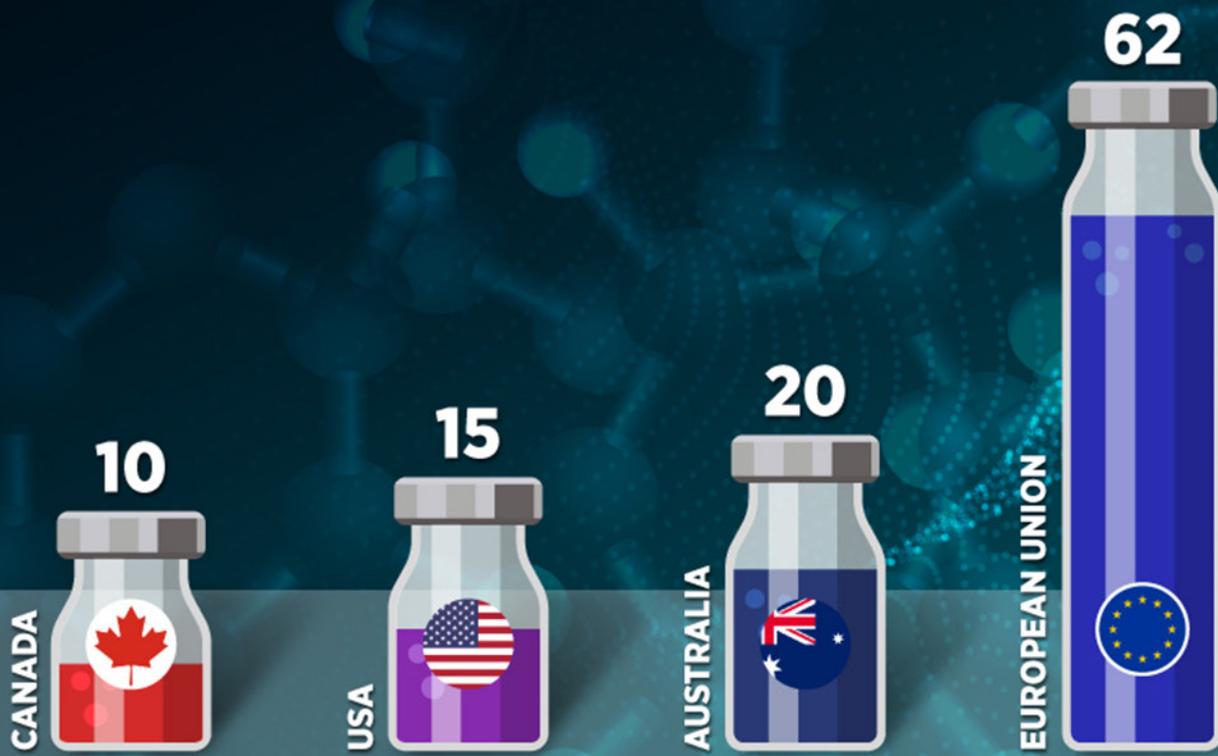


# BIOLOGICS AND BIOSIMILARS: A PRIMER

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**Canadian patients have less access to cutting-edge medicine than patients in other developed jurisdictions**



**Biosimilar Drugs Approved for Use in Each Country/Jurisdiction\***

\* Data as of December 2018

# ENVIRONMENTAL ENTREPRENEURSHIP CAN REDUCE ENVIRONMENTAL DEGRADATION

LAURA HUGGINS

Many people think mixing entrepreneurial ventures with environmental problems is like trying to mix oil and water. In fact, entrepreneurs are proving that market approaches are an effective way to solve environmental challenges. Some of the more common market-based approaches include establishing shares in a sustainable harvest of fish to help revitalize marine fisheries and practicing “mitigation banking” for wildlife or wetlands.

