

# *the Freeman*

FALL 2015

## ECONOMIC FALLACIES

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## VOLUME 65 | NO. 03

## PUBLISHED BY

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**FEE**

## THE PERSISTENCE OF ECONOMIC FALLACIES

“Economics is haunted by more fallacies than any other study known to man,” wrote Henry Hazlitt in *Economics in One Lesson*. The “inherent difficulties of the subject would be great enough in any case, but they are multiplied a thousandfold by a factor that is insignificant in, say, physics, mathematics or medicine—the special pleading of selfish interests.”

There is much wisdom in this fine old opening. That’s why it’s no accident that the economists who hold the most sway—those who are at the same time social scientists and celebrities—are the ones who tell the special interests exactly what they want to hear. There is no political market for truth and sound economics.

Just as activists and cronies form unholy alliances for mutual gain under public choice theory, there is an expert-policymaker nexus at play, too. And it is powerful. These social scientists are often scarcely better than charlatans. They hide behind numbers, behind macroeconomic arcana. They have poor records of prediction and forecast, and yet they remain remarkably immune to the reputations their sorry records should create. By the time posterity has shown them to be in error, they have moved on to the next spectacle, the next crisis they helped create.

There is little check on this type of power, operating as it does by a mix of tribalism and opportunism.

“The group that would benefit by such policies,” Hazlitt laments, “having such a direct interest in them, will argue for them plausibly and persistently. It will hire the best buyable minds to devote their whole time to presenting its case. And it will finally either convince the general public that its case is sound, or so befuddle it that clear thinking on the subject becomes next to impossible.”

By the time anyone is the wiser, the special interests have cashed their checks and moved on. The few honest practitioners of solid economics watch all this with a sense of powerlessness. But we are not powerless. As the edifices of bad policy and bad economics fail in cycle after cycle, people grow hungrier to know why.

Those few who remained guardians of the truth are still here, walking in the footsteps of Henry Hazlitt, and the masses are ready to receive the message.

## — THE EDITORS

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# THE PATHWAY TO FASTER CURES



# WHEN IT COMES TO LIFESAVING DRUGS, WE NEED MORE THAN MODEST REFORM

*by Bartley J. Madden*

Rob Donahue used to ride horses. He was a modern-day cowboy until he was stricken with amyotrophic lateral sclerosis (ALS). Now his muscles are weak. He can't ride horses anymore. And his condition is worsening quickly. ALS will degenerate Donahue's neurons and nervous system, and he will probably die in less than five years.

Another ALS sufferer, Nick Grillo, is trying to change all that. He's put together a petition on Change.org to urge the FDA to fast-track approval of a new drug, GM-604, that would help Donahue and others like him.

"People can't wait five, ten, fifteen years for the clinical trial process," said Grillo. "Things need to happen much quicker."

But ALS is just one illness, and GM-604 is just one medicine. There are thousands of Americans suffering—many with terminal illnesses—while waiting on the FDA approval process.

## PARADIGM CHANGE

A paradigm change is essential because FDA culture has led to a situation where it costs an average of \$1.5 billion and 12 or more years of clinical testing to bring a new drug to market. Medical innovation cannot thrive when only very large firms can afford to research and develop new drugs.

Another problem is that the FDA's first goal is not to maximize innovation but to minimize the chances that an FDA-approved drug leads to unanticipated adverse side effects and negative publicity. In particular, the FDA's efficacy testing requirements have resulted in an ever-increasing load of money and time on drug developers. We can't count on FDA bureaucrats to fix the broken system they created.

Even Congress, whose cottage industry is to regulate, admits that the current FDA system is a roadblock to fast-paced innovation. Congress's own 21st Century Cures Initiative has led to many good ideas for delivering medical treatments, but even if successful, these ideas would bring only incremental improvements.

Americans deserve a bold plan to achieve genuine large-scale change enabling us to live longer, healthier, and more productive lives. And most importantly, we need a mechanism for allowing patients to exercise choice consistent with their own preferences for risk.

**MEDICAL INNOVATION  
CANNOT THRIVE WHEN  
ONLY VERY LARGE  
FIRMS CAN AFFORD  
TO RESEARCH AND  
DEVELOP NEW DRUGS.**

## CONGRESSIONAL HEARINGS: THE MISSING SEAT

### AT THE TABLE

The missing seat at the table is for someone who represents freedom—that is, the right of patients, advised by their doctors, to make informed decisions as to the use of not-yet-FDA-approved drugs.

Freedom in response to suffering and subjugation is a powerful rallying call. The Women's Right to Vote constitutional amendment in 1920 and the Civil Rights Act of 1964 were not about incremental improvements; each was a paradigm change that brought forth a different and better future.

Absent from the congressional hearings over health care, however, has been a freedom agenda, specifically one designed to eliminate the FDA's monopoly on access to new drugs.

## VENTURE CAPITALISTS, WHERE HAVE YOU GONE?

We hear very little about those who suffer and die because they were not able to access drugs stuck in the FDA's testing pipeline, or about drugs that were never brought to market because FDA procedures made the development costs too high. There is an invisible graveyard filled with people who have died because of drug lag and drug loss.

The FDA's deadly overcaution is why venture capitalists shy away from investing in biopharmaceutical startup firms. Venture capitalists are willing to take big risks on ideas that may fail. But failure due to regulatory risk is just too big a hurdle to overcome. Capital providers have other opportunities, even if those opportunities don't involve cures for disease.

High costs and slow innovation are the hallmark of a monopoly. And, as medical science continues its rapid pace of innovation, the cost of lost opportunities for better health will increase even faster. The solution is to introduce consumer choice and competition.

## FREE TO CHOOSE MEDICINE

Three self-reinforcing principles are needed to bring rapid innovation to the biopharmaceutical marketplace.

First, we need a *free-to-choose* track that operates independently of the FDA and runs alongside the conventional FDA clinical testing track—a competitive alternative. After

a new drug has successfully passed safety trials and shows initial effectiveness in early clinical trials, a drug developer could request that the drug be available for sale. Such an arrangement would allow for new drugs to be available up to seven years earlier than waiting for a final FDA approval decision.

Second, free-to-choose treatment results, including patients' genetic data, would be posted on an open-access database. Patients and their physicians would be able to make informed decisions about the use of approved drugs versus not-yet-approved drugs. The resulting treasure trove of observational data would reveal, in real time on the Internet, which subsets of patients do extremely well or poorly using a particular new drug. This broad population of users—in contrast to the tight similarity of clinical trial patients—would better inform the biopharmaceutical industry, yielding better R&D decisions and faster innovation.

Third, some drug developers would want to provide free-to-choose drugs in order to quickly demonstrate that their drugs were effective, thereby enhancing the ability to raise needed capital. For patients who need insurance reimbursement and for developers seeking formal FDA recognition of their drugs' safety and effectiveness, another kind of incentive is needed. That is, FDA observational approval would be based on treatment results reflected in observational data posted on the open-access Internet database.

In the foreword to my 2012 book, *Free to Choose Medicine: Better Drugs Sooner at Lower Cost*, Nobel Laureate economist Vernon Smith wrote, "These three design components for patient/doctor control of medical treatment are both innovative and soundly based. With this conceptual blueprint, legislation could be crafted to promote both expanded consumer choice and the discipline of choice to the long-term benefit of society."

#### OPPOSITION

FDA proponents would bolster the fear that "unsafe" drugs could flood the marketplace. But the FDA cannot define what is "safe." Only patients with their unique health conditions, treatment profiles, and preferences for taking risk can define what is safe for them. That is what freedom is all about: individual choice. Keep in mind that the likely large number of free-to-choose patients with widely varying health conditions would yield uniquely useful safety data superior to safety readouts from clinical trial data.

The free-to-choose medicine plan is voluntary and would not disturb those who want to use only approved drugs. A reasonable implementation schedule would first allow the new system to be used by patients fighting a life-threatening illness, as they are the ones most in need of access to the latest drug advancements.

Biopharmaceutical firms likely to oppose such a plan would include larger firms who consider their expertise in dealing with the FDA bureaucracy as an especially valued competitive advantage over their smaller competitors. We should expect support from firms with a high level of scientific skill but limited skill and resources in dealing with FDA bureaucracy. Nevertheless, even those firms initially opposed should question their current business models, which produce sky-high prescription drug prices and the very real chance that government at some future point will impose price controls. Why not set into motion an alternative that can lead to radically lower development and approval costs with concomitant lower prescription drug prices while maintaining industry profitability levels?

Trial lawyer organizations will be expected to contribute mightily to defeat any freedom-based legislation. They do not want Americans legally taking personal responsibility by way of voluntary contracts, even if there are lifesaving benefits to be had.

Patients are the ultimate beneficiaries of competition, and they are a powerful force for those who want a fundamental restructuring of the FDA. Right-to-try state laws are designed to allow those dealing with life-threatening illnesses access to not-yet-approved drugs. These laws' enormous popularity indicates that a well-run campaign could generate similar support at the federal level for free-to-choose medicine.

Freedom should be part of the national debate on 21st-century medical legislation. For that to happen, we need to give freedom lovers and chronic sufferers a seat at the table.

Every American should have the right to make informed decisions that can improve health or save lives. Freedom is not something to fear; it is the best route forward to a more innovative, efficient, and humane medical system. ■

**Bartley J. Madden** is a founder of *Tomorrow's Cures Today*. His website is [www.LearningWhatWorks.com](http://www.LearningWhatWorks.com). Read more by Bartley J. Madden at [FEE.org/Madden](http://FEE.org/Madden).

## WE NEED TO GIVE FREEDOM LOVERS AND CHRONIC SUFFERERS A SEAT AT THE TABLE.

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### ADVICE FOR YOUNG, UNEMPLOYED WORKERS

By Jeffrey A. Tucker

The young generation faces challenges unlike any that most people alive have seen. This situation requires new adaptive strategies. What follows, then, is Mr. Tucker's letter of advice to young workers.



### RENDERING UNTO CAESAR: WAS JESUS A SOCIALIST?

By Lawrence W. Reed

One can scour the Scriptures with a fine-tooth comb and find nary a word from Jesus that endorses the forcible redistribution of wealth by political authorities.



### I, PENCIL

By Leonard E. Read

Leonard E. Read beautifully illustrates the marvelous interconnectivity of the marketplace in "I, Pencil," this classic essay told from the perspective of a common pencil—a seemingly straightforward item nearly everyone uses, yet no single person can make alone.



