

The INDEPENDENT

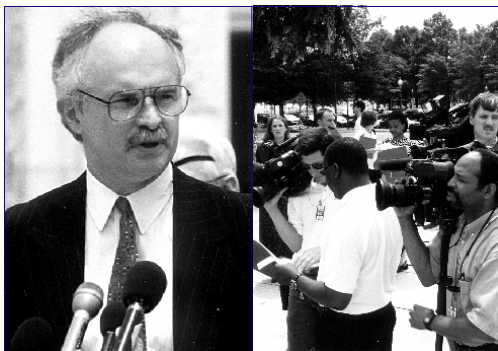
NEWSLETTER OF
THE INDEPENDENT INSTITUTE

VOLUME IX, NUMBER 2

Open Letter Assails Antitrust Protectionism

More than 240 American economists have signed the new **Open Letter to President Clinton on Antitrust Protectionism**. Sponsored by the Independent Institute, the Open Letter assails the proliferation of antitrust cases in high-technology markets as anti-competitive, protectionist, and not based on any evidence of consumer harm. Such cases have included those against Intel, Cisco Systems, Microsoft, Visa, MasterCard, and other firms.

The Open Letter was published on June 2 in the *New York Times* and *Washington Post*,



Institute president David Theroux releases the Open Letter at a press conference in Washington, D.C.

and signatories include leading economists from UCLA, Johns Hopkins, Columbia, Michigan, Dartmouth, Stanford, Boston University, and many other colleges and universities in 48 states and the District of Columbia.

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New Book Seeks Financial Freedom

The world financial community remains divided about the monetary meltdown that hit emerging markets two years ago. One group sees the crisis as rooted in the failings of a few leaders and policies. It seeks order in more bureaucratic carrots and sticks — such as the IMF's “new and improved” Conditional Credit Lines

MONEY and the NATION STATE

*The Financial Revolution,
Government and
the World Monetary System*

Edited by Kevin Dowd &
Richard H. Timberlake, Jr.

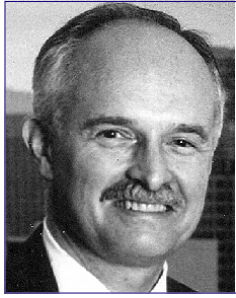
Foreword by Merton H. Miller

and stricter, more uniform banking regulations.

The other group sees the crisis as rooted in flaws inherent in central banking and its trappings — federal deposit insurance, legal tender laws and financial regulations. Market institutions — *if* they are allowed to operate freely — work to limit inflations, bank panics, depressions, devaluations, and other problems.

This group is ably represented by the recent Independent Institute book, **MONEY AND THE NATION STATE: The Financial Revolution, Government and the World Monetary**

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President's Letter:

Politics, Ideas, and Special Interests

"Conventional wisdom" has long believed that if only political power were applied wisely so that government regulations, welfare, education, defense and other programs were given proper priorities and managed by learned people thoroughly dedicated to serving the public good, all would be well.

However, many scholarly studies have revealed the reality of political power as *primarily* and *inherently* special-interest driven. Politics is indeed primarily a contest among vested interests to use government power to accomplish by force what they could not do through the voluntary workings of markets in a free society? Through a myriad of regulations, subsidies, protectionism, and other measures, vast amounts of wealth are regularly redistributed from the populace to power elites and their constituents as the government's enormous power is used to cartelize markets and socialize the risks and operational costs of special interests onto an uninformed public.

Could policies ranging from antitrust to the Endangered Species Act to the IMF be examples of such folly? Could the theories defending such policies be little more than "junk science" that in the end are simply justifications for programs of "corporate welfare"?

The Independent Institute regularly examines such questions through our acclaimed journal, *The Independent Review* (see p. 5), path-breaking books such as *Money and the Nation State* (see p. 1), and *Independent Policy Forum* seminars (p. 3); and in communicating the results of this work through many media (p. 4) and other educational programs.

