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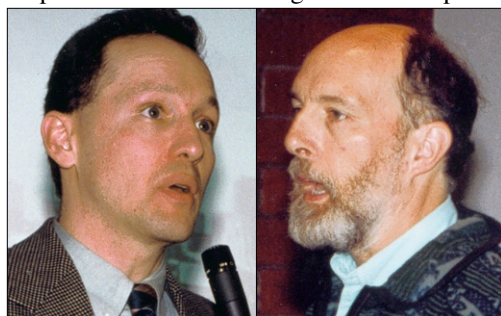
NEWSLETTER OF
THE INDEPENDENT INSTITUTE

VOLUME XII, NUMBER 1

Forums on Freedom, Growth & Dependency

The Independent Institute recently hosted fascinating talks on “smart growth” urban planning, the importance of freedom, and the “how”’s and “why”’s of political manipulation.

● **SMARTER URBAN GROWTH: Markets or Bureaucracy?** (October 3): According to the “smart growth” movement, high-density communities—government subsidized and tightly regulated—should be promoted to reduce air pollution and traffic congestion and improve



Economists **Daniel Klein** and **Randal O'Toole** address the Independent Policy Forum on “Smart Growth.”

our quality of living. But according to urban economists **Daniel Klein** (Santa Clara Univ.) and **Randal O'Toole** (Thoreau Institute), many “smart growth” policies make our communities *less* livable, *less* healthy and *less* affordable.

“Smart growth” advocates uphold public rail systems in European cities as ideals, but they ignore the fact that few American cities are dense enough to make rail transport cost-effective.

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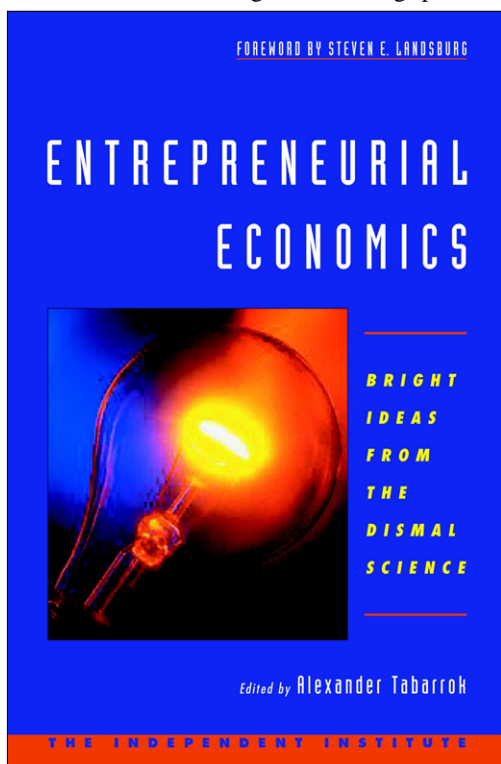
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Book Bristles With Economic Innovations

Looking for ideas on how to make the world a better place? *Entrepreneurial Economics* (Oxford University Press), the new Independent Institute book edited by Research Director **Alexander Tabarrok**, shows how basic economic principles can be creatively applied to improve our health, wealth, security and happiness.

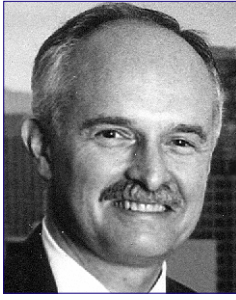
The book’s twenty economists examine such diverse issues as genetic testing, patents,



health and wealth insurance, legal gridlock, probation and parole, urban transit, information aggregation, bankruptcy, investor protection and even the shortage of human organs:

● **Economic downturns:** The creation of national-income markets could enable households to hedge against loss of income due to recession. Such markets could help create individualized income-protection insurance, making tra-

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President's Letter:

A Safer and More Peaceful World?

Could the horrific events of September 11 be setting in motion a chain of events far more significant than the terrorist attacks themselves? After retaliating against the Al Qaeda terrorist network, and its Taliban enablers, the Bush Administration speaks of “bringing justice” to an “axis of evil” countries not involved in the 9/11 attacks—all while Osama bin Laden and most of Al Qaeda’s leaders have escaped.