### 99 WAYS TO LEAVE LEVIATHAN

By Max Borders and  
Jeffrey A. Tucker

Sometimes it seems like the Leviathan state has grown out of all proportion. But is it possible to roll it back in our time? In 99 Ways to Leave Leviathan, the authors offer practical solutions for becoming freer day by day.





# HEALTH INSURANCE IS ILLEGAL

## IT IS A CRIME TO BUY OR SELL A REAL HEALTH CARE PLAN

*by Warren C. Gibson*

Health insurance is a crime. No, I'm not using a metaphor. I'm not saying it's a mess, though it certainly is. I'm saying it's illegal to offer real health insurance in America. To see why, we need to understand what real insurance is and differentiate that from what we currently have.

### **REAL INSURANCE**

Life is risky. When we pool our risks with others through insurance policies, we reduce the financial impact of *unforeseen* accidents or illness or premature death in return for a premium we willingly pay. I don't regret the money I've spent on auto insurance during my first 55 years of driving, even though I've yet to file a claim.

Insurance originated among affinity groups such as churches and labor unions, but now most insurance is provided by large firms with economies of scale, some organized for profit and some not. Through trial and error, these companies have learned to reduce the problems of adverse selection and moral hazard to manageable levels.

A key word above is *unforeseen*.

If some circumstance is known, it's not a risk and therefore cannot be the subject of genuine risk-pooling insurance. That's why, prior to Obamacare, some insurance companies insisted that applicants share information about their physical condition. Those with preexisting conditions were turned down, invited to high-risk pools, or offered policies with higher premiums and higher deductibles.

Insurers are now forbidden to reject applicants due to preexisting conditions or to charge them higher rates.

They are also forbidden from charging different rates due to different health conditions—and from offering plans that exclude certain coverage items, many of which are not “unforeseen.”

In other words, it's illegal to offer real health insurance.

### **WORD GAMES**

Is all this just semantics? Not at all. What currently passes for health insurance in America is really just prepaid health care—on a kind of all-you-can-consume buffet card. The system is a series of cost-shifting schemes stitched



together by various special interests. There is no price transparency. The resulting overconsumption makes premiums skyrocket, and health resources get misallocated relative to genuine wants and needs.

#### LESSONS

Genuine health insurance would offer enormous cost savings to ordinary people—and genuine benefits to policyholders. These plans would encourage thrift and consumer wisdom in health care planning, while discouraging the overconsumption that makes prepaid health care unaffordable.

At this point, critics will object that private health insurance is a market failure because the refusal of unregulated private companies to insure preexisting conditions is a serious problem that can only be remedied by government coercion. The trouble with such claims is that no one knows what a real health insurance market would generate, particularly as the pre-Obamacare regime wasn't anything close to being free.

What might a real, free-market health plan look like?

- People would be able to buy less expensive plans from anywhere, particularly across state lines.
- People would be able to buy catastrophic plans (real insurance) and set aside much more in tax-deferred medical savings accounts to use on out-of-pocket care.
- People would very likely be able to buy noncancelable, portable policies to cover all unforeseen illnesses over the policyholder's lifetime.
- People would be able to leave costly coverage items off their policies—such as chiropractic or mental health—so that they could enjoy more affordable premiums.
- People would not be encouraged by the tax code to get insurance through their employers.

What about babies born with serious conditions? Parents could buy policies to cover such problems prior to conception. What about parents whose genes predispose them to produce disabled offspring? They might have to pay more.

Of course, there will always be those who cannot or do not, for one reason or another, take such precautions. There is still a huge reservoir of charitable impulses and institutions in this country that could offer assistance. And these civil society organizations would be far more robust in a freer health care market.

#### THE ENEMY OF THE GOOD

Are these perfect solutions? By no means. Perfection is not possible, but market solutions compare very favorably to government solutions, especially over longer periods.

## OBAMACARE WILL CONTINUE TO BRING US UNACCOUNTABLE BUREAUCRACIES, SHORTAGES, RATIONING, DISCOURAGED DOCTORS, AND MORE.

Obamacare will continue to bring us unaccountable bureaucracies, shortages, rationing, discouraged doctors, and more.

Some imagine that prior to Obamacare, we had a free-market health insurance system, but the system was already severely hobbled by restrictions.

To name a few:

- It was illegal to offer policies across state lines, which suppressed choices and increased prices, essentially cartelizing health insurance by state.
- Employers were (and still are) given a tax break for providing health insurance (but not auto insurance) to their employees, reducing the incentive for covered employees to economize on health care while driving up prices for individual buyers. People stayed locked in jobs out of fear of losing health policies.
- State regulators forbade policies that excluded certain coverage items, even if policyholders were amenable to such plans.
- Many states made it illegal to price discriminate based on health status.
- The law forbade associated health plans, which would allow organizations like churches or civic groups to pool risk and offer alternatives.
- Medicaid and Medicare made up half of the health care system.

Of course, Obamacare fixed none of these problems.

Many voices are calling for the repeal of Obamacare, but few of those voices are offering the only solution that will work in the long term: complete separation of state and health care. That means no insurance regulation, no medical licensing, and ultimately, the abolition of Medicare and Medicaid, which threaten to wash future federal budgets in a sea of red ink.

Meanwhile, anything resembling real health insurance is illegal. And if you tried to offer it, they might throw you in jail. ■

**Warren C. Gibson** teaches engineering at Santa Clara University and economics at San Jose State University. Read more by Warren C. Gibson at [FEE.org/Gibson](http://FEE.org/Gibson).





# “Don’t Buy an Apple Watch”

Value Is, Always and Everywhere, a Personal and Subjective Matter

by Richard N. Lorenc

Now that the world has spent some time with the Apple Watch, you might have seen a thing or two about it in the news or on social media. If you consider yourself to be an intelligent, rational person, you might think those thousands of poor saps who parted with hundreds of dollars (at least) to beta test the latest half-baked iDevice are either weak-willed or are now rushing to return the “most personal device yet” to the nearest Apple Store.

The fact is, like the similarly ridiculed iPhone and iPad before, few buyers will return their Apple Watches—not because they’re lazy or have piles of disposable income, but because the watch is actually valuable to them.

sent to Apple. I could have saved it, made an extra car payment, donated it to charity, or bought nearly three shares of Apple, Inc. You probably have some other ideas. But at the time and place of my decision, the Apple Watch Sport was a more valuable use of that cash than any other alternative I considered.

That is not to say I considered the entire universe of possible choices, or that I won’t later regret having bought my Apple Watch.

But I made that choice because I believed it to be the best for me. I enjoy playing with gadgets. I’m interested in the fitness-tracking functionalities. I appreciate the high attention to detail in hardware and software design. I’m not big on jewelry, but I find a watch to be useful.

Apple sparks the most hostile criticism of any mass-market company because many among the tech savvy don’t understand the true meaning of value. More troubling is the utter contempt they seem to have for decision sets beyond straight tech specs.

Anti-Apple elitism is a particularly annoying and dangerous bit of anti-market bias. It’s annoying because it’s unyielding and dangerous because it supposes objective criteria for assessing economic

value. If you can’t respect that someone would want to buy something you wouldn’t, it’s more likely you would also approve of government attempts to prohibit dangerous, immoral, or “wasteful” choices.

If you don’t want an Apple Watch, don’t buy an Apple Watch. But admit that your subjective value is not universal truth. ■

**Richard N. Lorenc** is FEE’s chief operating officer.

Read more by Richard N. Lorenc at [FEE.org/Lorenc](http://FEE.org/Lorenc).

If you can’t respect that someone would want to buy something you wouldn’t, it’s more likely you would also approve of government attempts to prohibit dangerous, immoral, or “wasteful” choices.

In other words, those who bought the \$350 Apple Watch Sport—as I did—value the plastic-strapped aluminum watch more than we value an extra \$350. And those who now wear a \$17,000 rose gold Apple Watch Edition value that purchase more than the \$17,000 they charged to their platinum American Express cards.

Just as there’s no accounting for taste, there’s no accounting for value. Value is in every case subjective, defined exclusively by the individual. It is, fundamentally, in the eye of the beholder.

I could have done plenty of other things with the \$350 I



# MISFIT BITCOIN, FLAG MONEY, AND CURRENCY WARS

CRYPTOCURRENCY IS A  
SUPRANATIONAL GAME CHANGER

*by Andreas M. Antonopoulos*

Ever since the end of the gold standard, world currencies have free-floated in value against each other. This system has created a zero-sum competition among currencies that, when enhanced by nationalism, becomes a global proxy war for domination.

The value of currency is neither intrinsic nor related mostly to purchasing power. Instead of focusing on competitive industries and mutually beneficial trade, many countries today use their currency as a weapon to tilt the trading field in their favor. By manipulating currencies, usually through devaluation, governments can simultaneously juice the earnings of large corporations, erode and

lighten the national debt, and destabilize the economies of rivals. In the process, they also

destroy the value of savings for their own citizens.

But right in the middle of this global currency war, bitcoin was born. And it is set to undermine everything we thought we knew about currencies.

## FLAG MONEY

By now, several generations have grown up with a concept of money that is closely associated with a national identity and that implicitly or explicitly competes against the moneys of other nations. Currency is no longer scarce,



but the right to originate currency is scarce—that is, it’s the purview only of nation-states. The prevailing assumption therefore is that for a “new” money to arise, it must replace an old currency. There are 194 currencies in the world, each a “flag-money” of a nation, a notion as anachronistic as the airline flag-carriers of the 1970s.

Aligning currencies with national borders has a certain rationale to it in a world of paper bills, travel restrictions, trade restrictions, and national banking regulations. The national boundaries mean territory for the banks, border crossings for the citizens, and natural monopolies for the currency. To most people who have been raised in this context, it would appear that geography and borders—monopoly and limited choice—are inherent characteristics of money.

Nothing could be further from the truth.

#### THE BITCOIN MISFIT

The introduction of decentralized, non-national, instantly global, and entirely digital currencies such as bitcoin directly challenges these basic assumptions.

The artifice of borders melts away when currency is instantaneously global, fluid, electronic, and decentralized. Bitcoin ignores borders in exactly the same way that the Internet ignores borders. In the context of national flag-currencies, a borderless, non-nation-state currency is an aberration that shatters the dominant context. If money is borderless, then suddenly competition among national currencies is irrelevant. Bitcoin doesn’t have to “replace” anything, because it’s not part of the zero-sum game of gaining flag status.

Currency that was once a geographical constant becomes a consumer choice instead.

When nations establish monopolies for their airlines, TV networks, and newspapers, the flag-carrier monopoly status is anachronistic, but it could be worse. Commercial monopolies erode competition in airfares and undermine the truth, but at least they don’t start wars.