The work of the Independent Institute is indispensable toward displacing the myopia of "conventional wisdom" so that society will no longer have to fall victim to the reality of special-interest political power.

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*Independent Policy Forums:***Social Security • High Technology • Civil Rights**

Recent Independent Policy Forums featured the following very timely programs:

• **PRIVATE SOLUTIONS FOR THE SOCIAL SECURITY CRISIS?** On February 3, three leading welfare and entitlements experts discussed Social Security privatization, including the proposed partial plan of President Clinton. While differing in their emphases, the speakers agreed that the Clinton plan — which would allow government bureaucrats to invest retirement funds in private companies — risks politicizing the stock market.

Michael Tanner (Director, Health and Welfare Studies, Cato Institute; co-author, *A New Deal for Social Security*) argued that the Social Security crisis would not have arisen had government not penalized personal savings, mutual aid, and insurance innovations. Market-based retirement plans, had they been allowed to flourish, would have brought Americans a wide range of retirement-planning choices and greater financial security — unlike the rigidity of Social Security's one-size-fits-all straightjacket.

Privatization can reduce the arbitrariness in



(clockwise from top left) **Alan Auerbach**, **Preston Martin** and **Michael Tanner** addressed the Independent Policy Forum on Social Security privatization.

Social Security payments and end its hidden penalties and cross-subsidies, said economist **Alan Auerbach** (Univ. of Calif., Berkeley). However, its advocates must grapple with two looming problems: the political risk that low

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New Book Seeks Financial Freedom

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System, edited by **Kevin Dowd** (Sheffield U.) and **Richard Timberlake** (U. of Georgia), a devastating analysis of the international monetary system. Among the book's findings are:

- The gold standard was not a “barbarous relic,” as John Maynard Keynes claimed. While imperfect, the pre-World War I gold standard helped spark unprecedented economic progress. Now, free banking combined with a gold standard would work even better.
- Government bank-deposit insurance has subsidized risky and unstable banking. Deregulation and the elimination of forced deposit guarantees would strengthen banking.
- There are *no* IMF success stories. The agency is a major cause of “moral hazard” and has harmed developing countries by urging currency devaluations and high taxes.
- Many countries could increase stability by replacing central banks by currency boards.
- A European central bank would create new risks. De-nationalizing money and creating rules-based policies would work far better.

As Nobel Prize-winning economist **Merton Miller** (U. of Chicago) states in his foreword, this book offers a “careful reconsideration of today's failed monetary orthodoxies that is

clearly overdue.”

Contributors include **Richard Burdekin** (Claremont McKenna Col.), **Thomas Cargill** (U. of Nevada), **David Glasner** (FTC), **Steve Hanke** (Johns Hopkins U.), **Robert Keleher** (Joint Economic Comm.), **Alan Reynolds** (Hudson Institute), **Kenneth Robinson** (Federal Reserve Bank, Dallas), **Murray Rothbard** (U. of Nevada, Las Vegas), **Kurt Schuler** (Joint Econ. Comm.), **Genie Short** (Federal Reserve

“MONEY AND THE NATION STATE is of eminent importance and interest.”

—**KARL OTTO POHL**, former President, Deutsche Bundesbank

“MONEY AND THE NATION STATE makes a powerful case. Policymakers should not ignore this important book.”

—**ROBERT LITAN**, Director of Economic Studies, Brookings Institution

Bank, Dallas), **Frank van Dun** (U. of Maastricht), **Jillen Westbrook** (Temple U.), **Lawrence H. White** (U. of Georgia), **Thomas Willet** (Claremont McKenna Col.), and **Leland Yeager** (Auburn U.). (*Money and the Nation State*, 480 pp., available \$22.95 postpaid; for information online, see http://www.independent.org/tii/catalog/cat_Money.html) •

