

The INDEPENDENT

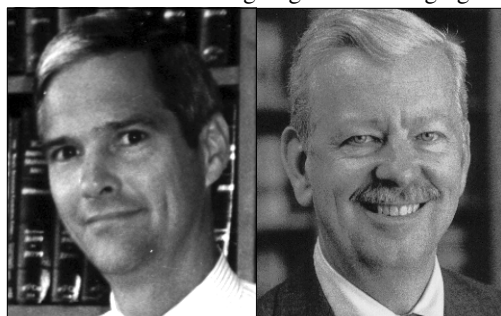
NEWSLETTER OF
THE INDEPENDENT INSTITUTE

VOLUME XI, NUMBER 3

Forums on Schools, Drugs & P.C. Myths

At the July 5th Independent Policy Forum, “Why Are the Public Schools Failing and What Can Be Done?”, **Richard Vedder** (Ohio University), Senior Fellow at The Independent Institute, told attendees of a promising idea told to him by Russian president Vladimir Putin.

“Mr. Putin, who has severe financial problems, out of desperation said, ‘You know, I think we’re going to have to do something about our schools—I think we’re going to start charging tu-



Judges James Gray and Vaughn Walker addressed the Independent Policy Forum on the “War on Drugs.”

ition.’ When we can look to the Russians for guidance in anything, you know we’ve got problems!”

Vedder’s own proposal for educational reform focused not on who pays for schools but on who controls them. His proposal, detailed in his short book from The Independent Institute, **CAN TEACHERS OWN THEIR OWN SCHOOLS?**, is to convert public schools into teacher-owned co-ops, similar to companies with

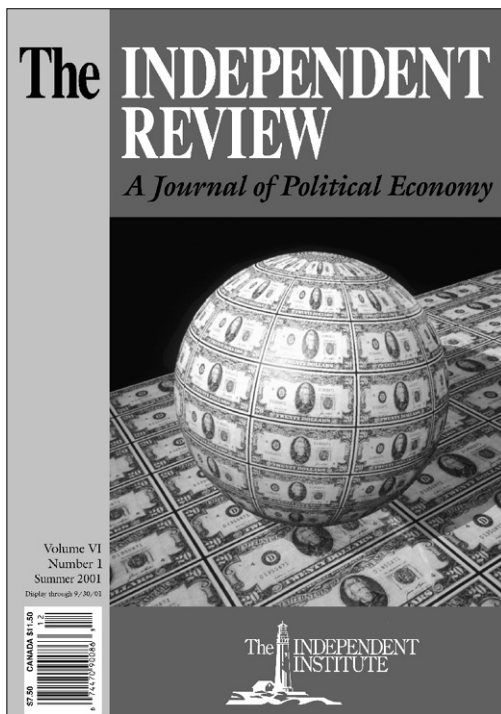
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Recently in *The Independent Review*

Most people assume that a government must always have a well-defined territorial monopoly. But governments without traditional boundaries are also possible; Montesquieu, in fact, praised them in his 1749 classic, *The Spirit of the Laws*. Functional, overlapping, competing jurisdictions—FOCJs—are perhaps the smoothest functioning form of government you are likely to hear about, according to Swiss po-



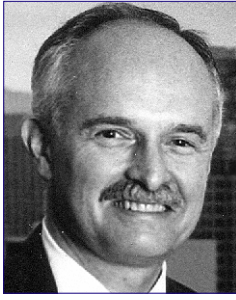
The Independent Review, Summer 2001.

litical economist Bruno Frey in the summer issue of *The Independent Review*.

According to Frey, FOCJs offer several advantages over traditional federal units:

- Better monitoring: Because FOCJs specialize in fewer functions, their members can keep tabs on them more easily.
- Better feedback: Because FOCJs are not bound by territory, members can more easily “vote with their feet,” allowing

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President's Letter:

The New War on Freedom

We offer condolences to all those suffering in the wake of the recent terrorist hijackings, attacks, and mass murders. We join the civilized world in condemning these horrific deeds. All those specific individuals responsible for these murders, injuries, and damages of September 11th and afterward must be brought to justice.

In the wake of this tragedy, many Americans have been calling for extraordinary government actions. But history teaches that "crisis" periods often produce even greater problems and suffering as the heavy hand of unchecked government crowds out civil society.