In currencies, however, nationalism and national monopolies are dangerous and are directly connected to war. Currency wars have become the proxy wars of this century, with dozens of countries locked in a devaluation spiral to externalize their debt. Currency wars can even be the precursor for kinetic wars (read: lethal combat), and even when they don’t lead to bombing, they can still devastate economies.

In this context, non-national currencies like bitcoin are not just revealing the quaint, anachronistic simplicity

of state monopolies over currency; they are also offering a safe haven and relief valve for the citizens of the currency-war-torn nations.

Bitcoin and other decentralized digital currencies are not trying to displace other currencies, dominate a country, or establish a monopoly. They are supranational from the moment of their inception and stubbornly resist being constrained to the existing regulatory and nationalistic structures. But the prevailing context of nationalistic currency is apparent in the questions that surround these digital currencies. For example: *Which nation will be the first to adopt bitcoin?* The first “place” to adopt bitcoin is not a place, but *people* around the world.

*Will bitcoin unseat the US dollar as the world’s reserve currency?* No. Bitcoin will coexist with all national currencies, offering a global, non-national alternative to people everywhere.

*Can bitcoin become the universal currency?* The very concept of a universal currency is as meaningless as that of a universal language. After all, currencies are a form of language, a means of expressing value to each other. Bitcoin represents a new choice of currency, and in offering that choice globally, it leads to a world of currency pluralism, not a dystopian one-world-currency caricature of the currency wars of the 20th century.

A misfit like bitcoin shatters the whole context and allows us to see a nationalist currency for the caricature it is. ■

**Andreas M. Antonopoulos** is the author of *Mastering Bitcoin*, a technical book published by O’Reilly Media. Read more by Andreas M. Antonopoulos at [FEE.org/Antonopoulos](http://FEE.org/Antonopoulos).

IF MONEY IS BORDERLESS, THEN  
SUDDENLY COMPETITION AMONG  
NATIONAL CURRENCIES IS IRRELEVANT.

# MILLIONS IN BRAZIL FOLLOW A TEEN LEADER TO FREEDOM

Real Heroes: Kim Kataguirí *by Lawrence W. Reed*

“I like a little rebellion now and then,” Thomas Jefferson famously wrote. The primary author of the Declaration of Independence and America’s third president regarded rebellion as “like a storm in the atmosphere.” It clears the air and settles matters.

A storm is brewing in the Brazilian political atmosphere at this very moment. Amazingly, the hero at the center of it is not a seasoned veteran of government, media, business, or labor. He is not a Marxist, a class warfare demagogue, or a bomb-thrower. He’d sooner spit on a Che Guevara T-shirt than wear one. He’s a 19-year-old college dropout with a very un-Brazilian last name, and he’s a libertarian—one that Jefferson himself likely would embrace with enthusiasm. Meet Kim Kataguirí, the cofounder and public face of the Free Brazil Movement.

Just two years ago, this grandson of Japanese immigrants was a high school student with no political profile, public or private. His story is a perfect example of something we at the Foundation for Economic Education (FEE) frequently identify as essential to the future of liberty: packaging our ideas in ways young people find both accessible and exciting, and then putting them out there in venues that young people use.

When attractive ideas converge with catalyzing events and strong personalities, big and unpredictable things happen. In hindsight, we see clearly that the demise of communism in one country after another in 1989 resulted from such a perfect alignment. In Brazil, the rise of libertarian ideas is so palpable that the statist left is having fits trying to finger some evil puppet master behind it all. As in the United States, the statist can’t conceive of a decentralized, ideas-based, grassroots movement of people who actually believe passionately in freedom and free markets; to them, the opposition is always a nefarious conspiracy of a few. The catalyzing events behind Brazil’s freedom movement are high taxes, massive corruption and cronyism, rising price inflation amid a sluggish economy, and the widely perceived incompetence of President Dilma Rousseff and her socialist-leaning Workers’ Party.

“I learned about Milton Friedman and Ludwig von Mises through the Internet,” Kataguirí told me in a June 2 interview. He cited a think tank headquartered in Sao Paulo, Mises Institute-Brazil, as one source of those ideas. Another was Portal Libertarianismo. I take special pride in this revelation from him: “A lot of articles from the FEE website were translated by these Brazilian libertarians and have helped

tens of thousands of people to know the ideas of liberty.”

In neighboring Argentina, people take to the streets for almost any cause. Brazilians are more laid back. So on March 15, 2015, when Kataguirí and his young associates turned out nearly two million Brazilians in 25 cities to protest corruption and socialism, a sensation was born. Helio Beltrao, founder and president of Mises Institute-Brazil, sees Kataguirí as “a natural, dynamic leader.” On April 12, Kataguirí’s Free Brazil Movement and associated groups fielded protests in 200 cities across Brazil, the largest country in Latin America and the fifth biggest in the world. Beltrao says, “The left is completely in awe over this. These were the largest demonstrations of any kind, for any reason, since at least 1992 in our country.”

A key ingredient in Kataguirí’s success so far is his mastery of video and social media. He’s prolific, eloquent—and some say delightfully “quirky”—on Facebook, Twitter, and YouTube. Reportedly, Rousseff and her minions are outraged and embarrassed at the effectiveness of his incisive barbs. He and his Free Brazil Movement have even engineered classes and rock concerts with free-market themes. Drawing comparisons to the early days of the Arab Spring, the left-leaning Brazilian press has found these ingenious efforts impossible to ignore.

What caused this teenager to morph so quickly from a studious high schooler to a nationally admired activist whose name is now known by a large portion of Brazil’s 200 million people?

“First of all,” Kataguirí told me, “Rousseff’s government increased the size of the state more than any other. The inflation and unemployment rates have reached historic levels. Her government is up to its neck in corruption scandals that not only steal the population’s money but use it to buy the congress. Today, only 7 percent of the Brazilian people approve of the government. It’s very clear that the statist model of the Workers’ Party has failed the country. Every political party in Brazil steals our money, but only the Workers’ Party uses our money to steal our freedom.”

The precipitous decline in Rousseff’s popularity is especially remarkable given that she won reelection (though narrowly) just last fall. The burst of libertarian pressure







may be partly responsible for her recent attempts to reverse course. In small ways, her administration has begun to cut government spending and call for reining in out-of-control entitlement programs. She vociferously denies any personal involvement in the burgeoning corruption at the state-owned oil company, Petrobras. But those efforts so far have earned mostly disdain from her base and cries of “too little, too late” from others, including Kataguiri. The air is thick with calls for her impeachment even though Brazilian law makes that prospect extremely problematic.

I asked Kataguiri if his notoriety has caused him any personal troubles. “I’ve been threatened several times by people and organizations paid by the government, but I’m not afraid,” he said. “I knew from the very beginning of our Free Brazil Movement that we would be fighting against criminals. Someone had to do that, and now that millions of

## Drawing comparisons to the early days of the Arab Spring, the left-leaning Brazilian press has found these ingenious efforts impossible to ignore.

people are putting their hopes on me, I can’t give up. What the people want now is less government and more money in their own pockets where it belongs.”

No matter where the impeachment effort may go, this new libertarianism in Brazil seems solidly ensconced and

poised for growth. “I expect that in the next decade or two, most of our society will not only understand classical liberalism but defend it, too.”

Beltrao agrees. His organization has spearheaded the creation of the Liberty Network (Rede Liberdade), bringing together many liberty-leaning think tanks and organizations in Brazil to share ideas and strategies and to collaborate on public activities. It gained significant attention on June 1 when it organized a campaign against taxes that make up 60 percent of the price of beer. And though no political party in Brazil has been committed to liberty since the 19th century, one is now in the making. The Novo (“New”) Party has gathered the signatures necessary for the next step: certification by the government so it can field candidates in elections.

Kataguiri and his comrades are refreshingly principled. When they speak of free enterprise, they don’t mean crony capitalism. When they call for reductions in spending, they include social programs. They realize that social programs are little more than attempts by corrupt politicians to buy votes with the voters’ own money. They quote Bastiat, Mises, Friedman, and Hayek.

When you’re already a hero at 19, just imagine where you might be when you’re 30! William Pitt was prime minister of Great Britain at age 24. I predict that we will hear the name of Kim Kataguiri for a long time to come. ■

**Lawrence W. Reed** is the president of FEE. Read more by Lawrence W. Reed at [FEE.org/Reed](http://FEE.org/Reed).

# The Doomsayers Are Right

BUT SO ARE THE OPTIMISTS | by Isaac M. Morehouse

It is 1900. Two visitors from the year 2015 arrive at your doorstep. They are here to tell you about the future.

## ONE HUNDRED YEARS OF HORROR

The first visitor looks grim. He tells you that “the war to end all wars” will soon begin. It will encompass the globe and destroy millions of lives. Cities will be decimated. The Great War will have a scope and level of brutality never before imagined in human history. It will be followed by economic collapse, political upheaval, and tremendous human suffering.

A decade later, the largest economies in the world will teeter, then collapse. Hyperinflation, panic, stock market crashes, breadlines, and financial ruin will be the norm. Hunger, poverty, and desperation like no modern society has ever experienced will span a decade. Before recovery, war will break out again—this one even more catastrophic than the last. Tens of millions will die.

A new form of evil will show its head. Totalitarian regimes aided by advanced weaponry and propaganda machines will lead the mass execution of millions. Weapons of mass destruction will be created, and two will be deployed, leveling cities in minutes with effects lasting years. Governments the world over will grow in power and brutality. Control over all facets of personal and economic life will expand.

The second great war will end and economic growth will resume, but not without constant smaller wars across the globe. Government will balloon out of all proportion. Surveillance will become ever present, even in the freest states. Acts of terrorism will be all over the news. Inflation, regulation, and taxation will increase once again to levels rivaling those that led to the great economic collapse. Countries will go bankrupt, drowning in debt. Police will turn on citizens regularly. Finally, the first traveler concludes, all signs in 2015 point to another painful reckoning.

But the other traveler seems unfazed by his companion’s tale. “Do you have anything to add?” you ask hesitantly.

## ONE HUNDRED YEARS OF HUMAN ACHIEVEMENT

He smiles and begins to recount the next century with excitement. Automobiles are mass-produced. Soon, they are everywhere. Temperature-controlled vehicles, homes, and workplaces pop up and spread. New forms of communication that instantly connect people across countries and then the world proliferate at incredible speed. People get

healthier and wealthier the world over.

Air travel takes over where automobiles leave off. Humans safely traverse the world many thousands of feet in the air. Appliances do all the most tedious, painful, and time-consuming tasks—and not just in wealthy homes.