The Independent Institute in the News

- When NATO began bombing Yugoslavia, Research Director **Alex Tabarrok**'s article on President Clinton's exercise of unconstitutional war powers appeared in the *North County Times* (4/11), *Tampa Tribune* (4/11), and *St. Louis Post-Dispatch* (4/10). Senior Fellow **Robert Higgs** was quoted in an *Investor's Business Daily* story on civil rights infringements during a state of war (4/21), and Public Affairs Director **Ray Lehmann** was interviewed about the topic on the radio program, "Mile High Morning," on KNUS-AM, in Denver (3/23).
- Research Fellows **Stan Liebowitz** and **Stephen Margolis**, authors of the new Institute book, *Winners, Losers & Microsoft*, were interviewed in *USA Today*, Associated Press, *Financial Times*, Reuters, *Washington Post*, *Wall Street Journal*, *New York Times*, *National Law Journal*, and *Business Week*. Additionally, their work was the subject of an article in *The Economist* (4/3).
- Public Affairs Director **Ray Lehmann**'s op-ed (5/1) on the massacre in Littleton, Colo., appeared in the *Christian Science Monitor*, *Roanoke Times*, *Virginian Pilot*, *Elko Daily Free Press*, *Advocate*, *Evening Leader*, *New London Day*, *Malvern Daily Record*, *Prince George's Journal*, *Beaumont Enterprise*, and *Lebanon Reporter*.
- **Sigmund Knag**'s Fall 1998 article in *The Independent Review* (*TIR*) on historical alternatives to democracy was the subject of an article in the *Rochester* (N.Y.) *Democrat and Chronicle* (1/7). Also, **Jeffrey Milyo**'s Spring 1999 *TIR* article on the economics of campaign finance produced an editorial in *Investor's Business Daily*.
- Research Director **Alex Tabarrok**'s 2/10 op-ed on Social Security privatization appeared in the *Rockford Register Star*, *San Bernardino County Sun*, *Savannah Morning News*, *South Bend Tribune*, *Spartanburg Herald-Journal*, *Staten Island Advance*, *Tallahassee Democrat*, *Ann Arbor News*, *Augusta Chronicle*, *Burlington Free Press*, *Florida Today*, *News-Press*, *North County Times*, *Charleston Gazette*, *Daily Gazette*, *Evansville Courier and Press*, *Herald-News*, *Idaho Statesman*, *Jersey Journal*, *Journal Gazette*, *Ledger*, *Macon Telegraph*, *News-Herald*, *Patriot Ledger*, *Patriot-News*, *Post-Standard & Herald-Journal*, *Press of Atlantic City*, *Register-Guard*, *Repositorio*, *Saginaw News*, *Sun*, *Times Leader*, *Trentonian*, *Wichita Eagle*, *Topeka Capital-Journal*, *Waterbury Republican-American*, *Wilmington Morning Star*, *Winston-Salem Journal*, *Arizona Daily Star*, *Asheville Citizen-Times*, *Bakersfield Californian*, *Salem Evening News*, and *Press-Herald*.
- Senior Fellow **Richard Vedder** and Research Fellow **Lowell Galloway** (co-authors of the Institute book, *Out of Work*) were quoted in an *Investor's Business Daily* article on the effect of taxes on the economy (1/8). Galloway was also quoted in an *Orange County Register* editorial discussing how the economy expands as government shrinks (4/4). Vedder was interviewed about the Dow topping 10,000 for the first time in the *Harrisburg Patriot-News* (5/17).
- Research Fellow **Kevin Dowd** was quoted in an *Orange County Register* editorial that focused on the Euro and prominently discussed the Institute book, *Money and the Nation State* (1/8). Another of the book's contributors, Research Fellow **Steve Hanke**, discussed how to establish a currency board in Argentina in his *Wall Street Journal* op-ed (2/19).
- Public Affairs Director **Ray Lehmann** was quoted in a *Los Angeles Daily News* story (2/9) about California Governor Gray Davis. Lehmann's article on privatization for police departments appeared in the *Daily Californian* (3/26), the *Beaumont Enterprise* (3/15), the *Connecticut Post* (3/10), and the *Oakland Tribune* (3/1).
- Research Fellow **Fred Singer** and his Institute book, *Hot Talk, Cold Science*, were the subject of an editorial in the *Waterbury* (Conn.) *Republican-American* (4/1) and *Providence Journal* (4/2), as well as a column by **Thomas Sowell** in *Forbes* (1/11). The book was also featured in the *St. Paul* (Minn.) *Pioneer Press* (4/20), and Singer's column on environmental priorities appeared in the *Washington Times* (4/23).
- An AP story (4/9) on Research Fellow **Stephen Halbrook** (author of the Institute book, *That Every Man Be Armed*) and his efforts to defend both First and Second Amendment rights appeared in the *Boston Globe*, *Chicago Tribune*, and other papers, and he and the book were the subject of a *Detroit Free Press* article (5/27). ●