Meanwhile, the Middle East teeters on the brink of a major war. World leaders in Europe, Asia, Africa, and around the world view U.S. military intervention with increasing alarm, and international sentiment indicates that the U.S. is more hated than ever. Could U.S. policies be provoking much of this hatred and the ever more ominous threats to the safety of Americans and people around the world?

On the home front, the U.S. government has created new protectionism, corporate welfare, federalizations, and political pork as interest groups line up to cash in on the terrorist crisis. U.S. agencies have further acquired broad new police powers to systematically spy on and detain both American citizens and foreign nationals without due process. Will the Orwellian USA PATRIOT Act—legislation still being written when it was passed by Congress—really hinder terrorists or simply enable militant fundamentalists to destroy American liberty as the U.S. itself shreds the Bill of Rights?

Are such policies really producing a safer, freer, and more peaceful world? If not, how can we do so?

To examine these and other serious questions, The Independent Institute is sponsoring more Independent Policy Forums (see. p. 1), publications (see p. 5), and other programs, including creation of the new web site based on the pioneering work of Senior Fellow **Robert Higgs** (editor, *The Independent Review*; author of the widely acclaimed book, *Crisis and Leviathan*, Oxford University Press). This new site, CrisisAndLeviathan.org, is designed to become a major resource for critically valuable studies and other information.

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Independent Policy Forums: Growth • Freedom • Government Dependency

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tive, explained Klein (co-author, *Curb Rights: A Foundation for Free Enterprise in Urban Transit*). Automobiles are more popular in the U.S. than public transit for good reason: they are more flexible, faster, affordable, and relatively safe and comfortable. And because the quality of cars improves faster than the quality of public transit, cities that build rail systems display little economic sense but plenty of what Klein called “infrastructure envy.”

O’Toole (author, *The Vanishing Automobile and Other Urban Myths*) explained that “smart growth” policies cost much more than their proponents recognize. In Portland, Oregon, for example, “smart growth” has worsened traffic congestion and air pollution and dramatically pushed up housing prices, turning the city into a miniature Los Angeles.

These and other problems, Klein and O’Toole concluded, should puncture the misconception that “smart growth” is smart economically or environmentally.

For the transcript, see www.independent.org/tii/forums/011003ipfTrans.html.



David R. Henderson (Naval Postgraduate School) addresses the Independent Policy Forum.

● **WHY FREEDOM MATTERS MORE THAN EVER** (December 4): Friends of economic and civil liberties should continue to fight for freedom, especially when it is threatened during national emergencies, argued economist **David R. Henderson** (Naval Postgraduate School) at a program aired on C-SPAN.

“Let’s speak out when our freedom is violated,” Henderson implored the audience. “Even better: Let’s do the same when the freedom of others is violated. It’s not too late to seek a freer

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Book Bristles with Economic Innovations: *Entrepreneurial Economics*

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ditional government unemployment-insurance obsolete.

● **Health insurance:** Gene insurance could protect people against premium increases that could result when genetic testing reveals a predisposition toward specific diseases. Highly flexible “time-consistent” insurance policies could provide coverage without locking insureds into a particular insurer.

● **Public decision-making:** Economic decision-makers can look to market prices for guidance in comparing trade-offs and predicting outcomes, but voters and policymakers have no similarly reliable guidelines to help in public decision-making. Simulated public-policy “markets,” which would efficiently aggregate information, could provide better guidance than news reports and opinion polls.

● **Human organ shortages:** A free market in human kidneys (currently banned by federal law) would quickly end the kidney shortage and does not imply that organs would go only to the wealthy. Organ shortages might also be eliminated with a “no give, no take” rule that makes donor organs available only to those who pledge to bequeath their organs.

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“The essays in *Entrepreneurial Economics* display economic ingenuity at its best, devoted to inventing market solutions for a remarkably wide range of public issues. The analysis is subtle and tends to be comprehensive; though the subjects are challenging, the exposition is lucid.”

—**MILTON FRIEDMAN**, Nobel Laureate

“Provocative ideas whose times have (perhaps) come are found in *Entrepreneurial Economics: Bright Ideas from the Dismal Science*. The book showcases 13 big new policy ideas.”

—**WASHINGTON POST**

“I thoroughly enjoyed *Entrepreneurial Economics*. . . . A very stimulating collection of ingenious ideas . . . all of them stimulate the imagination, promising to elicit new ideas from the reader.”