Hunger is no longer a problem in developed countries, and it is increasingly rare throughout the world. Common diseases like polio and malaria are all but eradicated with medical and pharmaceutical developments. Average lifespan dramatically increases; infant mortality plummets.

Information is freed in ways never before imaginable. Every book ever written can be transmitted anywhere in the world through crisscrossing networks of data transmission. Humans enter outer space. Satellites beam information, video, and voices back and forth around the globe. Rich and poor alike hold in their hands devices more powerful than anything kings or tycoons of ages past could have hoped for.

Money and memories alike can be sent anywhere, anytime, easily. Anyone can learn anything without access to prestigious centers of knowledge. Gatekeepers for information are no longer impediments to human cooperation and progress. Laboring in fields and factories is decreasingly necessary, as a host of new and intelligent machines take on these tasks.

Finally, the second traveler concludes, humans focus more than ever on creativity, freedom, and fulfillment.

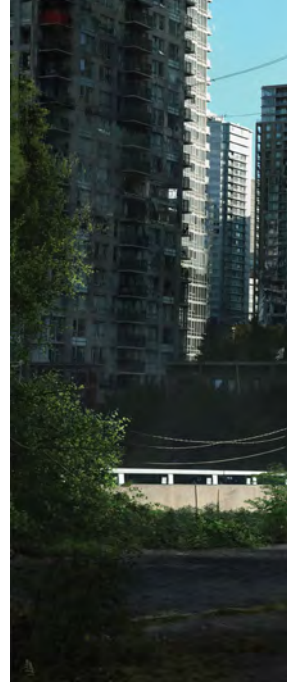
## WHO’S CORRECT?

Both travelers have described the same future for the same planet. Neither description is untrue, and both are important.

It’s easy to feel confused by conflicting theories about the future. If you have a firm grasp on economics and political philosophy and get stuck in the political news cycle, it’s depressing. You look at the state of our economy and government intervention and see nothing but storm clouds on the horizon. There’s no way the mountains of debt, the constant currency debasement, the damaging social programs and interventions, and the buildup of regulations and nanny-statism can result in anything but an ugly future.

But if you’re up on the start-up scene, you hear tech optimists describing a future of 3-D printing, cryptocurrency, robotics advancements, colonizing Mars, and mapping the human genome, and you can’t help but see the future burning bright.

Both groups are accurately describing the possible and probable future, and there are lessons to be drawn from each.







### WILL HISTORY REPEAT?

There are striking similarities between today's developed democracies and ancient Rome. Bread and circuses and political decay may lead to a Roman-style collapse. Then again, we have something today that the citizens of the Roman-ruled world did not: digital technology.

We are able to coordinate and collaborate via dispersed networks in ways individuals in the past never could. The centrally planned state, with all its military and monetary might, is a lumbering beast compared to the nimble, adaptive entrepreneur and citizen today. Yes, the state may use technology to spy and oppress, but always through a top-down management structure. We are a headless conglomerate of individual nodes, networked across the globe, that cannot be destroyed.

Maybe the US dollar will, in fact, collapse. Maybe states will go bankrupt. Maybe government services will fall into disarray. And maybe in the middle of it all, individual humans and civil society won't even notice.

Do you remember how the Cold War ended? Neither do I. It just kind of did. Do you remember the great collapse of government-monopolized phone lines? Neither do I. Cell phones just emerged and it stopped mattering. The post office is in perpetual deficit. So what? Email and FedEx and Amazon drones will continue to make it irrelevant.

Striking as the similarities to great collapses of the past may be, history is not an inevitable indicator of the future. Collapse of government systems in an increasingly complex, market-oriented world may not spell disaster for society at large. It may spell improvement.

### PROBLEMS ARE REAL ... REAL OPPORTUNITIES

Take your knowledge of unsustainable government and extrapolate it into the future. Yes, these bloated systems are unsustainable. Don't turn a blind eye and pretend it doesn't matter. Instead, let the insights of your inner doomsayer inform the actions of your inner optimist.

Every government problem is an entrepreneurial opportunity. Stifling licensing or work restrictions or immigration

bans can be overcome with peer-to-peer technology, the sharing economy, virtual work software, and more. Bad monetary policy can be sidestepped with cryptocurrency. Defunct educational institutions bubbling over with debt and devalued credentials can be ignored while private alternatives emerge. Clumsy socialized medicine, transportation, and communication systems are all begging for innovation. Entire countries can be exited—physically or digitally.

The innovators must be realistic enough to see problems with the status quo and optimistic enough to innovate around them instead of merely shaking their fists.

### INFORMED OPTIMISM AS ADVENTURE

It's good to wake up to the tragic missteps of government policy that surround us. But if lovers of liberty only ever point to the problems, predict trouble, and head for the hills, the future may indeed be lost. If, instead, we see those problems as opportunities and talk about the possibility in front of us, we stand a chance. Optimism is a powerfully attractive force that invites bright minds to join us. As F.A. Hayek once said,

**We must make the building of a free society once more an intellectual adventure, a deed of courage.... Unless we can make the philosophical foundations of a free society once more a living intellectual issue, and its implementation a task which challenges the ingenuity and imagination of our liveliest minds, the prospects of freedom are indeed dark. But if we can regain that belief in the power of ideas which was the mark of liberalism at its best, the battle is not lost.**

We must recapture the intellectual and practical adventure of not just demonstrating the failures of a planned society but building the glories of a free one. Only then will the world look at us and say, "Why are you so optimistic? What do you know? How can I be a part of it?"

### ONE HUNDRED YEARS FROM NOW

There are two stories we can see unfolding in our future. One of increasing political foolishness leading to dystopia. One of emerging technology and innovation leading to utopia. Neither is untrue. Both are instructive.

What would you expect to hear from a traveler from 2115? Which story brings out your best self and inspires you to live free and help others do the same?

We need doomsayers: they help discover and highlight the greatest areas of opportunity for optimists and entrepreneurs to seize on. Listen to them. Then act to overcome or sidestep or make irrelevant the problems they predict. ■

**Isaac M. Morehouse** is the founder and CEO of Praxis. See *DiscoverPraxis.com*. Read more by Isaac M. Morehouse at [FEE.org/Morehouse](http://FEE.org/Morehouse).

# LABOR UNIONS CREATE UNEMPLOYMENT: IT'S A FEATURE, NOT A BUG

BY SARAH SKWIRE

Did the labor unions goof, or did they get exactly what they want?

Los Angeles has approved a minimum wage hike to \$15 an hour. Some of the biggest supporters of that increase were the labor unions. But now that the increase has been approved, the unions are fighting to exempt union labor from that wage hike.

This kind of hijinks is not an invention of 21st-century organized labor. Instead, it's pretty much what labor was organized to do. It's a feature, not a bug.

Part of the early reasoning for the minimum wage—which originated as a “family wage” or “living wage”—was its intent to allow a worker to “keep his wife and children out of competition with himself” and presumably to keep all other women out of the workforce as well.

Similarly, the labor movement, from the very beginning, meant to protect organized white male labor from competition against black labor, immigrant labor, female labor, and nonunion labor. There are subtleties to this generalization, of course, and labor historian Ruth Milkman identifies four historical waves of the labor movement that have differing commitments (and a lack thereof) to a more diverse vision of labor rights. But unions—like so many other institutions—work on the “get up and bar the door” principle. Get up as high as you can, and then bar the door behind you against any further entrants who might cut into the goodies you have grabbed for yourself.

Labor union expert Charles Baird notes,

Unions depend on capture. They try to capture employers by cutting them off from alternative sources of labor; they try to capture workers by eliminating union-free employment alternatives; and they try to capture customers by eliminating union-free producers. Successful capture generates monopoly gains for unions.

Protection is the name of the game.

Unsurprisingly, the unions made sure to be involved when, about 50 years before the 1970s push for an equal rights amendment, there was another push for an ERA in the United States. Written by suffragist leader Alice Paul, the amendment was an attempt to leverage the newly recognized voting power of women into a policy that guaranteed men and women “shall have equal rights throughout the United States and every place under its jurisdiction.” This amendment would have prevented various gender-based inequities that the courts supported at the time—like hugely different

hourly wages for male and female workers, limits on the number of hours women could work, limits on when women could work (night shifts were seen as particularly dangerous for women's health and welfare), and limits on the kinds of work women could do.

Reporting on the debates over the ERA in 1924, Doris Stevens noted three main objections to the amendment:

First, there was the familiar plea for gradual rather than sweeping change.

Second, there were concerns over lost pensions for widows and mothers.

And in Stevens's words,

The final objection says: Grant political, social, and civil equality to women, but do not give equality to women in industry.... Here lies the heart of the whole controversy. It is not astonishing, but very intelligent indeed, that the battle should center on the point of woman's right to sell her labor on the same terms as man. For unless she is able equally to compete, to earn, to control, and to invest her money, unless in short woman's economic position is made more secure, certainly she cannot establish equality in fact. She will have won merely the shadow of power without essential and authentic substance.



Suffragist Rheta Childe Dorr (in *Good Housekeeping*, of all places. How the mighty have fallen!) pointed out again the logic behind labor’s opposition to the equal rights amendment:

The labor unions are most opposed to this law, for few unions want women to advance in skilled trades. The Women’s Trade Union League, controlled and to a large extent supported by the men’s unions, opposes it. Of course, the welfare organizations oppose it, for it frees women wage earners from the police power of the old laws. But I pray that public opinion, especially that of the club women, will support it. It’s the first law yet proposed that gives working women a man’s chance industrially. “No men’s labor unions, no leisure class women, no uniformed legislators have a right to govern our lives without our consent,” the women declare, and I think they are dead right about it.

Organized labor—founded to ensure the collective right to contract—refused to stand up for the right of individual women to contract. From their point of view, it was only sensible. And, perhaps most importantly, women in organized labor refused to stand up for the women outside the unions.

Organized male *and female* labor’s fight against the ERA was at least as much about protectionism as it was about sexism. Maybe more. Women’s rights and union activist Ethel M. Smith attended the debates on the ERA to report on it for the *Life and Labor Bulletin*, and found that

SO LABOR UNIONS EXCLUDED  
WOMEN AS LONG AS THEY COULD,  
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union workers did not even attempt to gloss over their protectionist agenda:

Miss Mary Goff of the International Ladies’ Garment Workers Union emphasized the seriousness of the effect upon organized



Image credit: *Insomnia Cured Here*

establishments were legal restrictions upon hours of labor removed from the unorganized. “The organized women workers,” she said, “need the labor laws to protect them from the competition of the unorganized. Where my union, for instance, may have secured for me a 44-hour week, how long could they maintain it if there were unlimited hours for other workers? Unfortunately, there are hundreds of thousands of unorganized working women in New York who would undoubtedly be working 10 hours a day but for the 9-hour law of New York.”