*The Independent Review:***Antitrust • Endangered Species Act**

The Independent Review, the Institute's quarterly journal, continues to delight readers with provocative, cutting-edge scholarship. For example, three recent issues have included the following articles:

- In "Is Microsoft a Monopolist?" (Fall 1998), economists **Richard McKenzie** (U. of California, Irvine) and **William Shughart** (U. of Mississippi) analyze the antitrust case against Microsoft and conclude that it is without merit.

"Although Microsoft surely has some market power, as do many other firms in the computer industry, its market pricing and product development strategies do not square with those of a monopolist," McKenzie and Shughart write. "Contrary to claims by the Justice Department's lawyers and software market critics, a dominant producer — or even a single seller — is not necessarily a monopolist."

Microsoft enjoys a 90 percent market share in PC operating systems, but for many years has kept the price it charges computer manufacturers to install it the same — about \$45 — even while adding new features. Despite the Justice Department's charge of illegally trying to create a monopoly, its assertion that, "PC manufacturers . . . have *no commercially reasonable* alternative to Microsoft operating systems for PCs that they distribute," can be interpreted to mean that Microsoft enjoys an advantageous *competitive* position.

"Microsoft may be charging such a low price that other firms do not judge the development of an alternative operating system to be worth the required up-front investment," McKenzie and Shughart write.

If Microsoft were to restrict output and raise prices too high, it could expect swift and intensified competition from its current competitors such as IBM, Oracle, Sun, Apple, Be, DEC, Psion, 3COM, and GEM — as well as established non-proprietary operating systems such as Unix and Linux — and from new competitors, according to McKenzie and Shughart.

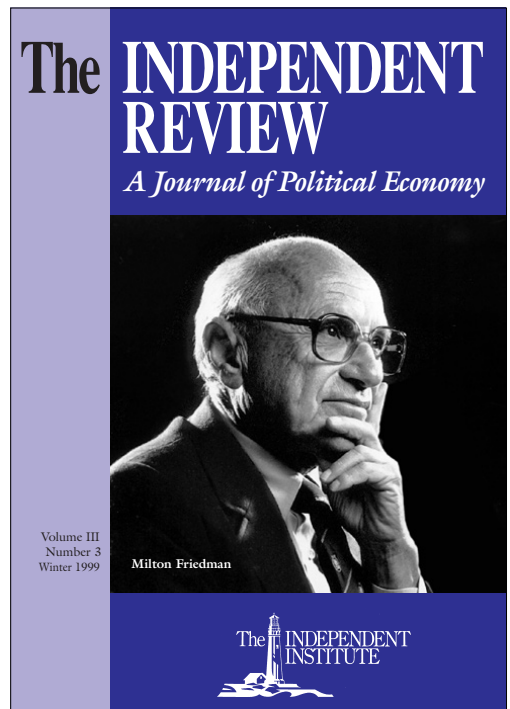
The Justice Department says it fears Microsoft could leverage its market position in operating systems to secure an equally large market share for Internet Explorer — enabling it to restrict output and raise the price of the browser with impunity, to the great detriment of consumers and the future of the Internet.