Americans seek security, but not as an end in itself. We seek security to enjoy the blessings of liberty. Attempts to "trade" liberty for security can only produce neither. Unleashing the uncontainable violence of war invites further atrocities against innocent people, with the strong likelihood of yet new and even worse reprisals. We must achieve security in a manner consistent with a diverse and open society, individual liberty, and the rule of law.

As Americans mourn, reflect, and seek out justice, it is also appropriate to ask why the U.S. draws terrorist attacks and hatred. In answering this question, we should look closely at whether the U.S. government's operations at home and abroad remain true to our values.

It is also appropriate to ask why government, defense, intelligence, and airport security operations failed to prevent the tragedy of September 11th. The Independent Institute's program is pioneering analyses of such matters, and the valuable lessons from the answers to these difficult questions can forestall similar and even worse atrocities from occurring in the future.

The Statue of Liberty is recognized worldwide as a symbol of liberty and justice for all. The peaceful spread of these ideals must be our most enduring export. We will win the hearts and minds of individuals the world over only if we adhere to these values with the fidelity that those values demand.

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Independent Policy Forums: Education • Political Correctness • The Drug War

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Employee Stock Ownership Plans (ESOPs).

“My idea of turning schools over to the ‘educrats’ may not be perfect, but . . . if we can offer teachers something tangible, perhaps they will embrace attempts to introduce into education the forces of the market and competitive capitalism that have made us the wealthiest land the world has ever known.”

Institute Research Fellow **John Merrifield** (University of Texas, San Antonio), author of *The School Choice Wars*, then exposed fallacies in the school-choice debate. Too often the debate has focused on non-essentials such as vouchers and charter schools, rather than on the actual freedom of choice and competition that will create effective schools.

“We need choice not just to generate competition, we need it to deal with the fact that we’re different. We need schools not to have a one-size-fits-all mentality.”

See the transcript at <http://www.independent.org/tii/forums/010705ipfTrans.html>.

For Richard Vedder’s book, *CAN TEACHERS OWN THEIR OWN SCHOOLS?*, see <http://>



Larry A. Elder (Host, KABC Radio) addresses the Independent Policy Forum.

www.independent.org/tii/catalog_pr/policy_schools.html.

● **TRUTH AND FALSEHOOD IN POLITICALLY CORRECT AMERICA** (August 14): Politicians never think twice about the constitutionality of government subsidies. This wasn’t always the case, explained KABC-Radio host **Larry Elder** in his standing-room-only Independent Policy Forum presentation.

In 1792, James Madison told Congress that the Constitution would not allow the federal

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The Independent Review: Competing Governments • FBI • Collectivism’s Failure

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FOCJs to better evaluate their own performance.

- Better limits: FOCJs have stronger incentives to set good examples for each other, making them less likely to engage in the excesses of traditional nation-states.

Today, the examples closest to FOCJs are found in cyberspace (e.g., ICANN, the body that now administers Internet domain names) and in Switzerland. Switzerland has 2,940 political communes that define citizenship and offer different tax rates and combinations of public services. In addition, there are 5,000 overlapping, functional special communes.

“The most important are school communes offering education for the children of one or several political communes. They are public jurisdictions that levy their own tax, whose rate is determined by a citizen meeting.”

See “A Utopia? Government without Territorial Monopoly,” by Bruno Frey (*The Independent Review*, Summer 2001), at http://www.independent.org/tii/content/pubs/review/tir61_frey.html.

● The recent troubles of the Federal Bureau of Investigation belie the great publicity the agency received for most of its life. Yet judging by the popularity of the Fox-TV show, *The X-Files*, a popular show that often deals with FBI conspira-

cies, the American public entertained doubts about the FBI years before it had heard about the botching of the cases of Robert Hanssen, Wen Ho Lee, Timothy McVeigh, or of misplaced firearms, laptop computers, and deadly anthrax samples.

“One can see what an extraordinary development *The X-Files* represents in American popular culture by concentrating on the fact that, for all its science-fiction and horror elements, it is fundamentally a series about the FBI,” writes **Paul Cantor** in an article on American popular culture in the summer 2001 issue. “As a TV advertiser might put it, however, this is not your father’s FBI—and certainly not J. Edgar Hoover’s. Far from being the hero of the series, as one might expect on American television, the federal agency is virtually the villain.”