So labor unions excluded women as long as they could, then let in a privileged few and barred the doors behind them. And they continue to use the same tactics today in LA and elsewhere.

How long can they keep it up? ■

**Sarah Skwire** is a senior fellow at Liberty Fund, Inc. Read more by Sarah Skwire at [FEE.org/Skwire](http://FEE.org/Skwire).



*the Freeman*

# ECONOMIC FALLACIES

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# PAUL KRUGMAN: THREE WRONGS DON'T MAKE A RIGHT

## THE EMPIRICAL FAILURES OF KRUGMAN'S MACROECONOMIC MODEL

BY ROBERT P. MURPHY

One of the running themes throughout Paul Krugman's public commentary since 2009 is that his Keynesian model—specifically, the old IS-LM framework—has done “spectacularly well” in predicting the major trends in the economy. Krugman actually claimed at one point that he and his allies had been “right about everything.” In contrast, Krugman claims, his opponents have been “wrong about everything.”

As I'll show, Krugman's macro predictions have been wrong in three key areas. So, by his own criterion of academic truth, Krugman's framework has been a failure, and he should consider it a shame that people still seek out his opinion.

### MODELING INTEREST RATES: THE ZERO LOWER BOUND

Krugman's entire case for fiscal stimulus rests on the premise that central banks can get stuck in a “liquidity trap” when interest rates hit the “zero lower bound” (ZLB). As long as nominal interest rates are positive, Krugman argued, the central bank could always stimulate more spending by loosening monetary policy and cutting rates further. These actions would boost aggregate demand and help restore full employment. In such a situation, there was *no* case for Keynesian deficit spending as a means to create jobs.

However, Krugman said that this conventional monetary policy lost traction early in the Great Recession once nominal short-term rates hit (basically) 0 percent. At that point, central banks couldn't stimulate demand through open-market operations, and thus the government had to step in with a large fiscal stimulus in the form of huge budget deficits.

As is par for the course, Krugman didn't express his views in a tone of civility or with humility. No, Krugman wrote things like this in response to Gary Becker:

Urp. Gack. Glug. If even Nobel laureates misunderstand the issue this badly, what hope is there for the general public? It's not about the size of the multiplier; it's about the zero lower bound....

*And the reason we're all turning to fiscal policy is that the standard rule, which is that monetary policy plus automatic stabilizers should do the work of smoothing the business cycle, can't be applied when we're hard up against the zero lower bound.*

I really don't know why this is so hard to understand. (“Getting Fiscal,” *The Conscience of a Liberal*, *New York Times*, January 19, 2009; emphasis added.)

But then, in 2015, things changed: various bonds in Europe began exhibiting negative nominal yields. Here's how liberal writer Matt Yglesias—no right-wing ideologue—described this development in late February:

Indeed, the interest rate situation in Europe is so strange that until quite recently, it was thought to be entirely impossible. There was a lot of economic theory built around the problem of the Zero Lower Bound—the impossibility of sustained negative interest rates.... *Paul Krugman wrote a lot of columns about it. One of them said “the zero lower bound isn't a theory, it's a fact, and it's a fact that we've been facing for five years now.”*

*And yet it seems the impossible has happened. (“Something Economists Thought Was Impossible Is Happening in Europe,” *Vox*, February 26, 2015; emphasis added.)*

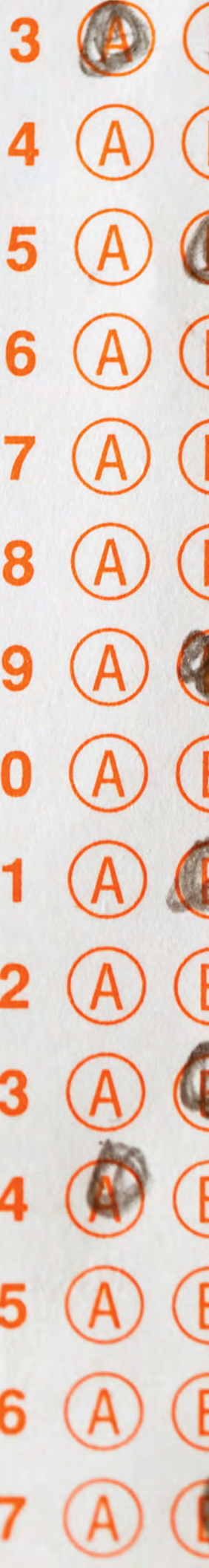
Now this is quite astonishing, the macroeconomic analog of physicists accelerating particles beyond the speed of light. If it turns out that the central banks of the world had more “ammunition” in terms of conventional monetary policy, then even on its own terms, the case for Keynesian fiscal stimulus becomes weaker.

So what happened with this revelation? Once he realized he had been wrong to declare so confidently that 0 percent was a lower bound on rates, did Krugman come out and profusely apologize for putting so much of his efforts into pushing fiscal stimulus rather than further rate cuts, since the former were a harder sell politically?

Of course not. This is how Krugman first dealt with the subject in early March 2015 when it became apparent that the “ZLB” was a misnomer:



**WHEN HE  
FAILED  
THE TEST HE  
HIMSELF  
HAD SET UP,  
KRUGMAN  
COMPLAINED  
THAT IT  
OBVIOUSLY  
WASN'T A  
FAIR TEST.**



We now know that interest rates can, in fact, go negative; those of us who dismissed the possibility by saying that people could simply hold currency were clearly too casual about it. But how low? (“How Negative Can Rates Go?” The Conscience of a Liberal, *New York Times*, March 3, 2015.)

Then, after running through other people’s estimates, Krugman wrapped up his post by saying, “And I am pinching myself at the realization that this seemingly whimsical and arcane discussion is turning out to have real policy significance.”

Isn’t that cute? The foundation for the Keynesian case for fiscal stimulus rests on an assumption that interest rates can’t go negative. Then they *do* go negative, and Krugman is pinching himself that he gets to live in such exciting times. I wonder, is that the reaction Krugman wanted from conservative economists when interest rates failed to spike despite massive deficits—namely, that they would just pinch themselves to see that their wrong statements about interest rates were actually relevant to policy?

I realize some readers may think I’m nitpicking here, because (thus far) it seems that maybe central banks can push interest rates only 50 basis points or so beneath the zero bound. Yet, in practice, that result would still be quite significant, if we are operating in the Keynesian framework. It’s hard to come up with a precise estimate, but using the Taylor principle in reverse, and then invoking Okun’s law, a typical Keynesian might agree that the Fed pushing rates down to -0.5 percent, rather than stopping at 0 percent, would have reduced unemployment during the height of the recession by 0.5 percentage points.

That might not sound like a lot, but it corresponds to about 780,000 workers. For some perspective, in February 2013, Krugman estimated that the budget sequester would cost about 700,000 jobs, and classified it as a “fiscal doomsday machine” and “one of the worst policy ideas in our nation’s history.” So if my estimate is in the right ballpark, then on his own terms, Krugman should admit that his blunder—in thinking the Fed couldn’t push nominal interest rates below 0 percent—is one of the worst mistakes by an economist in US history. If he believes his own model and rhetoric, Krugman should be doing a lot more than pinching himself.

#### **MODELING GROWTH: FISCAL STIMULUS AND BUDGET AUSTERITY**

Talk of the so-called “sequester” leads into the next sorry episode in Krugman’s track record: he totally botched his forecasts of US economic growth (and employment) after the turn to (relative) US fiscal restraint. Specifically, in April 2013, Krugman threw down the gauntlet, arguing that we were being treated to a test between the Keynesian emphasis on fiscal policy and the market monetarist

## **FAR FROM CHANGING HIS POLICY CONCLUSIONS IN LIGHT OF HIS MODEL’S BOTCHED PREDICTIONS, KRUGMAN KEPT RUNNING VICTORY LAPS.**

emphasis on monetary policy. Guys like Mercatus Center monetary economist Scott Sumner had been arguing that the Fed could offset Congress’s spending cuts, while Krugman—since he was still locked into the “zero lower bound” and “liquidity trap” mentality—said that this was wishful thinking. That’s why Krugman had labeled the sequester a “fiscal doomsday machine,” after all.

As it turned out, the rest of 2013 delivered much better economic news than Krugman had been expecting. Naturally, the market monetarists were running victory laps by the end of the year. Then, in a move that would embarrass anybody else, in January 2014 Krugman had the audacity to wag his finger at Sumner for thinking that the previous year’s economy was somehow a test of Keynesian fiscal stimulus versus market monetarist monetary stimulus. Yes, you read that right: back in April 2013 when the economy was doing poorly, Krugman said 2013 would be a good test of the two viewpoints. Then, when he failed the test he himself had set up, Krugman complained that it obviously wasn’t a fair test, because all sorts of other things can occur to offset the theoretical impacts.

Things became even more comical by the end of 2014, when it was clear that the US economy—at least according to conventional metrics like the official unemployment rate and GDP growth—was doing much better than Krugman’s doomsday rhetoric would have anticipated. At this point, rather than acknowledging how wrong his warnings about US “austerity” had been, Krugman inconceivably tried to claim *victory*—by arguing that all of the conservative Republican warnings about Obamacare had been wrong.

This rhetorical move was so shameless that not just anti-Keynesians like Sumner but even progressives had to cry foul. Specifically, Jeffrey Sachs wrote a scathing article showcasing Krugman’s revisionism:





*For several years...Paul Krugman has delivered one main message to his loyal readers: deficit-cutting "austerians" (as he calls advocates of fiscal austerity) are deluded. Fiscal retrenchment amid weak private demand would lead to chronically high unemployment. Indeed, deficit cuts would court a reprise of 1937, when Franklin D. Roosevelt prematurely reduced the New Deal stimulus and thereby threw the United States back into recession.*

*Well, Congress and the White House did indeed play the austere card from mid-2011 onward. The federal budget deficit has declined from 8.4% of GDP in 2011 to a predicted 2.9% of GDP for all of 2014....*

Krugman has vigorously protested that deficit reduction has prolonged and even intensified what he repeatedly calls a "depression" (or sometimes a "low-grade depression"). Only fools like the United Kingdom's leaders (who reminded him of the Three Stooges) could believe otherwise.

Yet, rather than a new recession, or an ongoing depression, the US unemployment rate has fallen from 8.6% in November 2011 to 5.8% in November 2014. Real economic growth in 2011 stood at 1.6%, and the IMF expects it to be 2.2% for 2014 as a whole. GDP in the third quarter of 2014 grew at a vigorous 5% annual rate, suggesting that aggregate growth for all of 2015 will be above 3%.