But even if Microsoft had a monopoly, McKenzie and Shughart argue, it wouldn't pay to act monopolistically in both operating systems and Internet browsers, since doing so

would work at cross purposes. Restricting the output and raising the price of one would reduce the demand for the other, thereby reducing Microsoft's total profits. Other economic arguments used to justify antitrust action against Microsoft — many involving newer theories such as "network effects," "path dependence," and "essential facilities" — also fail to support the case for antitrust, they argue.

(This article can be viewed online at http://www.independent.org/tii/content/pubs/review/TIR32_mck_shug.html)

- The Endangered Species Act (ESA) turned 25 years old this year, but this anniversary is nothing to celebrate, according to **Randy Simmons** (Utah State U.). In two recent articles



in *The Independent Review*, Simmons argues that the ESA has failed dismally:

- "The Endangered Species Act: Who's Saving What?" (Winter 1999)
- "Fixing the Endangered Species Act" (Spring 1999)

ESA defenders claim that it saves species but offer little evidence beyond the number of species added to the endangered list — as if listing species instead of delisting them were the goal. Most delisted species never belonged on the list but were misidentified subspecies, or their numbers fell and rose naturally. Other delisted species were saved not by the ESA but by other laws (such as the DDT ban in 1972).

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Independent Policy Forums: Social Security • High Technology • Civil Rights

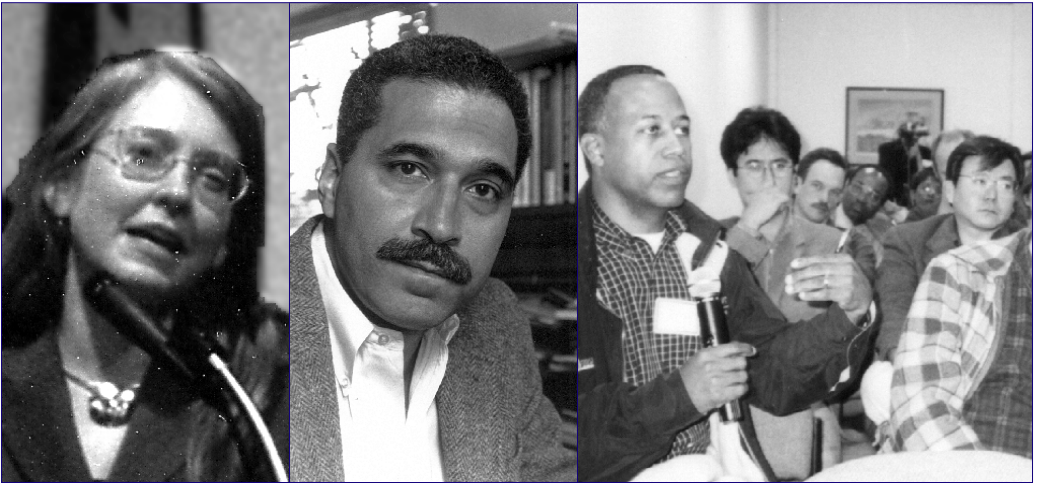
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stock market returns might invite government intervention, and the pressing need to shore up Social Security's expected shortfalls, which privatization alone cannot address.

Preston Martin (Chairman, Martin Associates; former Federal Reserve Vice Chairman) argued that Clinton's "partial privatization" is inherently flawed because it hopes to mix opposite elements: the adaptability of private entrepreneurship and the rigidity of government edict. Such an attempt would undermine the integrity of the marketplace, he said. Similarly flawed thinking helped create the costly savings-and-loan catastrophe of the 1980s.

from where we are, try to do better, see what happens, and correct errors as we go," Postrel said. "This infinite series of experiments, many of which are destined to fail, can be unsettling. But through such effort can we better ourselves and our posterity. And only through them, can we realize our full humanity."

Institute President David Theroux noted that, "Ms. Postrel's work celebrates how, for more than 200 years, Adam Smith's 'invisible hand of the marketplace' has created unprecedented wealth, knowledge, and human well-being. For the new 'Digital Era' to continue to unfold, it is essential that the 'dynamism' she



(left to right) **Virginia Postrel** addressed the Independent Policy Forum on "The Future of Freedom and High Technology," and **Shelby Steele** spoke on civil rights and "The Betrayal of Black Freedom in America."