Rainforest degradation is often touted as the biggest environmental threat the world faces, but there is a more pressing challenge right under our feet—*grass*. Recent studies show that the Great Plains of the US and Canada have lost a larger proportion of intact grassland than the Brazilian Amazon has lost rainforest. And a paper in *Science* looked at habitat types around the world and identified grasslands as the ecosystem with the greatest impacts and land-use pressures.

Environmental entrepreneurs are getting smarter at thinking about risk and reward. Risk for grasslands is high when considering the risk of losing a species, habitat, or ecosystem for future generations. Yet the environmental reward (carbon sequestration, water filtration, diversity of flora and fauna) for the amount of effort spent in conserving grasslands is also high. This is why both entrepreneurs and environmental organizations are investing resources to conserve the world’s few remaining temperate grasslands, which includes the plains stretching across Saskatchewan, Manitoba, and Alberta.

Consider three innovative approaches from Argentina to Alberta. The grasslands of Argentina are getting gobbled up by sheep to the point that the southern cone is changing into a desert. Desertification comes with environmental consequences. When it rains, for example, water no longer gets absorbed by the roots of the grasses. Instead, it runs right into rivers carrying silt, which then upsets fish, which then affects tourism and local economies. A few entrepreneurs came up with a scheme that included the company Patagonia, Inc., the Nature Conservancy (TNC), and ranchers. Local gauchos agreed to reduce their flocks in return for an “ecosystem payment” from TNC. The Nature Conservancy then collected merino wool from these ranchers and exported it to Patagonia, Inc. to make merino wool products that help support conservation in the Patagonia region. The clothing company donated a portion of profits back to TNC and local ranchers to provide sustainable funding for sheep reduction. This program worked because all parties benefited.

Moving north, the American Prairie Reserve (APR) is raising private funds to assemble more than 3 million acres of grassland in Montana to form the largest wildlife reserve in the lower 48 states. Because neighbouring ranchers do not always welcome wildlife and wildlife does not respect property

**“GRASS-BANKING” IS EMERGING AS AN EFFECTIVE TOOL TO CONSERVE GRASSLANDS IN ALBERTA AND SASKATCHEWAN.**

lines, APR developed a program called Wild Sky. This program rewards ranchers for conserving habitat and practicing wildlife-friendly ranching. In short, ranchers voluntarily sign up for an annual contract with a menu of practices that can be implemented to the benefit of wildlife on their property, which includes not tilling up soil or poisoning prairie dog towns. The more practices a rancher signs up for and accomplishes, the more he or she is financially rewarded. Both groups win; ranchers increase their bottom line and conservationists get more habitat.

Crossing into Canada, “grass-banking” is emerging as an effective tool to conserve grasslands in Alberta and Saskatchewan. A grass bank is a physical place where forage is made available to ranchers at a reduced fee in exchange for tangible conservation benefits being produced on the participants’ home ranches. The goal of grass-banking is to have a community-based

conservation plan that provides meaningful benefits for both the environment and participating ranchers. Typically, grass banks are operated by a conservation organization and include a privately owned or managed base property. The Nature Conservancy’s Sandstone Ranch, for example, has agreements with members of the Sandstone Ranch Grazing Co-op in Alberta.

I keep seeing headlines such as, “Alberta to sell native grassland despite promises no Crown land would be sold.” This is an area ripe for environmental entrepreneurs to jump in and find creative solutions that both conserve prairie and generate revenue for locals. If the next generation of environmentalists embraces free enterprise—both the economy and the environment can flourish. ♦

*Laura E. Huggins is the founder of Elevate Environmental Solutions, a research fellow at PERC, and the author of Environmental Entrepreneurship: Markets Meet the Environment in Unexpected Places.*



# STANDING FOR FREEDOM IN HONG KONG

**BRENNAN SORGE**

In a recent blow against freedom and self-governance in Hong Kong, the Chinese Communist Party (CCP) passed a new security law, extending the jurisdiction of mainland Chinese security agencies to Hong Kong, thereby subjecting the city to similar restrictions on political speech as exist on the mainland. While Hong Kong may seem distant from Canada, it is far more integrated with Canada than it might seem. Besides being a major trading partner, about 300,000 Canadians live in Hong Kong, and many more Canadians have family and relatives who are Hong Kong citizens (Asia Pacific Foundation of Canada, 2011, February 24). As a nation that supports freedom around the world and has real national interests in Hong Kong, Canada needs a strategy to deal with the loss of freedom and autonomy that has been suffered there.