*So much for Krugman's predictions. Not one of his New York Times commentaries in the first half of 2013, when "austere" deficit cutting was taking effect, forecast a major reduction in unemployment or that economic growth would recover to brisk rates. On the contrary, "the disastrous turn toward austerity has destroyed millions of jobs and ruined many lives," he argued, with the US Congress exposing Americans to "the imminent threat of severe economic damage from short-term spending cuts." As a result, "Full recovery still looks a very long way off," he warned. "And I'm beginning to worry that it may never happen."*

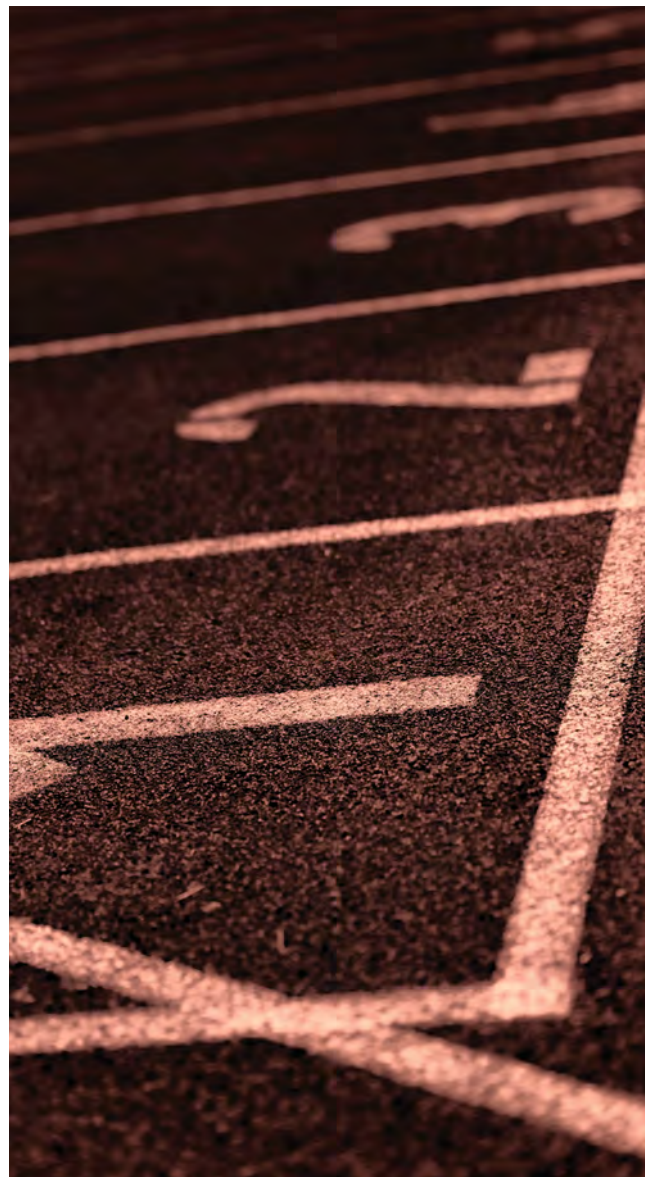
*I raise all of this because Krugman took a victory lap in his end-of-2014 column on "The Obama Recovery." The recovery, according to Krugman, has come not despite the austerity he railed against for years, but because we "seem to have stopped tightening the screws...."*

*That is an incredible claim. The budget deficit has been brought down sharply, and unemployment has declined. Yet Krugman now says that everything has turned out just as he predicted. ("Paul Krugman and the Obama Recovery," Project-Syndicate.org, January 5, 2015; emphasis added.)*

In the face of such withering and irrefutable criticism, Krugman retreated to the position that his wonderful

model had been vindicated by *the bulk* of the sample, with scatterplots of European countries and their respective fiscal stances and growth rates. He went so far as to say that Sachs "really should know better" than to have expected Krugman's predictions about austerity to actually hold for any given country (such as the United States).

Besides the audacity of downplaying the confidence with which he had warned of the "fiscal doomsday machine" that would strike the United States, Krugman's response to Sachs also drips with hypocrisy. Krugman has been merciless in pointing to specific economists (including yours truly) who were wrong in their predictions about consumer price inflation in the United States. When *we* botched a specific



call about the US economy for a specific time period, that was enough in Krugman's book for us to quit our day jobs and start delivering pizza. There was no question that getting things wrong about one specific country was enough to discredit *our* model of the economy. The fact that guys like me clung to our policy views after being wrong about our predictions on the United States showed that not only were we bad economists, but we were evil (and possibly racist), too.

**MODELING CONSUMER PRICE INFLATION**

I've saved the best for last. The casual reader of Krugman's columns would think that the one area where he *surely* wiped the deck with his foes was on predictions of consumer price inflation. After all, plenty of anti-Keynesians like me predicted that the consumer price index (among other prices) would rise rapidly, and we were wrong. So Krugman's model did great on this criterion, right?

Actually, no, it didn't; his model was totally wrong as well. You see, coming into the Great Recession, Krugman's

himself warned in February 2010 that the United States could experience price deflation in the near future ("Core Logic," *The Conscience of a Liberal, New York Times*, February 26, 2010). He ended with, "Japan, here we come"—a reference to that country's long bout with actual consumer price deflation.

Well, that's not what happened. About seven months after he warned of continuing price disinflation and the possibility of outright deflation, Krugman's preferred measures of CPI turned around sharply, more than doubling in a short period, returning almost to pre-recession levels.

**CONCLUSION**

Krugman, armed with his Keynesian model, came into the Great Recession thinking that (a) nominal interest rates can't go below 0 percent, (b) total government spending reductions in the United States amid a weak recovery would lead to a double dip, and (c) persistently high unemployment would go hand in hand with accelerating price deflation.

Because of these macroeconomic views, Krugman recommended aggressive federal deficit spending.

As things turned out, Krugman was wrong on each of the above points: we learned (and this surprised me, too) that nominal rates *could* go persistently negative, that the US budget "austerity" from 2011 onward coincided with a strengthening recovery, and that consumer prices rose modestly even as unemployment remained high. Krugman was wrong on all of these points, and yet his policy recommendations didn't budge an iota over the years.

Far from changing his policy conclusions in light of his model's botched predictions, Krugman kept running victory laps, claiming his model had been "right about everything." He further speculated that the only explanation for his opponents' unwillingness to concede defeat was that they were evil or stupid ("Knaves, Fools, and Me (Meta)," *The*

*Conscience of a Liberal, New York Times*, April 28, 2013.)

What a guy. What a scientist. ■

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framework of "the inflation-adjusted Phillips curve predict[ed] not just deflation, but *accelerating* deflation in the face of a really prolonged economic slump" ("Mysteries of Deflation," *The Conscience of a Liberal, New York Times*, July 26, 2010; emphasis Krugman's). And it wasn't merely the academic model predicting (price) deflation; Krugman







Image credit: Roy Niswanger

# THE CONCORDE FALLACY: WHY WE CAN'T QUIT LOSING BATTLES

## IRAQ AND THE EVOLUTION OF IRRATIONALITY

From the Concorde jet to the Iraq War, people constantly fall into the error of reasoning from sunk costs. We say things like “We’ve come too far to stop now!” and “If we cut and run, it will all have been in vain!”

The so-called Concorde fallacy involves valuing a project based on how much you’ve already invested—its “sunk costs”—rather than on its real present value.

If its value as a going concern is negative—if future costs outweigh future benefits—you should cancel it, regardless of how much you’ve already spent. No decision can affect what you’ve already spent, and only future costs and benefits should be allowed to affect present decisions.

What’s more, people are *really* convinced by these arguments. Inexperienced gamblers often fall into this trap: “Sure, the house took me the last 10 hands in a row, but if I leave the table now, I’ll have lost everything! I’ve got to get it back!”

We tend to think of money we’ve already lost as being “still on the table”—if only we raise the stakes, we might get it back. To leave would force us to admit our mistake and reckon its cost.

But the deeper question is *why*.

If this tendency is both costly and pervasive—as indeed it is—why are humans so prone to it? It seems as though natural selection ought to have removed any such propensity from among our ancestors long ago.

Blogger Adam Gurri writes about the evolution of the

BY DANIEL BIER

Concorde fallacy at [TheUmlaut.com](http://TheUmlaut.com). He suggests that it was not always an error—that this kind of reasoning actually had survival value in the past.

Gurri suggests,

**If sunk cost reasoning is so universal, isn’t it reasonable to assume that it has come in handy once or twice? ... It could be that at some point in our species’ history, the motivation to see something through to completion had a greater probability of ensuring survival than having a high willingness to cut one’s losses.**

But this can’t be literally true. The fallacy is, by definition, a fallacy: it is never rational to allow past costs to determine future investments. If it pays to see it through, it will be because of *future* returns, not past expenditures.

Whether or not humans can think this way and still muddle through somehow, we can be sure that natural selection is not fooled. The calculus of differential reproduction doesn’t fall for logical fallacies, so when we find organisms seemingly behaving in naively uneconomical ways, we ought to look closer at the trade-offs they (or rather, their genes) are facing.

### SUNK COSTS IN NATURE

Take the digger wasp: it seems to commit a version of the Concorde fallacy.

In his book *The Extended Phenotype*, Richard Dawkins explains the strange case of *Sphex ichneumoneus*:

Solitary females provision burrows with stung and paralyzed katydids which are to serve as food for their larvae.... Occasionally two females find themselves provisioning the same burrow, and they usually end up fighting over it.

Each fight goes on until one wasp, thereby defined as the loser, flees the area, leaving the winner in control of the burrow and all the katydids caught by both wasps....

*The evidence suggested that each wasp fought for a time proportional to her own investment [the number of katydids she personally had caught], rather than proportional to the "true value" of the burrow [the total number up for grabs]. (emphasis added)*

What's going on here? This looks like a sunk-cost fallacy, with each wasp valuing the fight based on what she has personally invested, rather than what she actually has to gain.

You could tell a story about how "high willingness to cut one's losses had a greater probability of ensuring survival than seeing it through to completion"—but this is a strange claim. Is there really survival value for the wasp in *misestimating* the value of fighting, in potential injury versus potential reward?

In a 1980 paper called "Do Digger Wasps Commit the Concorde Fallacy?" Dawkins and H. Jane Brockmann looked more closely: "Could it be that what appeared to be maladaptive was better interpreted as an optimum, *given certain constraints*? The question then became, Is there a constraint such that the wasps' 'Concordean' behavior is the best they can achieve under it?"