• **THE FUTURE OF FREEDOM AND HIGH TECHNOLOGY** (February 11): **Virginia Postrel** (Editor, *Reason Magazine*; author of the book, *The Future and Its Enemies*) discussed how innovation and individual freedom are intricately related and why they are increasingly under assault by those, from both ends of the political spectrum, who feel threatened by economic and technological change. She then explained why only the unpredictable nature of an open society can chart the course toward progress.

"The title of my book has an important and true point," Postrel noted. "The open-ended future, the future I am talking about, does have enemies. And some of them are very influential people." These enemies of progress, whom Postrel dubs "stasists," she contrasted with "dynamists" — those who embrace and welcome an open-ended, unplanned future filled with possibilities.

"We don't know in advance what will really represent progress. All we can do is start

discusses in her book continue to be the standard for our society."

• **THE NEW BETRAYAL OF BLACK FREEDOM IN AMERICA** (February 24): To commemorate Black History Month, **Shelby Steele** (Research Fellow, Hoover Institution) discussed his latest book, *A Dream Deferred*.

The civil rights movement changed tack in the mid-1960s, but not for the better, according to Steele. It began as a noble struggle to secure for blacks a basic American right: the pursuit of individual happiness. But just when the new Black Freedom might have taken hold, it was replaced by collectivism and interventionism. This, Steele argued, begat a sense of helplessness, and an over-reliance on white moral obligation for black success.

For example, suppose jazz musician Charlie Parker had been told as a youngster that his upbringing in a poor, broken family warranted special intervention to close a musical "disadvantage" relative to whites. Would we expect suc-

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Open Letter Assails Antitrust Protectionism

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The Open Letter states that:

“Consumers did not ask for these anti-trust actions — rival business firms did. Consumers of high technology have enjoyed falling prices, expanding outputs, and a breathtaking array of new products and innovations. . . . Increasingly, however, some firms have sought to handicap their rivals’ races by turning to government for protection. . . . Antitrust protectionism means that market decisions about how to compete for consumers’ favor are displaced by bureaucratic and political decisions. . . . Instead of preventing prices from rising, antitrust protectionism keeps prices from falling.”

The Open Letter has also received media coverage on *CNN*, *ZDTV*, *ABC News*, and *Bloomberg-TV*, and in the *Wall Street Journal*, *Reuters*, *WiredNews*, *Technology Daily*, *WorldNetDaily*, *Investor’s Business Daily*, *ComputerWorld*, *Boston Globe*, *Pittsburgh Press-Review*, *Seattle Times*, *Bridge News*, *TechWeb*, and other publications and services.

The Open Letter builds upon the Institute’s book, *ANTITRUST AND MONOPOLY: Anatomy of a Policy Failure*, by D.T. Armentano, and coincides with the Institute’s new book, *WINNERS, LOSERS & MICROSOFT: Competition and Antitrust in High Technology*, by Stan Liebowitz (U. of Texas at Dallas) and Stephen Margolis (North Carolina State U.).

Featuring a foreword by **Jack Hirshleifer** (UCLA), *WINNERS, LOSERS & MICROSOFT* is essential to understand and ensure the future of competitive, high-technology markets. Why do certain products and technologies become dominant while others fail? Will the robust competition and tremendous technological advances of the past decades continue? Can markets “lock in” inferior technologies to the exclusion of better ones? Do “network effects” create monopolies? How do antitrust laws affect entrepreneurship and innovation? What about the Internet browser wars? And more . . . (*Find the Open Letter on Antitrust Protectionism with signatories plus information on the above books at http://www.independent.org/tii/news/open_letter.html*)●

Independent Policy Forums: Social Security • High Technology • Civil Rights

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cess? Probably not, Steele argued.