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Professor of Economics, New York Univ.

“*Entrepreneurial Economics* offers you lively, eye-opening, mind stretching applications of economic principles and analysis. Students who read it will confound teachers who haven’t.”

—**ARMEN A. ALCHIAN**

Professor of Economics, UCLA

“I learned a lot reading *Entrepreneurial Economics*, and I’ll surely steal some of the ideas for use in future books and columns.”

—**STEVEN E. LANDSBURG**

Professor of Economics, Univ. of Rochester

The Independent Institute in the News

- Senior Fellow **Robert Higgs** and Research Fellow **Steve Hanke** discussed the growth of government in the wake of 9/11 in a “Comment & Analysis” piece for the *Financial Times* (11/26) that was translated in at least two other languages and published elsewhere. *WorldNetDaily.com* reporter Jon Dougherty interviewed Higgs for an article on the “pork-barrel politics” of the “military-industrial-congressional complex” (11/9). *Economic Education Bulletin* and *Ideas on Liberty* also ran an article by Higgs recounting how war amplified federal power in the 20th century (December). Nationally-syndicated writer Richard Reeves also quoted Higgs in his column (December) and Higgs’ response to columnist Michael Barone’s claim that the “War on Terrorism” would not increase the size and scope of government appeared in *The Wall Street Journal* (1/31). And an article on *NationalReview.com* (12/12) by **The Independent Review** contributing editor **Timur Kuran** explained the flaws and consequences of the Islamist economic model.
- Geoff Metcalf of *TalkNetDaily.com* interviewed **The Independent Review** contributing editor **Charlotte Twight** (12/2) about the threats to privacy posed by the USA PATRIOT Act (see related article, p. 6). *Oakland Tribune* reporter Josh Richman also interviewed Twight (2/11), as did radio talk show hosts on WKNR-AM (Cleveland, 11/29), KSFO-AM (San Francisco, 2/7), and KGO-AM (San Francisco, 2/13).
- Research Fellow **Pierre Lemieux**, a regular contributor to the Toronto-based *National Post*, recently argued that Canadian regulators were not acting in the “public interest” as they claimed, but “the private interests of some” (2/20), and that the underground economy and tax evasion benefit everybody by constituting a “built-in restraint to state growth” (2/27).
- The Institute book **CUTTING GREEN TAPE** “tunnels through the bureaucracy with a scenario for the sustainable use of natural resources and a measurable reduction in toxic waste,” according to Sandy Bourne, Director, Energy, Environment, Natural Resources and Agriculture Task Force at the American Legislative Exchange Council, in *Ideas on Liberty* (February).
- Research Fellow **Randal O’Toole** argued that the post-9/11 densification sought by “smart growth” advocates creates attractive targets for terrorists in *The American Outlook* (Anza Valley, CA, 11/30). In the *Oakland Tribune* (12/15), an op-ed by former public affairs intern **Ron Gurantz** explained why U.S. intervention in Colombia’s civil war is both ineffective and counterproductive.
- Research Fellow **Shirley Svorny** (contributor to the Institute book **AMERICAN HEALTH CARE**), explained why mandating an increase in nurse-patient ratios would result in a reduction in the quality of health care in an op-ed in the *Los Angeles Times* (1/25).
- *Washington Post* columnist Richard Morin interviewed Research Director **Alexander Tabarrok** (2/19) on the Institute book **ENTREPRENEURIAL ECONOMICS** (see related article, p. 1). Tabarrok also explained why the pediatric exclusivity provisions of federal orphan drug legislation subsidizes treatment for sick children at the expense of everyone else in *Regulation* (December). An op-ed by Tabarrok and his co-author of *FDAREview.org*, **Daniel Klein**, appearing in the *Fort Worth Star-Telegram* (2/4) called on the new FDA head to loosen the agency’s regulatory stranglehold on consumers’ choices.
- Media Fellow **Robert Stinnett** discussed his Freedom of Information Act research on U.S. foreknowledge and provocation of the Japanese attack on Pearl Harbor on KSTP-AM (Twin Cities, MN, 12/7), and KFI-AM (Los Angeles, 1/27), and *The Wall Street Journal* published Stinnett’s letter responding to editor Robert Bartley’s column (12/11).
- Public Affairs Director **Rob Latham** and Research Fellow **Thomas DiLorenzo** were guests of host Jim Dexter on KTKK-AM (Salt Lake City, 2/18) to discuss President Lincoln’s policies that centralized and increased federal government power.
- **Randall Holcombe**, Research Fellow (author of Institute book **WRITING OFF IDEAS**), explained why foundations oppose the elimination of the estate tax in his commentary in *Insight on the News* (December).
- The *National Post* (12/21) and *Vero Beach (FL) Press-Journal* (12/31) published commentaries by Research Fellow **Dominick Armentano** (author, **ANTITRUST AND MONOPOLY**), explaining the harm to consumers caused by the states that oppose the settlement in the Microsoft case (12/21). ●