Yes: sensory constraints.

It seems that *Sphex* is unable to count the number of katydids in the burrow, but she *is* able to keep track of the number she personally caught. Each wasp only "knows" enough to justify fighting for the katydids she individually brought to the burrow. (I do not mean to suggest that wasps

are conscious and "thinking." There is, of course, no reason to believe that the wasps' nervous system is developed enough to allow consciousness.)

Given this information asymmetry, the wasps are making the most rational calculation they can, but their sensory equipment is simply insufficient to allow them to make a fully informed choice.

Why should natural selection have left *Sphex* in the lurch like this? It isn't an inevitable limitation of their genetic variation—they could have evolved the ability to assess the contents of a burrow.

For instance, the female of a related wasp species, *Ammophila campestris*, maintains several burrows simultaneously, and she counts their contents each morning to determine what she has to gather for that day.

But running the sensory equipment required to do this is expensive. If experimenters change the contents of the burrow *after* her morning inspection, *Ammophila's* behavior remains unaffected, even though she returns to each burrow throughout the day. She doesn't notice changes after her initial count.

Dawkins explains, "She appears, therefore, to use her assessment facility sparingly, switching it off for the rest of the day after the morning inspection, almost as though it was a costly, power-consuming instrument."

*Sphex* doesn't need this counting faculty because she doesn't progressively maintain multiple burrows. She simply buries one larva at a time with enough food and moves on. It makes evolutionary sense to avoid not only the "overhead" costs of running the counting faculty but also the "fixed" cost of building the sensory apparatus altogether.

The fact that Concordean behavior would be useful in a few rare instances that some scientists chose to study—such as fighting over burrows—is not enough.

The genetic payoff for being able to gather the information she would need to make a fully informed, perfectly rational decision in the rare event of a fight over a burrow has not, on average, paid the cost of investment for *Sphex*.

Similarly, that human beings have not evolved a perfectly rational cognitive toolkit—that we are mere *Homo sapiens* and not *Homo economicus*—is not evidence that our errors have survival value *in themselves* or that natural selection has failed. Rather, it suggests that there is a cost constraint on rationality.

We evolved the ability to think rationally given certain limitations, under certain conditions. It is more reasonable to suppose that the benefits of

## WE EVOLVED THE ABILITY TO THINK RATIONALLY GIVEN CERTAIN LIMITATIONS, UNDER CERTAIN CONDITIONS.



having the cognitive machinery to create goals and commit to them were very large, and the waste and inefficiencies we perceive in the system were not, on average, sufficiently costly in our evolutionary past to justify investing in further refinements in our critical faculties.

### COSTS, BENEFITS, AND POLITICS

It is psychologically costly for us to overcome our own irrationality. Many of our “irrational” biases result from taking generally good rules and overusing or misapplying them. It takes work to correct for this, and the benefits have to be large enough to justify that work.

In his book *The Myth of the Rational Voter*, economist Bryan Caplan makes great use of this fact to explain why people commit such systematic errors in thinking about politics.

As voters, we do not individually pay the price for being wrong—and it feels good to indulge our biases. Thinking critically and breaking from our in-group is difficult. But since no one person will decide the election, there is no real benefit to overcoming our irrationality—and a substantial cost to doing so. As a result, voters are massively biased and ill-informed.

Unlike politics, both natural selection and the market *do* reliably punish those who indulge in fallacious reasoning. It may not have paid to evolve perfect rationality, but firms in competitive markets that persist in Concorde-like projects eventually fail.

But because of the different incentives of politics and the market, profit-seeking companies are rewarded for overcoming people’s biases, while vote-seeking politicians are rewarded for gratifying them.

This is why the irrational tendencies of market actors that have been discovered by behavioral economists in the lab are not likely to be corrected by political interventions.

### FLEXIBILITY VS. TENACITY

Being able to set up arbitrary subgoals—new purposes below the overriding goal of all organisms to reproduce—has obvious survival value, but the trade-off our ancestral genes faced was between flexibility and tenacity.

Make a brain too flexible, too willing to acquire new goals or give up on old ones, and you’ll fail to reproduce—or fail to keep your offspring alive long enough for them to reproduce. Make a brain too rigid, too inflexible in pursuing certain goals, and you’ll often fail to give up on losing propositions or seize paying ones.

There’s no guarantee that natural selection will create

the perfect strategy for all situations. It simply isn’t true that every behavior is an optimal solution with positive survival value to an existing problem, and it’s a subtle misunderstanding of evolutionary theory to believe that the mere existence of a behavior is proof of its survival value.

But we may tentatively assume that *if* a trait has survived, then at least it will have been the least costly of available genetic variations to produce the given effect. In other words, we have the cheapest rational mind that natural selection could buy.

If we want to know why the Concorde fallacy, confirmation bias, and post hoc reasoning haunt our primate brains, we must look deeper: to the genetic payoff of building a mind in the first place, and to the constraints placed on the machinery that catches our errors. To

overcome such irrationality, we must look to incentives, and we must build institutions that are wiser than we are. ■

**Daniel Bier** is FEE’s blog editor. Read more by Daniel Bier at [FEE.org/Bier](http://FEE.org/Bier).



Image credit: Dave & Anna Douglas



Image credit: Richard / Flickr

# SOCIALISM IS WAR AND WAR IS SOCIALISM

BOTH FORMS OF CENTRAL PLANNING ARE  
REACTIONARY, NOT PROGRESSIVE

“[Economic] planning does not accidentally deteriorate into the militarization of the economy; it *is* the militarization of the economy.... When the story of the Left is seen in this light, the idea of economic planning begins to appear not only accidentally but inherently reactionary. The *theory of planning* was, from its inception, modeled after feudal and militaristic organizations. Elements of the Left tried to transform it into a radical program, to fit into a progressive revolutionary vision. But it doesn't fit. Attempts to implement this theory invariably reveal its true nature. The *practice of planning* is nothing but the militarization of the economy.”  
—Don Lavoie, *National Economic Planning: What Is Left?*

Libertarians have long confounded our liberal and conservative friends by being both strongly in favor of free markets and strongly opposed to militarism and foreign intervention. In the conventional world of “right” and “left,” this combination makes no sense. Libertarians are often quick to point out the ways in which free trade, both within and across national borders, creates cooperative interdependencies among those who trade, thereby reducing the likelihood of war. The long classical liberal tradition is full of those who saw the connection between free trade and peace.

But there's another side to the story, which is that socialism and economic planning have a long and close

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BY STEVEN HORWITZ

connection with war and militarization.

As Don Lavoie argues at length in his wonderful and underappreciated 1985 book *National Economic Planning: What Is Left?*, any attempt to substitute economic planning (whether comprehensive and central or piecemeal and decentralized) for markets inevitably ends up militarizing and regimenting the society. Lavoie points out that this outcome was not an accident. Much of the literature defending economic planning worked from a militaristic model. The “success” of economic planning associated with World War I provided early 20th-century planners with a specific historical model from which to operate.

This connection should not surprise those who understand the idea of the market as a spontaneous order. As good economists from Adam Smith to F.A. Hayek and beyond have appreciated, markets are the products of human action but not human design. No one can consciously direct an economy. In fact, Hayek in particular argued that this is true not just of the economy but of society in general: advanced commercial societies are spontaneous orders along many dimensions.

Market economies have no purpose of their own, or as Hayek put it, they are “ends-independent.” Markets are simply *means* by which people come together to pursue the various ends that each person or group has. You and I don't have to agree on which goals are more or less important in order to participate in the market.



The same is true of other spontaneous orders. Consider language. We can both use English to construct sentences even if we wish to communicate different, or contradictory, things with the language.

One implication of seeing the economy as a spontaneous order is that it lacks a “collective purpose.” There is no single scale of values that guides us as a whole, and there is no process by which resources, including human resources, can be marshaled toward those collective purposes.

The absence of such a collective purpose or common scale of values is one factor that explains the connection between war and socialism. They share a desire to remake the spontaneous order of society into an organization with a single scale of values, or a specific purpose. In a war, the overarching goal of defeating the enemy obliterates the ends-independence of the market and requires that hierarchical control be exercised in order to direct resources toward the collective purpose of winning the war.

In socialism, the same holds true. To substitute economic planning for the market is to reorganize the economy to have a single set of ends that guides the planners as they allocate resources. Rather than being connected with each other by a shared set of *means*, as in private property, contracts, and market exchange, planning connects people by a shared set of *ends*. Inevitably, this will lead to hierarchy and militarization, because those ends require trying to force people to behave in ways that contribute to the ends’ realization. And as Hayek noted in *The Road to Serfdom*, it will also lead to government using propaganda to convince the public to share a set of values associated with some ends. We see this tactic in both war and socialism.

As Hayek also pointed out, this is an atavistic desire. It is a way for us to try to recapture the world of our evolutionary past, where we existed in small, homogeneous

groups in which hierarchical organization with a common purpose was possible. Deep in our moral instincts is a desire to have the solidarity of a common purpose and to organize resources in a way that enables us to achieve it.

Socialism and war appeal to so many because they tap into an evolved desire to be part of a social order that looks like an extended family: the clan or tribe. Soldiers are not called “bands of brothers” and socialists don’t speak of “a brotherhood of man” by accident. Both groups use the same metaphor because it works. We are susceptible to it because most of our history as human beings was in bands of kin that were largely organized in this way.

Our desire for solidarity is also why calls for central planning on a smaller scale have often tried to claim their cause as the moral equivalent of war. This is true on both the left and right. We have had the War on Poverty, the War on Drugs, and the War on Terror, among others. And we are “fighting,” “combating,” and otherwise at war with our supposedly changing climate—not to mention those thought to be responsible for that change. The war metaphor is the siren song of those who would substitute hierarchy and militarism for decentralized power and peaceful interaction.

Both socialism and war are reactionary, not progressive. They are longings for an evolutionary past long gone, and one in which humans lived lives that were far worse than those we live today. Truly progressive thinking recognizes the limits of humanity’s ability to consciously construct and control the social world. It is humble in seeing how social norms, rules, and institutions that we did not consciously construct enable us to coordinate the actions of billions of anonymous actors in ways that enable them to create incredible complexity, prosperity, and peace.

The right and left do not realize that they are both making the same error. Libertarians understand that the shared

processes of spontaneous orders like language and the market can enable all of us to achieve many of our individual desires without any of us dictating those values for others. By contrast, the right and left share a desire to impose their own sets of values on all of us and thereby fashion the world in their own images.

No wonder they don’t understand us. ■

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.....