Other nations are grappling with a similar challenge, especially the United Kingdom given its long history with Hong Kong. So far, the UK has announced a change to its British Overseas Passport program for Hong Kong, allowing a large number of Hong Kong residents easier access to the UK, including the opportunity to become citizens through an expedited process (BBC News, 2020, May 29). Canada could adopt a similar policy and allow Hong Kong citizens to come to Canada as refugees. This policy would simultaneously allow Canada to stand up to the expanding authoritarian influence of the CCP, provide safety to Hong Kong citizens, and give Canada access to highly skilled potential immigrants. Hong Kong is a well-educated, entrepreneurial region with substantial English language proficiency, and a shared history of British law and governance (UNDP, undated). Citizens of Hong Kong would be a benefit to Canada economically and

our shared history would enable its people to integrate relatively easily.

Canada has other options for supporting Hong Kong. Trade has been a big topic in recent months given the damage COVID-19 has done to international supply chains. Agreements that were at one time ironclad guarantees of open trade have proven to be far less reliable than once thought. The current period of trade disruption might give Canada an opportunity to reconsider how we practice international trade. Not all trade is equal. In a purely economic sense, there have been real challenges to trade with mainland China. Theft of intellectual property by mainland companies and protectionist practices have meant that Canadians looking to trade with China face higher risks when compared to trade with allied democratic nations like the United States or Taiwan (Wray, 2020, July 7). Beyond economics, China's Communist government is an authoritarian regime that is currently holding Canadian citizens hostage, even as it strips freedom from Hong Kong (Grauer and Chiu, 2018, December 20). While trade with China has had benefits for Canada, we need to recognize that our

**WHILE TRADE WITH CHINA HAS HAD BENEFITS FOR CANADA, WE NEED TO RECOGNIZE THAT OUR TRADE HELPS FUND THE ABUSES COMMITTED BY THE CHINESE REGIME.**

trade helps fund the abuses committed by the Chinese regime. With global trade already disrupted, now is a good time to begin shifting Canadian trade towards partners more respectful of human rights, partners who are not endangering the lives of Canadian citizens, not stealing the intellectual property of Canadian companies, nor using protectionism to prevent Canadian companies from trading effectively within their borders.

A number of policies could achieve the goal of adjusting our trade. First, Canada could ease trade regulations and reduce tariffs on products from friendly nations, especially nations like India or Vietnam that are able to compete with China when producing low-cost goods. Canada could also create a policy similar to one that Japan has recently implemented which gives tax breaks or temporary subsidies to companies that are willing to move their facilities out of mainland

China and to Japan (Reynolds and Urabe, 2020, April 8). Canada could offer tax breaks and expedited regulatory approvals for companies willing to leave China and relocate to Canada.

Pursuing these policies will not come without costs. Re-shoring some businesses to Canada will likely lead to higher consumer prices, as will the disruption caused by pursuing alternative trading partners. There is likely to be retaliation from China as well. Free trade is undoubtedly beneficial to consumers, but given the mercantilist practices and authoritarian system of its Communist government, the benefits of our current trade strategy with China ought to be reevaluated. Canada now has the opportunity to confront the human rights abuses perpetrated by the CCP and take a stand with the brave citizens of Hong Kong who are fighting for their freedom. ♦

*Brennan Sorge is currently an economics and business student at Thompson Rivers University. His interests centre on the effects of law and policy on the economy, and he hopes to act on these interests in further study of both economics and law.*