And the FBI’s television villainy was not limited only to bureaucratic incompetence. “As the series developed, it began to suggest that the opposition to [main characters] Mulder and Scully is the product of sinister forces working within the FBI or at least exerting pressure on it from other branches of the federal government. We gradually learn that this agency, which more than any other over the years has represented

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The Independent Institute in the News

- The events of Sept. 11 have generated substantial interest in the research on government growth during crises by Senior Fellow **Robert Higgs**. *New York Times* columnist John Tierney (10/16) and writer Richard Stevenson (10/28) quoted Higgs, as did *Reason.com*'s Michael Lynch (9/20) and *WorldNetDaily.com*'s Sarah Foster (10/25), *Orange County Register* (9/17) and *San Francisco Chronicle* (10/25). Separately, Higgs's piece "Federal oversight won't improve airport security" ran in the *San Francisco Business Times* (10/26).
- An op-ed by Research Fellow **Larry Sechrest** on privatized military services and "letters of marque and reprisal" appeared in the *Providence [RI] Journal* (9/27) and *Ogden [UT] Standard-Examiner* (10/5). Sechrest also discussed privateering on the KIOI-FM program "Your Town Hall" (San Francisco, 10/7) and on KEYS-AM (Corpus Christi, 10/11), and his work was cited by Research Fellow **Wendy McElroy** (10/10) in her *FOXNews.com* column.
- In his article, "Wages and the Role of Hands-On Government" (10/8), *Barron's* economics editor Gene Epstein relates an insight of Senior Fellow "**Richard K. Vedder** and [Research Fellow] **Lowell E. Gallaway**'s superb book, *OUT OF WORK . . .* The unemployment rate will rise and fall with the productivity-adjusted real wage." Vedder also appeared on the "Gene Burns Program" on KGO-AM (San Francisco, 7/6) to discuss his Institute study *CAN TEACHERS OWN THEIR OWN SCHOOLS?* Before appearing with Vedder at an Institute IPF, Research Fellow **John Merrifield** was interviewed on KPFA-FM (Berkeley, 7/5).
- Founder and President **David J. Theroux** was quoted in an article on drug czar John Walters in *Rolling Stone* (11/8), and was profiled in the *East Bay Express* (7/25). Theroux also appeared (7/7, 9/1, 12/7) on an episode of PAX-TV's "Encounters with the Unexplained" to discuss U.S. foreknowledge of the Japanese attack on Pearl Harbor with *Day of Deceit* author Robert Stinnett. The *Bakersfield Californian* (8/6) quoted Research Director **Alexander Tabarrok** favoring real-time electricity pricing over retail price controls. Tabarrok's op-ed "Excess FDA caution threatens health" ran in the *Providence Journal* (8/23). Public Affairs Director **Rob Latham** participated in several radio interviews on issues covering the gamut from military spending to airline bailouts to airport security on WNWS-FM (Jackson, TN, 9/17), WHK-AM (Cleveland, 9/21), WKZO (Kalamazoo, 9/26), KXEL-AM (Des Moines, IA, 10/8), KKUP-AM (San Jose, 10/24), and KIOI-FM (11/18).
- An excerpt from Senior Fellow **Bruce Benson**'s chapter in the Institute book *CUTTING GREEN TAPE* appeared as an article in *Ideas on Liberty* (October). Benson was also interviewed on KIQ-AM (Salt Lake City, 6/13). A review of the Institute book *AMERICAN HEALTH CARE* ran in *Ideas on Liberty* (August) and was reviewed on *NationalJournal.com* (7/19). An op-ed, "From a great case, a good rule," by Research Fellow and co-author of the Institute book, *WINNERS, LOSERS & MICROSOFT*, **Stephen Margolis**, appeared in the *News & Observer* [Raleigh, NC] (7/8). An interview of Margolis and his co-author, Research Fellow **Stan Liebowitz**, appeared in the *National Journal* (6/30). Liebowitz was also interviewed on WMC-AM (Memphis, 6/12). Research Fellow and author of the Institute book *ANTITRUST AND MONOPOLY*, **D. T. Armentano**, had columns on the Microsoft antitrust case on *NationalReview.com* (7/2) and in the *National Post* (11/3). Another Armentano column on President Bush's antitrust appointees appeared at *CBSMarketwatch.com* (5/11). Research Fellow **Randall Holcombe**, author of the Institute book, *WRITING OFF IDEAS*, appeared on KTYM-AM (Los Angeles, 6/5).
- *Antiwar.com* and *Free-Market.net* featured an op-ed on the new "antiterrorist" USA PATRIOT Act, by Public Affairs Intern **Ron Gurantz**.
- Research Fellow and author of the Institute book, *HOT TALK, COLD SCIENCE*, **Fred Singer**, continues to write or be quoted on global warming in the *Washington Times* (6/7, 6/17, 7/13) and elsewhere (*Winnipeg Free Press* (6/6), *Savannah Morning News* (6/16)). Singer was also interviewed by Cokie Roberts for a global warming feature on *Sam.ABCNews.com* (8/31) and his book was cited by columnist Thomas Sowell (June).
- Research fellow **William F. Shughart II** was interviewed on KWIX-AM (St. Louis, 6/27) and the "Stan Solomon Show" on WPZZ-FM (Indianapolis, 7/31). ●