*The Independent Review:***Political Extortion • U.S. Defense • Oil Drilling**

The Institute's quarterly journal, *The Independent Review*, showcases scholarship that challenges conventional wisdom:

- Campaign finance reformers see lax campaign laws as a root cause of the degeneration of American political culture. If the influence of moneyed interests can be reduced in political campaigns, the argument goes, then politicians can represent voters' interests without the temptation of compromising their principles.

Unfortunately, many reformers overlook the fact that "pay to play" politics is often supply-driven, with politicians supplying protection—from onerous new regulations or special taxes—for a price. By focusing on interest-group demands for special favors, reformers have overlooked politicians' practice of *disfavoring* "uncooperative" groups, i.e., implicitly threatening to penalize groups that don't help a politician stay in power.

Campaign finance reformers who ignore this reality will do little to make elections free of undue influence by special interest groups, according to Northwestern University Law School Professor **Fred McChesney**. This is because politicians can also extract "protection money" by pressuring interest groups to help politicians win elections in other ways.

Reformers who wish to genuinely reform the electoral process should therefore work to ensure that politicians cannot arbitrarily punish an "uncooperative" group, as well as work to limit the special favors that politicians can sell. See "'Pay to Play' Politics Examined, with Lessons for Campaign-Finance Reform," *The Independent Review*, Winter 2002, at www.independent.org/tii/content/pubs/review/tir63_mcchesney.html.

- Haven't U.S. armed forces and intelligence agencies been well-funded to defend Americans on their own soil? This question has been asked by probably every American since 9/11. Tragically, the answer is both yes and no.

The U.S. is well equipped to fight conventional wars against other nations, but defense-spending priorities have failed to protect against terrorism. Ten years after the collapse of the Soviet Union, the U.S. government seemed to still be preparing to fight the Cold War, argues Institute senior fellow and *The Independent Review's* editor **Robert Higgs**, in a prescient article published just before September 11.

The problem was definitely not that U.S. defense spending was too small—it is the world's largest defense spender. (U.S. defense spend-

ing accounted for about 36% of world military spending, compared to 26% for the next five largest nations' defense budgets combined.) What mattered was how U.S. defense dollars were (and still are) *misspent*.

Waste, fraud and abuse in military spending are common. In fact, every 15 years or so a blue-ribbon federal panel is appointed to recommend reforms. But despite a few piecemeal reforms, new problems arise, suggesting that the problems are systemic. One obvious flaw is that defense spending is deeply politicized. Consider: America's defense needs have changed drastically since the end of World War II, but the allocation of funds among the army, navy and air force has hardly changed.



The Independent Review, Winter 2002.

Given the incentives of what President Dwight Eisenhower called the "military-industrial complex," this is hardly surprising. (Because Congress plays a key role in perpetuating the status quo of defense misspending, a more precise description of the defense establishment is the "military-industrial-congressional complex," Higgs explains.)

Lest political "pork hawks" slander this view as "anti-defense," it is worth noting that U.S. military commanders have repeatedly called for selected military base closings. They would rather re-deploy base resources to meet more urgent needs. But incumbent congressmen

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Independent Policy Forums: Growth • Freedom • Government Dependency

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world.”

Drawing upon his insightful book, *The Joy of Freedom: An Economist's Odyssey*, a blend of policy analysis and memoir, Henderson explained how government regulations, such as gasoline fuel economy standards, often backfire. Henderson also recounted the frustrations and victories he experienced while working at the President's Council of Economic Advisors.

He also explained the importance of the “Ten Pillars of Economic Wisdom”:

1. TANSTAAFL: “There ain't no such thing as a free lunch.”
2. Incentives matter.
3. Economic thinking is thinking on the margin.