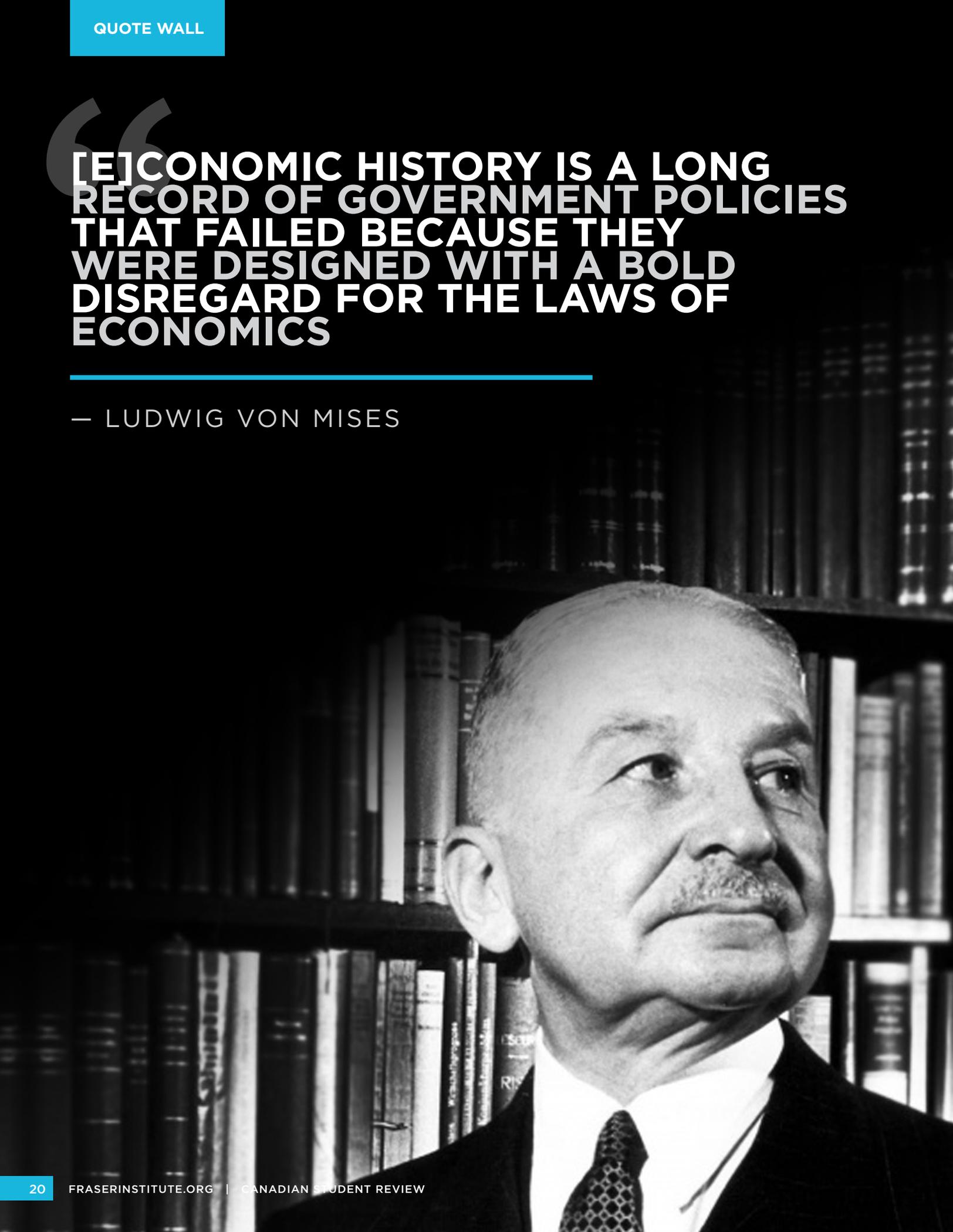
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“  
[E]CONOMIC HISTORY IS A LONG  
RECORD OF GOVERNMENT POLICIES  
THAT FAILED BECAUSE THEY  
WERE DESIGNED WITH A BOLD  
DISREGARD FOR THE LAWS OF  
ECONOMICS

