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Commentary

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"The Other Path: Canada"

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Thirty-five years have passed since Hernando de Soto published his groundbreaking work “The Other Path” in which he showed how under the veil of poor regulatory structures a network of informal institutions shaped the underground economy and social ecosystem in Peru. This book had a long-term impact on our understanding of how developing economies evolve and was praised by many leaders of developed countries. Who could have thought that today we would witness the same processes germinating through the stone blocks of intensifying governmental regulations, decimation of individual rights, and utter control in countries that just yesterday were deemed as developed democracies?

At the beginning of the pandemic, many people (including yours truly) had a strong presentiment that the “war” declared on COVID-19 by the governments throughout the world would allow them to take unprecedented control over peoples’ lives and mould the latter to their liking, but the extent to which some countries went was truly beyond the most dystopic expectations. One such country is Canada. During just one year this country has accomplished its journey along the road to serfdom. Previously a revered democracy and a beacon of hope for people from around the world, it has turned into an internment camp filled with pervasive fear and psychosis, where federal and provincial bureaucrats promote bigotry and obscurantism.

Absent any resistance, the Canadian government managed to enact flagrantly ineffective regulations, yet people and businesses have found ways to adapt and circumvent these surmounted atrocities. In this note, I would like to discuss a couple of examples of the development of informal institutional infrastructures under oppressive and absurd mandates and re-emphasize the importance of lessons we have learned from De Soto’s “The Other Path.”

The first example of a poor institutional arrangement is the required hotel quarantine. Canada was one of a very few countries in the world that has gone so far as to force everyone who arrives by air (including its citizens) into designated quarantine facilities. The process is as follows: everyone who comes to Canada is required to have a negative PCR test. At the airport, another test is administered, and a person is sent to a designated hotel to wait three days for its result. The preset price for three nights is around \$2,000 CAD (about \$1,600 USD) borne by the individual. If the test is negative, this person is allowed to go home (or any other suitable place) and quarantine there for two additional weeks. During this time, the government would frequently call you and send minor officials to check whether you follow the quarantine rules.

Setting aside the non-transparent mechanism of selection of hotels by the government, many did not find the idea of being forced into an overpriced hotel appealing. Some refused out of principle and paid substantial fines. Others adapted, and this became the inception of informal institutional system spreading throughout the society. The Canadian government did not require Canadians crossing the border with the USA by car to quarantine in a designated facility, but instead go directly to their chosen place of quarantine. Hence, instead of flying directly to Canada, Canadians started to take planes to the USA airports close to the border and then crossing it either by car or even by foot! American taxi companies have quickly introduced new packages offering passengers a trip from, for example, Buffalo, NY to Toronto for four to five times cheaper than the government-approved hotels were charging in Canada. Ironically, viscous bureaucracy and epiphenomenon oversight of the Canadian government has rescued some American frontier businesses that were on the verge of collapse due to the prolonged land border closure between Canada and the US. This was a salient example denuding a simple truth: individual initiative is far superior at responding to incentives and information than a system of myopic bureaucrats.

As of July 5th, the Canadian government finally allowed fully vaccinated Canadian citizens and permanent residents to ask for an exemption from quarantine at the border, which is to be

approved solely at the discretion of a border officer. It is puzzling, however, that fully vaccinated foreign visitors (including USA citizens) must still quarantine in a hotel¹. It seems that the Canadian government truly believes that vaccines work more effectively for Canadian citizens. Is it not a perfect example of the grotesque system of beliefs behind the public policy of this country? Of course, it is possible that the Canadian government has gained some conscience (or prudence) and stopped ripping off the people who elected it. Regardless, this should indeed exempt some travelers from using the established informal institutional infrastructure.

Is there any science behind a decision to impose quarantine on all incoming air passengers? There are only two situations in which it can be justified, but neither of them pertains to Canada. The first and foremost example is when a country does not have the virus – it can only be brought from outside. In this case, mandatory quarantine for every passenger who comes from abroad at the airport vicinity is reasonable. However, when a country already has inner clusters of infection in addition to a long border with the USA, which does not require a hotel quarantine, these actions are at most futile. The second situation is to confine air travelers coming only from global hot spots into designated facilities for mandatory quarantine, though even in this case, such extreme measures are disputable and do not hold under scrutiny. However, Canada obliged every arriving traveler to be put into a hotel. Why did the Canadian government impose such requirements if neither of the situations applied? There is no definitive answer to this question, but any or a combination of the following is plausible: kickbacks from hotels, bureaucratic bigotry, and/or a desire for more control.

The second example is the closure of indoor dining. Canada, and the province of Ontario in particular, had brutal restrictions in place banning all indoor dining for more than a year since the start of the pandemic. With intermittent success there were periods when outdoor patio dining was allowed. The dexterity of business in responding to incentives was again flabbergasting. Last October, a friend of mine visited a Toronto Vietnamese restaurant that adapted to the new rules. The restaurant had installed a tent right next to its backdoor, so formally it was deemed as a patio. However, despite several heaters placed under the tent, it was already cold. Within the tent, there was no proper physical distance between the tables, and the air was suffocating due to the absence of appropriate ventilation. Not surprisingly, such an environment was conducive to the spread of pathogens at a far greater rate than if everyone was seated inside the actual restaurant.

As in numerous other cases, inefficient governmental policies did not take into account the response of private initiative to incentives and, consequently, created a higher risk of COVID-19 transmission. From the basic principles of economics, we know that businesses strive to maximize their profits despite the presence of negative externalities, which, in this case, were denominated in a higher probability of getting sick for the restaurant's patrons. However, these externalities were effectively created by the government, which remained ignorant to the convincing evidence showing the futility of partial lockdowns to control the infection (e.g., Florida vs California).