(Top) **Charlotte Twight** spoke and **David Henderson** (bottom center) autographed his book, *The Joy of Freedom*, at Independent Policy Forums.

4. The only way to create wealth is to move it from a lower valued use to a higher valued use. Corollary: Both sides gain from exchange.
5. Information is valuable and costly.
6. Every action has unintended consequences.
7. The value of a good or service is subjective.
8. Costs are a “bad,” not a “good.”
9. The only way to increase a nation's real income is to increase its real output.
10. Competition is a hardy weed, not a delicate flower.

It is especially important to fight for freedom during wartime and economic crises,

Henderson argued, when opposing political parties ally to enlarge the scope of government power, to the detriment of the people's liberty. For the transcript, see www.independent.org/tii/forums/011204ipfTrans.html.

● **CONNING AMERICANS: How Politicians Create Dependence on Government** (February 13): America was founded on the Declaration of Independence, but for the last 70 years *dependence* on government has grown dramatically. This ominous trend has coincided with the growth of the government's power to manipulate, regulate or prohibit. Driven by bipartisanship, bureaucracies and interest groups, and accelerated by presidential ambitions, this trend has been so sweeping that few today can imagine life without government control.

Economist and historian **Charlotte Twight** (Boise State Univ., author, *Dependent on D.C.: The Rise of Federal Control Over the Lives of Ordinary Americans*), a leading expert on politics and privacy, discussed the methods that politicians have used to make the “land of the free” less free.

Politicians have devised a host of ways to keep voters from becoming well informed about pernicious legislation. Government bureaucrats also have a well-stocked tool kit to keep Americans in the dark about how government programs are implemented and laws enforced. Such linchpins of the dependence state as Social Security, Medicare, income tax withholding, and federal involvement in public education—as well as recent anti-privacy legislation—owe their existence to the efforts of politicians, bureaucrats and special-interest groups to keep voters from becoming well informed about government, Twight explained.

“Sadly, Americans have traded individual liberty piecemeal for dependence on government,” noted Twight, “without revolution, without reflection, often without systematic understanding. If liberty is to flourish again, we must, like those who signed the Declaration of Independence, commit our lives, our fortunes, and our sacred honor to the effort.”

For the transcript of Charlotte Twight's presentation, see www.independent.org/tii/forums/020213ipfTrans.html.

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

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Book Bristles with Economic Innovation: *Entrepreneurial Economics*

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- **Making justice pay:** Judges could be given “bounty” incentives to parole only low-risk criminals (monetary bonuses and penalties conditioned on parolee behavior). Parolees could be given better incentives to obey parole conditions (parole bail).
- **Class-action gridlock:** The fair strategy for cutting a cake—one person cuts the cake and the other chooses which piece to eat—can be applied to improve the courts. Instead of seeking one-size-fits-all settlements, plaintiff lawyers could seek separate damages for a subset of plaintiffs, while defense lawyers choose which cases will be litigated.
- **Bankruptcy reform:** Current procedures are often slow and economically destructive of company assets. Giving shareholders and junior debt-holders options to buy out senior debt holders and subsequently creating a unified group of shareholders with equal voting rights would align the interests of all stakeholders and hasten a low-cost corporate reorganization.
- **Securities regulation:** Federal securities regulation is highly bureaucratic and slow to improve. Competitive federalism, however, would

create competition among state regulators, allowing companies (and states) to find the optimal regulatory system.

- **Patent reform:** Patents spur innovation but the patented product is priced above competitive levels. Patent buyouts by governments or non-profit organizations could deliver innovation and competitive prices.
- **Urban transit:** Transit passengers would be best served by having regular bus lines *and* flexible jitney service. But if jitanys scoop up the bus passengers, buses can be driven out of business. Curb rights would allow both modes of transit to coexist profitably to the great benefit of city residents.

Appropriate for students, business and social entrepreneurs, and professional economists, *Entrepreneurial Economics* gives valuable insights into the power, scope and relevance of economic thinking and provides an intriguing, inspiring and irreplaceable resource for seeking real solutions to complex social problems. Copies of *Entrepreneurial Economics* are available for \$24.95 paperback, \$39.95 cloth (add \$3 for shipping, Calif. residents add sales tax). ●

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lack the willpower to risk losing votes in the districts that would lose bases. National security is thus weakened for political reasons. “The present U.S. military establishment is overwhelmingly the most powerful the world has ever known, and it has ample capacity to defend the nation against the military forces of any present or prospective foe in the kind of wars it is dedicated to fighting,” writes Higgs.