Olive W. Garvey Fellowship Winners

Since 1972, the Olive W. Garvey Fellowship contest has rewarded college and university students for their scholarship on economic and personal freedom. This year, contestants were asked to submit an essay on the topic, “Does the New Economy Require a Free Economy?”

The entries were judged by a panel of three scholars: **Stephen Margolis** (North Carolina State University), **Bryan Caplan** (George Mason University), and **Alexander Tabarrok** (The Independent Institute). Essay entries were received from students in England, Scotland, Slovakia, Canada, and the United States. The hard work of these students will foster a better understanding and appreciation of the founda-



(left to right) *Garvey Fellows David Mitchell, Craig Smith, James Rebanks, and Timothy Sandefur.*

tions of peace, prosperity and freedom.

First Prize (\$2,500): David Mitchell
(Dept. of Economics, George Mason U.)

Second Prize (\$1,500): Craig Smith (Dept. of Politics, University of Glasgow)

Third Prize (\$1,000): James Rebanks
(Dept. of History, Magdalen College, Oxford University)

Honorable Mention: Timothy Sandefur
(School of Law, Chapman University).

The following excerpts are from David Mitchell’s First Prize-winning essay:

- “People must have the right to the fruits of their labor. When it is taxed or regulated away, either because government has absconded with it or because government has helped transfer it to an interest group, people do not work as hard or as creatively. This is what the new economy is really about. It is about giving entrepreneurs the incentive to go and discover new ways of doing things. It is about using and creating new information. Every appropriation of intellectual property rights reduces the incentive to create. This is true whether the appropriation is a reduction in the ability to contract with laborers to create a physical product, a reduction in the ability to enforce or transfer an intellectual property

right, or a simple barrier erected by a trade group through legislation.”

- “I hope that rather than make it easier to form an interest group and lobby the government, the new technologies that make up the new economy will make it more difficult to do so. My hope is that it will be easier for people to free ride on the efforts of those who attempt to rent seek. As the free-rider problem increases, people will increasingly decide that it simply is not worthwhile to lobby the government. Instead, they will go and create their own wealth. Property rights will be more secure because potential rent-seeking groups will

have more difficulty.”

- “The Internet will also make the actions of interest groups more transparent. One way that interest groups work is by surreptitiously transferring wealth from one group to another. Most Americans are completely unaware of how interest groups work or the projects they favor. How many Americans know, for example, which companies stand to gain if the Kyoto accord on global warming becomes politically feasible again? Or that these companies have been lobbying the government for years? The answer is very few. But it is much easier for people to find out because we have the Internet. It will be harder for new-economy organizations to surreptitiously lobby the government without the American people knowing or understanding what is really happening.”

In addition to the cash fellowship prizes, these recipients of the Garvey Fellowship will receive assistance in getting their articles published and a two-year subscription (8 issues) to The Institute’s quarterly publication, *The Independent Review: A Journal of Political Economy*.

To read the complete text of the winning essays, see <http://www.independent.org/tii/students/Garvey01.html>. •

Independent Policy Forums: Education • Political Correctness • The Drug War

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government to appropriate money to assist French refugees. Six decades later, Franklin Pierce similarly argued that a bill to help the mentally ill was unconstitutional. And in 1887, Grover Cleveland vetoed a drought-relief appropriations bill for the same reason.