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— LUDWIG VON MISES



# WHAT THE INCREASE IN PUBLIC DEBT MEANS FOR THE AVERAGE CITIZEN

NIKKI WU

Pseudo macroeconomics would tell you that a sustainable amount of public debt is a healthy boost to the economy because it encourages investment from private sectors. However, that concept of deficit spending fails and starts to backfire when public debt begins to accumulate -- especially in recessionary times. Although many governments have continuously used deficit spending as a method to stimulate the economy, the current economic state does not favour this fiscal strategy.

To understand how Canada's massive debt load could affect the average citizen, it is first crucial to consider the current state of the economy. Following the recent economic challenges triggered by the COVID-19 pandemic, the economy is now contracting at one of the sharpest rates since the 1980s. A 5% spike in unemployment, which has increased the national rate to 13%, has seen approximately 1.99 million jobs shed (Trading Economics, 2020). More importantly, a depressed confidence in investment from both public and private sectors has left the Canadian economy in a recession. What, exactly, has the Canadian government been doing to limit this downturn? (Evans, May 1, 2020).

To summarize, the Canadian government is spending unprecedented amounts of money. But even then, the \$112.7 billion total estimated by Parliamentary budget officer Yves Giroux is only making up a marginal fraction of the total economic damage COVID-19 is causing. Taking into consideration this newly injected \$146 billion (made up of both deficit spending and tax revenue), the question then becomes: how does this level of spending affect the average citizen?