Is it reasonable for an economy to ban indoor dining? One may argue that the Canadian government was protecting peoples' lives and its publicly funded health system by stripping people of an individual choice and imposing common agency. However, there can be more efficient policies targeted at incentives of an individual choice. For example, exempting the treatment of COVID-19 at the hospitals from the public health system and letting people pay for it from their own pockets. This would cause each person to weigh his/her own risks of getting the virus and

¹ After this note was written, the Canadian government has announced that it will finally open borders to fully vaccinated US citizens and permanent residents on August 09, and for the citizens of other countries – on September 07 (of course, with a number of bureaucratic obstacles including random testing).

potential serious complications against the benefits of going out to a restaurant with friends. In the meantime, the government could have provided targeted support for groups of people who are especially vulnerable (e.g., the elderly and those with pre-existing conditions). Such aid may have included private transportation, grocery deliveries, etc. This alone would have saved the economy billions of dollars and most likely hundreds if not thousands of lives. The same is true for coercive vaccination. People should be free to weigh the benefits and costs of vaccines individually. After all, unvaccinated people do not impose negative externalities on vaccinated people, they are sharing the risks of serious illness and death only within themselves.

By now it is clear that the most important ingredient of a well-designed policy is to target the incentives of people. “The Other Path” has shown that brute-force policies restricting and barring individual choice push people outside of their country’s formal institutional arrangement, where they start to create their own informal and legitimate institutional ecosystem. This process is inevitable unless policymakers can find a way to affect the behavior of people via influencing their incentives.

One may wonder, why did it happen in Canada? On the surface, we do see a strong link between neoliberalism and governmental paternalism, and the former has historically been quite strong in Canada due to the evolution of a drastically different social matrix (in comparison to the US). Canada did not have a War of Independence and remained a constitutional monarchy. This form of governance is grounded in scholasticism, i.e., it is based on the principle of authority. Hence, people innately trust the government with what is best for them. This is contrary to the US, and particularly the conservative “red” states – where the value of individual choice traces back to the fundamental freedoms secured after the War and even further back to the discovery of America itself. Recall that after Columbus discovered the new continent, there was a particular set of people who were going to America from Europe. When armed people are put together into limited space, there are two options: they either shoot each other or find a compromise. History showed that the latter prevailed, and the agreement carved out a set of fundamental institutions venerating individual choice and freedom (in Hegel’s sense). This was the genesis of the American government and the formation of the conforming social matrix. Long before, similar processes transpired with the pirates of the Aegean Sea, which gave rise to one of the most civilized societies existing in BC centuries – ancient Greece.

Neoliberal ideas are rooted in the scholastic social matrix and present merely a refined socialistic manual for achieving welfare by stripping people of an individual choice and delegating it to the government, where the latter acts as the sacred guardian and all-seeing prophet. It is assumed that the government knows what is best for every individual, and its choice for an individual is *a priori* superior to any choice that the individual may make for himself/herself. We have seen numerous examples of the latter during the last year. For instance, the government has decided that everyone should wear masks to stop the spread of the virus, though there is not a single RCT experiment for any respiratory disease that would show a significant effect of ordinary masks on reducing the probability of getting sick. There is only a marginal effect of reducing the degree of contamination for a sick person who wears a mask. In the meantime, COVID-19 is also transmitted through surfaces. It is impossible to have sterile hands, so every time we put a mask on with our hands, we deliver viruses from our hands to our mouth and nose – right where they want to be! This and other scientific evidence were censored by the Canadian government, which still requires fully vaccinated people to wear masks in public places. I am convinced that in the future, there will be research done to estimate pernicious consequences of prolonged mask wearing on health (over a span of decades, perhaps). Another example of obscurantism is a policy based

on irrelevant metrics. Currently, the Canadian government is obsessed with the number of COVID-19 cases, but this indicator is pretty much useless in a society where more than half of the population has been fully vaccinated. Sometimes, it seems like the government's agenda is to completely eradicate the virus. Given the impossibility of this outcome, one may expect that the government will need to retain control over peoples' lives in perpetuity.

Today everyone (including the Canadian government) instill fear into peoples' minds with the new Delta variant, though it is well known from virology that mutations of viruses normally make them more infectious, but less lethal. There is a simple explanation for this phenomenon: viruses need a host to survive, so from an evolutionary standpoint it is not in the interest of the virus to kill its host. It is quite plausible that there will be other theta, kappa, lambda variants, but they will eventually converge to a simple cold. However, if we accept this truth about the mutations as well as the efficacy of vaccines against all the variants that are out there these days, the Canadian government will have no more leverage to keep on controlling peoples' lives. Any crisis is an opportunity to grasp power, and the latter corrupts even the purest of us.

The morale of the described political shenanigans is that these days we have enough evidence pointing toward the superiority of methodological individualism over a systematic approach, and we should not forget the lessons from "The Other Path." Poor regulations bar people from participation in formal institutional environments, and they start to create their own. The latter becomes a basis for an underground economy, domestic and international terrorism, and emergence of all sorts of zealots and lunatics. Science and history have taught us that the fastest way to welfare is through respect for an individual choice and its alteration only through a well-designed set of policy interventions. A desire to substitute the latter with a social planner is a way to destruction of the most important institutions that have contributed to the stellar development of civilization in recent centuries and, with them, the collapse of dreams for rampant economic growth and universal prosperity.