“For 150 years, that’s how people thought—until FDR. [Today] we have tobacco subsidies. We have dairy subsidies. We have sugar price supports. We have tuition subsidies. We, of course, have Medicare, we have Medicaid. All of these things have taken money from one sector of our society and given it to the other, while diminishing the incentive of both.”

Elder also explained how the entitlement



(clockwise from top left) Richard Vedder and John Merrifield spoke and Larry Elder autographed his book at Independent Policy Forums.

mentality has replaced the ethic of hard work and personal responsibility. This self-destructive mindset has contributed to such injustices as the “War on Drugs,” affirmative action, gun control and price controls.

“I do a lot of speaking before young people, and I’m asked the same question over and over again: What can I do? And the answer is to think of yourself as an individual. Don’t think of yourself as a victim, don’t think of yourself with what I call the ‘victocrat’ mentality. Stand on your own two feet. Work hard, be honest, be trustworthy and you’ll live a fine life. Find people

who share your values.”

This program, which was taped by C-SPAN, was based on Elder’s best-selling book, *The Ten Things You Can’t Say in America*.

For a transcript, see <http://www.independent.org/tii/forums/010814ipfTrans.html>.

● **THE DRUG WAR ON TRIAL: TWO JUDGES SPEAK OUT** (September 5): Drug abuse is a serious problem, but the “War on Drugs” shows no sign of being won and has come with a heavy price tag. Critics say that its side effects—higher taxes, crime, corruption, loss of civil liberties, decreased health, prison overcrowding, discrimination against minorities, and the diversion of scarce resources—are even worse for society than the drugs themselves.

Many public officials share this sentiment but are afraid to speak out. However, judges **James Gray** (Orange County, Calif., Superior Court) and **Vaughn Walker** (U.S. District Court, San Francisco, Calif.), having witnessed the Drug War up close, believe that the time has come to testify publicly about its ill effects.

In this Independent Policy Forum (cosponsored with the Lindesmith Center/Drug Policy Foundation), Judge Gray began by explaining how his years as a criminal prosecutor led him to write his recent book, *Why Our Drug Laws Have Failed and What We Can Do About It*. Despite the vast sums poured into drug prohibition, drugs are no harder to obtain today than when he was prosecuting drug cases. Further, drugs today are often more dangerous because interdiction efforts have forced smugglers to supply more potent drugs.

Judge Walker explained that he and Judge Gray are hardly the only judges who would like to change drug laws. A growing number, diverse in their political orientation and career experience, are signing an open letter calling for an honest reevaluation of our drug control laws.

Judge Gray concluded that, just as communism in Eastern Europe collapsed quickly and unexpectedly, so may the War on Drugs, once Americans realize there are better approaches to dealing with drug abuse.

For a transcript, see <http://www.independent.org/tii/forums/010905ipfTrans.html>.

Independent Policy Forums are available post-paid as audio tapes (\$18.95), videos (\$28.95), and transcripts (\$7.00). ●

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The Independent Review: Competing Governments • FBI • Collectivism's Failure*(continued from page 3)*

the federal government's ability to uncover threats to its citizens, is being used as part of a plot to cover up the greatest threat the American people have ever faced—a worldwide conspiracy to aid aliens in taking over the earth.”

Alien takeover aside, the reality of the FBI's problems may simply be inherent in the agency's operations as a government bureaucracy subject to political whims and pressures.

See “This Is Not Your Father's FBI: *The X-Files* and the Delegitimation of the Nation-State” by Paul Cantor (*The Independent Review*, Summer 2001), at <http://www.independent.org/tii/lighthouse/LHLink3-29-4.html>.

• Economic facts can't simply “speak for

themselves”; they first need a valid theory that can interpret them correctly. Once that framework has been established, however, economic statistics can illustrate the operation of valid principles in a way that pure theory alone can't.

Take, for example, the lower standard of living in centrally-planned, collectivist countries. Economic theory long ago established the superiority of market economies over collectivism, but that truth becomes clearer when we compare the everyday statistics of life with and without the market institutions of private property, voluntary exchange, the profit motive and the price system. Senior Fellow **Robert Higgs**, editor of *The Independent Review*,

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Tax-Wise Giving in a Down Market

If you're holding a stock which has lost value this year, you may be trying to decide whether to hold it and risk seeing it go lower; or sell it while you still have a gain over its original purchase, even though you know that doing the latter could trigger a capital gains tax, further eroding the gain. If it's not a stock you particularly care to hold in your portfolio for the long term, this could be the perfect way to make a gift to The Independent Institute.