Instead, we can easily imagine a growing, destructive frustration, as Charlie’s white tutor secretly lowers his expectations and Charlie comes to feel that his tutor’s pained attentions suggest that great musicianship lay beyond reach. As Charlie hears increasingly that the saxophone, a “European instrument,” has little to do with “who he is,” and his tutor hears that imposing a European instrument on an African-American child cannot build self-esteem, the prophecy of failure becomes self-fulfilling.

Happily for jazz lovers, this story is fiction. But, unhappily, this scenario has played itself out in other areas of American life, as a “redemptive” liberalism — based on presumptions of guilt and entitlement — has sought to regain whites’ lost moral authority on racial issues through policies of deference and license.

The true path toward black progress and racial harmony, he said, requires replacing policies and attitudes that imply collective inferiority and

guilt with those of personal responsibility, freedom of opportunity, and equality before the law. (*For all Policy Forums, transcripts \$2.00, audio \$12.95 postpaid; also view the text or listen in RealAudio at <http://www.independent.org/tii/content/events/ipf99.html>*)●

INDEPENDENT POLICY FORUM UPCOMING EVENTS

Sept. 14: *To Keep and Bear Arms*

Joyce L. Malcolm, Professor of History,
Bentley College

Don B. Kates, Jr., civil rights attorney

Oct. 20: *Virtual Money and the Internet*

Richard W. Rahn, Senior Fellow,
Discovery Institute

Nov. 17: *The Civil War: Freedom & Leviathan*

Henry Mayer, Author, *All on Fire:
William Lloyd Garrison and the
Abolition of Slavery*

Jeffrey Rodgers Hummel, Prof. of Eco-
nomics and History, Golden Gate Univ.

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INDEPENDENT SCHOLARSHIP FUND

All families, regardless of economic circumstances, would greatly benefit from better educational opportunities for their children. Recently, schools across the country have begun benefiting from a new grassroots, private-scholarship movement that helps bright, yet disadvantaged, children gain a high-quality education at non-public K-12 schools. These innovative, highly entrepreneurial programs provide tuition assistance to students to enable them to attend the schools of their choice. In addition, private scholarships facilitate greater competition among private and public schools in order to produce better education for all.

To extend its fellowship program for students, the Independent Institute is launching the **Independent Scholarship Fund (ISF)**, a program to help families in the San Francisco East Bay counties of Alameda and Contra Costa offset the costs of tuition. ISF will provide tuition scholarships to students in grades K-12 that will cover 75% of the cost of tuition, up to \$1,500. Funds permitting, the Institute will begin the program this fall for the 1999-2000 academic year, followed by the full launch of the program in the 2000-2001 academic year. To support ISF, tax-deductible contributions from businesses, foundations, and individuals are welcome.

Under the direction of **Deborah Wright**, board member of Children's Educational Opportunity Foundation/Oakland (CEO Oakland) and former CEO Oakland program administrator, ISF is certain to become an integral program to achieve educational excellence directly in the San Francisco Bay Area, as well as serving as a model for schools across the country.

For further information, please contact:

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Antitrust • Endangered Species Act

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Tragically, the ESA's perverse incentives have encouraged more property owners to "shoot, shovel, and shut up" than to protect endangered species on their land. Further, the ESA's lack of prioritization has meant that more resources go to protect "charismatic megafauna" like wolves and grizzlies than to ecologically more significant species and habitat.

Simmons says the ESA must be drastically reformed to recognize key truths it now ignores. Among them:

- Letting nature take its course isn't always the best way to protect biodiversity.
- Property owners must be encouraged to protect sensitive habitat.
- Decentralized market-based policies foster the discovery of better conservation methods and reduce pressure-group conflicts.

Simmons's articles draw from his forthcoming Independent Institute book (co-authored with Charles Kay), **POLITICAL ECOLOGY: Bureaucratic Myths and Endangered Species**. *(Both of these articles can be viewed online at http://www.independent.org/tii/content/pubs/review/TIR33_simmons.html and http://www.independent.org/tii/content/pubs/review/TIR34_simmons.html)* ●

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