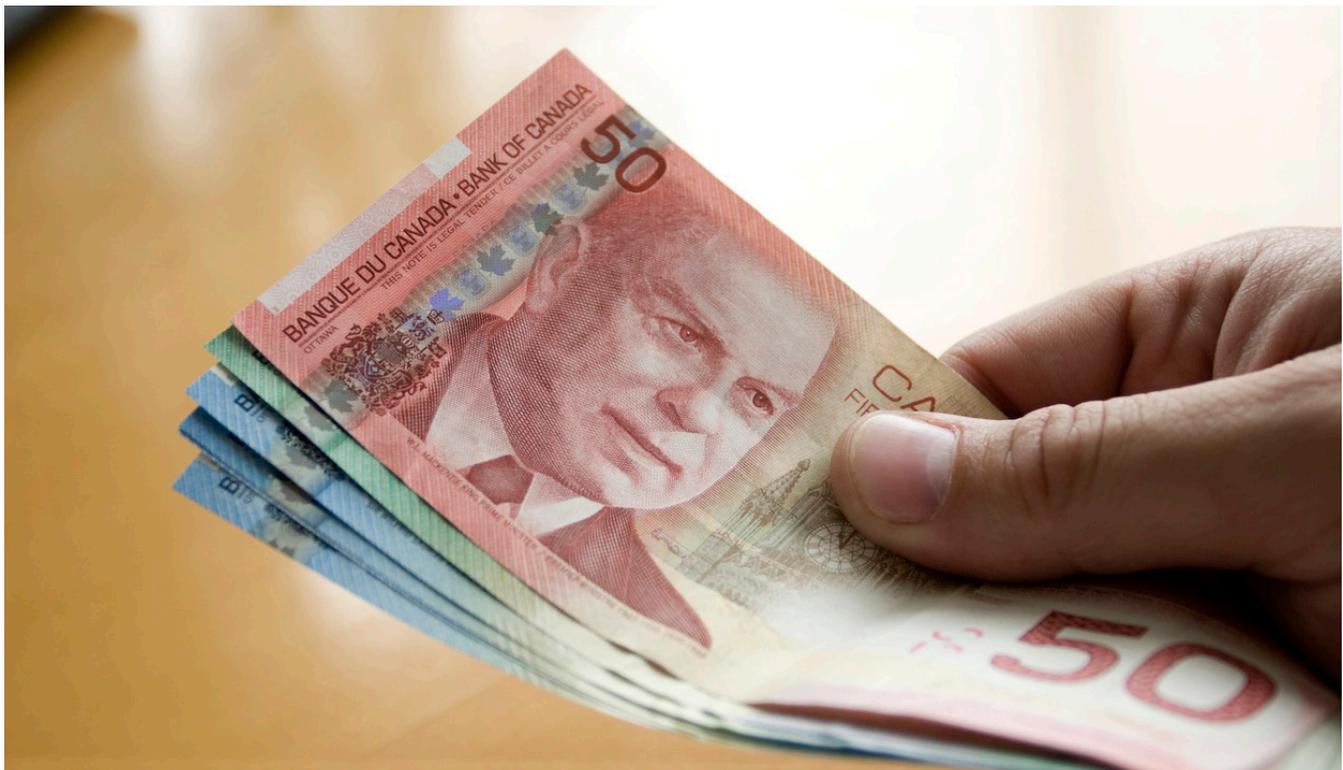
Financial Literacy 101 tells us that government debt needs to be paid back -- plus interest. The projected \$112.7 -billion in deficit spending will not simply be immune from interest rate charges. A large amount of public debt will have an impact on all Canadians regardless of their socioeconomic status. The first major impact will be the tax hike that the government will levy to pay off its debt. Canadians will ultimately pay the interest on the debt in their taxes. According to a Fraser Institute study, the average Canadian "will pay more than \$500 per person in provincial government debt interest costs this year," not including the additional effects of COVID-19 deficit spending (Fuss and Palacios, February 20, 2020). So what will be the long term impact of a projected tax hike? Due to the exigence of the interest payments, the impact will be reductions in the amount of tax revenue that should be going towards government services and infrastructure. The quality of public services such as public education and health care is likely to decrease. In addition, the impact will likely not just be limited to just a few years; the potential for the consequences of high government spending to be a drag on youth growing up and entering the workforce only to receive fewer and poorer services could lead to considerable youth dependency, which is a scenario Canadians should consider.

**...DEPRESSED CONFIDENCE IN INVESTMENT FROM BOTH PUBLIC AND PRIVATE SECTORS HAS LEFT THE CANADIAN ECONOMY IN A RECESSION.**

The second major impact will affect private sector corporations. As the rate offered on treasury bills continues to rise, private sector firms operating in Canada will be perceived to be riskier, which would likely increase the price on the newly issued bonds (Adkins, 2020). More expensive debt will cause corporations to raise the prices on their goods and services so they can fulfill their increased debt service obligations. In the long run, this impact will mean that average citizens will be paying more for goods and services, which, in turn, will lead to inflation.

Thirdly, the cost of borrowing money, especially for mortgage loans, is likely to increase drastically because the lending market directly correlates to the short-term interest rates. That is to say that the cost of borrowing money to purchase property will increase because the yield on treasury bills is increasing. Projected increases in interest rates will push down the prices of homes as fewer potential home buyers will qualify for mortgages, as they will be unable to cover the higher interest expenses on a mortgage. The direct impact will be a drop in the value of home and property values, thereby reducing economic activity in the real estate sector.