Despite this year's tax code revisions, the tax advantages of charitable gifts remain virtually unchanged. For example, let's say you have \$10,000 in appreciated stock and you want to make a gift of \$10,000 to The Institute. You could either give the stock, or sell it and give the cash. If you sold the stock, you'd have to pay tax on the gain, thus leaving less money to give.

On the other hand, you could make a tax-wise gift and transfer the stock directly to The Independent Institute, thus avoiding any tax on the appreciation of the stock. Because The Independent Institute is a qualified charitable organization, it can sell the stock without incurring tax on the capital gains. This allows you to divest a stock you no longer want, yet lets The Independent Institute take advantage of your original wise investment [because The Institute can realize the gain]. Plus, you now have a charitable deduction for the full market value of that stock at the time you transferred it to The Independent Institute, which helps take the pain out of your tax bill. What looked like a lose/lose situation has turned into a win/win for all!

On the other hand, if you are holding stock which has *declined* in value and you don't want to ride it out any further, selling now gives you a realized loss that you may use to offset taxable income. You can then use the proceeds from the sale to make a gift to The Institute, the amount of which is, again, fully deductible, resulting in a combination of tax savings to help take the sting out of a losing investment.

As the end of the year approaches, we want your giving to be fully satisfying to you, both in what you give and how you give it. We also hope that you have the satisfaction of knowing that your gift is helping the Institute spread the reach and influence of important ideas.

To discuss what form of giving might best fit your needs, simply fill out and return the form below, or contact **Rod Martin** (RMartin@independent.org), development director at (510) 632-1366, ext. 114. Thank you for supporting the work of The Independent Institute. •

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New Web Site on the FDA Launched

As part of a new series of special public-policy web sites, The Independent Institute has launched a comprehensive Internet resource of critical research on the policies and history of the U. S. Food and Drug Administration . . . **FDAReview.org**. In the mission statement on **FDAReview.org**'s homepage by its co-editors, Independent Institute Research Director and Vice President **Alexander Tabarrok** and Research Fellow **Daniel Klein** (Santa Clara University), they state the following:



(left to right) *Alexander Tabarrok and Daniel Klein, co-editors of FDAReview.org.*

“Medical drugs and devices cannot be marketed in the United States unless the Food and Drug Administration (FDA) grants specific approval. We argue that FDA control over drugs and devices has large and often overlooked costs that almost certainly exceed the benefits. We believe that FDA regulation of the medical industry has suppressed and delayed new drugs and devices, and has increased costs, with a net result of more morbidity and mortality. A large body of academic research has investigated the FDA and with unusual consensus has reached the same conclusion.”

Write Tabarrok and Klein, “We evaluate the costs and benefits of FDA policy. We also present a detailed history of the FDA and a review of major plans for FDA reform.” With **FDAReview.org**, the Institute intends to increase public awareness of bureaucratic and political barriers that prevent lifesaving medicines from reaching health-care consumers. ●

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The Independent Review

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made this strikingly clear in two brief “graphic essays” comparing the two Koreas and the two Chinas in the summer 2000 and spring 2001 issues.

From 1995-97, life expectancy at birth was about 74 years in South Korea and 52 years in North Korea, whose infant mortality rate was about 10 times that of its southern neighbor—a gap that may have widened subsequently, owing to North Korea’s famine. Taiwan and the People’s Republic of China (PRC) also show a large gap: life expectancy from 1995-97 was about 77 years in Taiwan and about 70 in the PRC (excluding Hong Kong), whose infant mortality rate was about 7.5 times higher.

Unlike the natural sciences, economics never gives us a perfect laboratory in which to isolate the effects of a single variable. But there is no doubt that command-and-control collectivism has much to do with North Korea’s and China’s troubles. Comparisons of economic systems offer vivid illustrations of the truth that economic individualism, rather than collectivism, better serves human life and well-being. To subscribe to *The Independent Review*, go to <http://www.independent.org/tii/content/pubs/review/subs.html> (Individual: \$28.95 and Institution: \$84.95). ●

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