“If an enemy should decide to wage a different kind of war, however, such as really serious terrorism, the armed forces are not configured to deal with that kind of threat. . . . [America’s current defense] system has no constituency for the nitty-gritty, low-tech activity that an effective antiterrorism program would call for, such as the maintenance of a massive global corps of unsavory informants on the ground; there’s no money in it for Lockheed Martin, Boeing, and the rest of the boys. But if you want to talk about a Star Wars system that stretches from here to Mars, hey, let’s talk!” See “The Cold War Is Over, but U.S. Preparation for It Continues,” *The Independent Review*, Fall 2001, www.independent.org/tii/content/pubs/review/tir62_higgs.html.

- Recent proposals to allow oil exploration

in Alaska’s Arctic National Wildlife Refuge (ANWR) have prompted some conservation groups to renew their fight against resource extraction on federal lands. But if environmentalists owned ANWR, would they still prohibit oil exploration or drilling? According to Univ. of Georgia economist **Dwight Lee**, more likely they would allow some drilling and use the drilling fees collected to promote conservation.

“Consider what an environmental group would do if it owned ANWR and therefore bore the costs as well as enjoyed the benefits of preventing drilling,” writes Lee. The Audubon Society, for example, already allows oil drilling in the 26,000-acre Rainey Wildlife Sanctuary it owns in Louisiana.

“The willingness of environmental groups such as Audubon to allow drilling for oil on environmentally sensitive land they own suggests strongly that their adamant verbal opposition to drilling in ANWR is a poor reflection of what they would do if they owned even a small fraction of the ANWR territory containing oil.”

If environmentalists owned ANWR, “they might easily conclude that although ANWR is an ‘environmental treasure,’ other environmen-

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2002 Summer Seminars for Students

Co-sponsored by **Holy Names College**, The Independent Institute will hold its annual **Summer Seminars in Political Economy** for high school and college students at the Institute's Conference Center in Oakland, Calif. The seminars—which are led by **Joseph Fuhrig** (Prof. of Economics, Golden Gate U.)—will be held **June 17-21** and **August 12-16**.

Because economic literacy gives an invaluable edge in thinking about how the world



(left to right) **Joseph Fuhrig**, seminar students, and the Bay Area view from Holy Names College.

works—and inoculates one against well-meaning, but fundamentally flawed, public policies, the Seminars offer students an excellent instruction/discussion program on how to understand and deal with the world in which they will soon enter. Holy Names College offers one hour of college course credit in economics, as well as affordable, optional, overnight room and board accommodations on its campus, which overlooks the beautiful San Francisco Bay.

The Seminars run daily from 8:30 a.m. to noon. The fee is \$175/person (includes books), room/board is available at \$450/person, and for the college course enrollment, add \$125/person.

For further information and to make reservations, visit <http://www.independent.org/tii/students/SummerSeminar.html>, **or contact** Mr. Carl P. Close, Academic Affairs Director • Phone: 510-632-1366 x117 • Fax: 510-568-6040 • Email: CClose@independent.org. ●

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tal treasures in other parts of the country (or the world) are more valuable. Moreover, with just a portion of the petroleum value of the ANWR, efforts might be made to reduce the risk to other natural habitats, more than compensating for the risks to the Arctic wilderness associated with recovering that value.”

Lee emphasizes this is not a recommendation to give ANWR to any group. Rather, it is to recognize that economic incentives matter—including to environmental groups. Any group that refuses to put its money where its mouth is, is free to clamor for locking up resources because it bears no direct cost for prohibition. Groups that own natural resources, however, recognize that wise resource ownership requires setting priorities. Unfortunately, many environmental groups have continued to dodge the issue because they have succeeded in getting government to prohibit development, in effect socializing the cost of prohibition instead of bearing it themselves as they might if they were owners. See “To Drill or not to Drill? Let the Environmentalists Decide,” *The Independent Review*, Fall 2001, www.independent.org/tii/content/pubs/review/tir62_lee.html. ●

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