Finally, the crowding-out effect is likely to surface and investments such as corporate debt and equity investments will no longer hold their appeal. The crowding-out effect is a result of the increased difficulty that corporations will have generating enough pre-tax income to drive a high enough risk premium on their bonds and stocks to justify investing in their company (Adkins, 2020). On a more macro level, the crowding-out effect will also occur for individual citizens; when governments borrow large sums to fund deficits and thereby cause a spike in interest rates, it becomes more difficult for citizens to take out a loan to purchase a car, for instance. Consequently, because average citizens are no longer borrowing money to buy products, the demand for these products will decrease, which will lead to lay-offs for some manufacturing workers or workers in that product field. What is happening, in essence, is that the government and public sector are growing but simultaneously, the private sector is diminishing. In a country like Canada where the private sector often leads to economic expansion, a reduction in the size of the private sector is unhealthy for the country's economy in the long run.



So what does this all look like if all these impacts are applied to an average citizen's daily life? Well, an increased prioritization of paying off the national debt could mean that the taxpayer dollars coming out of Joe's pocket will not be going towards constructing a much-needed new road near his house. It could mean that Sue's poorly-funded public school, desperately in need of better education resources, is not getting those disbursements for a few more years. Further, price-induced inflation would mean that in the period before wages adjust for inflation, our wages are losing a significant chunk of their monetary value. Inflation will self-adjust in the long run, but the short run effects will be devastating to the economy. Finally, through

the crowding-out effect and a lack of accessibility to mortgage loans, the net worth of the 65.85% of Canadians who happen to be home owners will drop. (Trading Economics, 2020).

Clearly, increasing public debt is detrimental for the economy and for the quality of life for all citizens. On the other hand, with the ongoing economic recession, were Canada to default on its debt service obligations, it would lose socioeconomic and political power on the global scale. Not only should the average Canadian citizen be concerned about this increasing public debt, but Canada's presence in the global community as a whole may be at some degree of risk (Adkins, 2020). ◆

*Nikki Wu is a rising senior at Crofton House School. She is a competitive debater and a member of the Model United Nations community. Her interests include political economy, finance, and journalism.*



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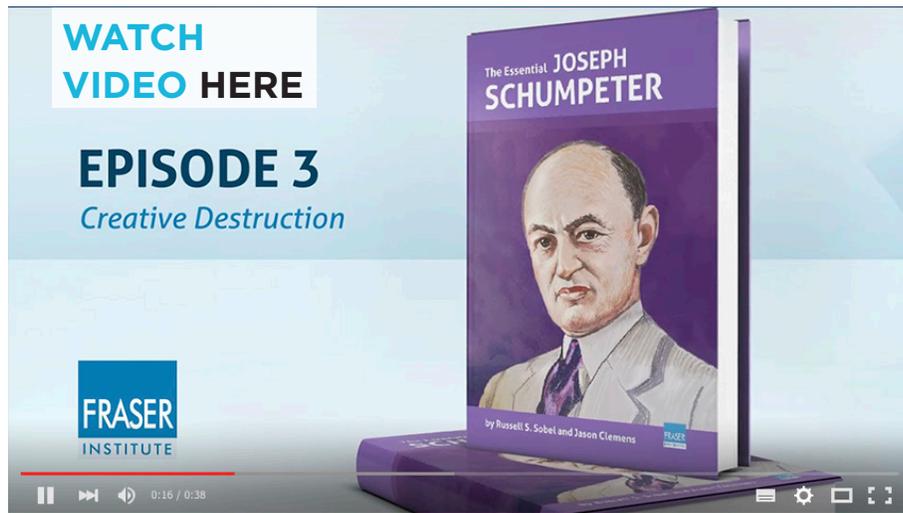
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and the author of *Environmental Entrepreneurship: Markets Meet the Environment in Unexpected Places*; Dr. Don Boudreaux, Professor of Economics and former Economics Department Chair at George Mason University and a Senior Fellow with the Fraser Institute; and Dr. Tom Flanagan, Senior Fellow of the Fraser Institute, Professor Emeritus of Political Science and Distinguished Fellow at the School of Public Policy, University of Calgary, and Chair of Aboriginal Futures at the Frontier Centre for Public Policy. For more information on the program, visit our [website](#). ♦

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