*the Freeman*

# HOW ICE CREAM WON THE COLD WAR

Central Planners  
Have Never  
Understood the  
Importance of  
Tasty Frozen Treats

*Image credit: History in Photos*



Richard Nixon stood by a lemon-yellow refrigerator in Moscow and bragged to the Soviet leader: “The American system,” he told Nikita Khrushchev over frosted cupcakes and chocolate layer cake, “is designed to take advantage of new inventions.”

It was the opening day of the American National Exhibition at Sokolniki Park, and Nixon was representing not just the US government but also the latest products from General Mills, Whirlpool, and General Electric. Assisting him in what would come to be known as the “Kitchen Debates” were attractive American spokesmodels who demonstrated for the Russian crowd the best that capitalism in 1959 had to offer.

#### CAPITALIST LIFESTYLE

“This was the first time,” writes British food historian Bee Wilson of the summer exhibition, that “many Russians had encountered the American lifestyle firsthand: the first time they ... set eyes on big American refrigerators.”

**Laughing and sometimes jabbing fingers at one another, the two men debated the merits of capitalism and communism. Which country had the more advanced technologies? Which way of life was better? The conversation ... hinged not on weapons or the space race but on washing machines and kitchen gadgets. (Bee Wilson, *Consider the Fork* [New York: Basic Books, 2013].)**

Khrushchev was dismissive. Yes, the Americans had brought some fancy machines with them, but did all this consumer technology actually offer any real advantages?

In his memoirs, he later recalled picking up an automatic lemon squeezer. “What a silly thing ... Mr. Nixon! ... I think it would take a housewife longer to use this gadget than it would for her to ... slice a piece of lemon, drop it into a glass of tea, then squeeze a few drops.”

#### PRODUCING NECESSITIES

That same year, Khrushchev announced that the Soviet economy would overtake the United States in the production of milk, meat, and butter. These were products that

made sense to him. He couldn’t deliver—although Soviet farmers were forced to slaughter their breeding herds in an attempt to do so—but the goal itself reveals what the communist leader believed a healthy economy was supposed to do: produce staples like meat and dairy, not luxuries like colorful kitchenware and complex gadgetry for the decadent and lazy.

“Don’t you have a machine,” he asked Nixon, “that puts food in the mouth and presses it down? Many things you’ve shown us are interesting but they are not needed in life. They have no useful purpose. They are merely gadgets.”

Khrushchev was displaying the behavior Ludwig von Mises described in *The Anti-Capitalistic Mentality*. “They castigate the luxury, the stupidity and the moral corruption of the exploiting classes,” Mises wrote of the socialists. “In their eyes everything that is bad and ridiculous is bourgeois, and everything that is good and sublime is proletarian.”

On display that summer in Moscow was American consumer tech at its most bourgeois. The problem with “castigating the luxury,” as Mises pointed out, is that all “innovation is first a luxury of only a few people, until by degrees it comes into the reach of the many.”

#### PRODUCING LUXURIES

It is appropriate that the Kitchen Debate over luxury versus necessity took place among high-end American refrigerators. Refrigeration, as a luxury, is ancient. “There were ice harvests in China before the first millennium BC,” writes Wilson. “Snow was sold in Athens beginning in the fifth century BC. Aristocrats of the seventeenth century spooned desserts from ice bowls, drank wine chilled with snow, and even ate iced creams and water ices. Yet it was only in the nineteenth century in the United States that ice became an industrial commodity.” Only with modern capitalism, in other words, does the luxury reach so rapidly beyond a tiny elite.

“Capitalism,” Mises wrote in *Economic Freedom and Interventionism*, “is essentially mass production for the satisfaction of the wants of the masses.”

The man responsible for bringing ice to the overheated multitude was a Boston businessman named Frederic Tudor. “History now knows him as ‘the Ice King,’” Steven Johnson writes of Tudor in *How We Got to Now: Six Innovations That Made the Modern World*, “but for most of his early adulthood he was an abject failure, albeit one with remarkable tenacity.”

Like many wealthy families in northern climes, the

BY B.K. MARCUS

Tudors stored blocks of frozen lake water in icehouses, two-hundred-pound ice cubes that would remain marvelously unmelted until the hot summer months arrived, and a new ritual began: chipping off slices from the blocks to freshen drinks [and] make ice cream.

In 1800, when Frederic was 17, he accompanied his ill older brother to Cuba. They were hoping the tropical climate would improve his brother's health, but it "had the opposite effect: arriving in Havana, the Tudor brothers were quickly overwhelmed by the muggy weather." They reversed course, but the summer heat chased them back to the American South, and Frederic longed for the cooler climes of New England. That experience "suggested a radical—some would say preposterous—idea to young Frederic Tudor: if he could somehow transport ice from the frozen north to the West Indies, there would be an immense market for it."

"In a country where at some seasons of the year the heat is almost unsupportable," Tudor wrote in his journal, "ice must be considered as outdoing most other luxuries."

Khrushchev believed a healthy economy was supposed to produce staples like meat and dairy, not luxuries like colorful kitchenware and complex gadgetry for the decadent and lazy.

#### TUDOR'S FOLLY

Imagine what an early 19th-century version of Khrushchev would have said to the future Ice King. *People throughout the world go hungry, and you, Mr. Tudor, want to introduce frozen desserts to the tropics? What of beef? What of butter? The capitalists chase profits rather than producing the necessities.*

It's true that Tudor was pursuing profits, but his idea of ice outdoing "most other luxuries" looked to his contemporaries more like chasing folly than fortune.

The *Boston Gazette* reported on one of his first shiploads of New England ice: "No joke. A vessel with a cargo of 80 tons of Ice has cleared out from this port for Martinique. We hope this will not prove to be a slippery speculation."

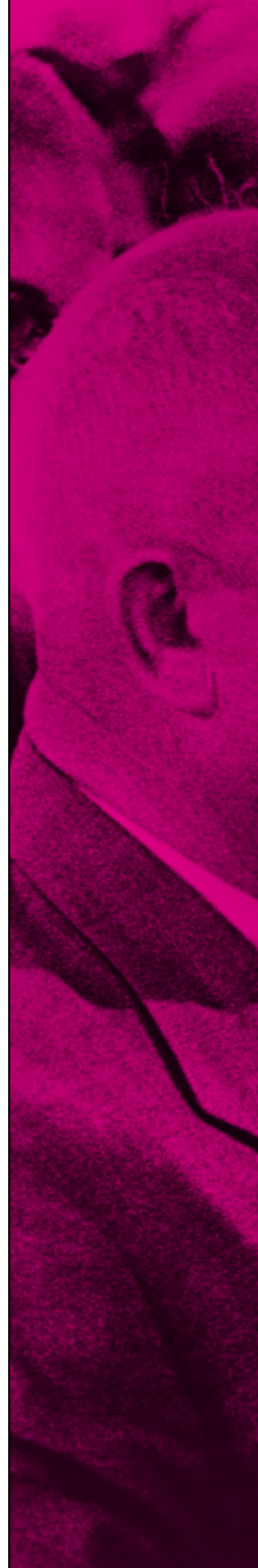
And at first the skeptics seemed right. Tudor "did manage to make some ice cream," Johnson tells us. And that impressed a few of the locals. "But the trip was ultimately

a complete failure." The novelty of imported ice was just too novel. Why supply ice where there was simply no demand?

#### YOU CAN'T PUT A PRICE ON FAILURE

In the early 20th century, economists Ludwig von Mises and F.A. Hayek, after years of debate with the Marxists, finally began to convince advocates of socialist central planning that market prices were essential to the rational allocation of scarce resources. Some socialist theorists responded with the idea of using capitalist market prices as a starting point for the central planners, who could then simulate the process of bidding for goods, thereby replacing real markets with an imitation that they believed would be just as good. Capitalism would then be obsolete, an unfortunate stage in the development of greater social justice.

By 1959, Khrushchev could claim, however questionably, that Soviet refrigerators were just as good as the American variety—except for a few frivolous features. But there wouldn't have been any Soviet fridges at all if America hadn't led the way in artificial refrigeration, starting with Tudor's folly a century and a half earlier. If the central planners had been around in 1806 when the *Boston Gazette* poked fun at Tudor's slippery speculation, what prices would they have used as the starting point for future innovation? All the smart money was in other ventures, and Tudor was on his way to losing his family's fortune and landing in debtor's prison.







# THE ECONOMICS OF ENTREPRENEURSHIP

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Even if we give Khrushchev the benefit of the doubt and assume that he really did care about feeding the masses and satisfying the most basic human needs, it's clear the Soviet premier had no idea how economic development works.

Only through stubborn persistence did Tudor refine his idea and continue to innovate while demand slowly grew for what he had to offer.

“Still pursued by his creditors,” Johnson writes, Tudor began making regular shipments to a state-of-the-art icehouse he had built in Havana, where an appetite for ice cream had been slowly maturing. Fifteen years after his original hunch, Tudor's ice trade had finally turned a profit. By the 1820s, he had icehouses packed with frozen New England water all over the American South. By the 1830s, his ships were sailing to Rio and Bombay. (India would ultimately prove to be his most lucrative market.)

#### THE WORLD THE ICE KING MADE

In the winter of 1846–47, Henry David Thoreau watched a crew of Tudor's ice cutters at work on Walden Pond.

Thoreau wrote, “The sweltering inhabitants of Charleston and New Orleans, of Madras and Bombay and Calcutta, drink at my well.... The pure Walden water is mingled with the sacred water of the Ganges.”

When Tudor died in 1864, Johnson tells us, he “had amassed a fortune worth more than \$200 million in today's dollars.”

The Ice King had also changed the fortunes of all Americans, and reshaped the country in the process. Khrushchev would later care about butter and beef, but before refrigerated train cars—originally cooled by natural ice—it didn't matter how much meat and dairy an area could produce if it could only be consumed locally without spoiling. And only with the advent of the home icebox could families keep such products fresh. Artificial refrigeration created the modern city by allowing distant farms to feed the growing urban populations.

A hundred years after the *Boston Gazette* reported what turned out to be Tudor's failed speculation, the *New York Times* would run a very different headline: “Ice Up to 40 Cents and a Famine in Sight”:

Not in sixteen years has New York faced such an iceless prospect as this year. In 1890 there was a great deal of trouble and the whole country had to be scoured for ice. Since then, however, the needs for ice have grown vastly, and a famine is a much more serious matter now than it was then.

“In less than a century,” Johnson observes, “ice had gone from a curiosity to a luxury to a necessity.”

#### THE WORLD THAT LUXURY MADE

Before modern markets, Mises tells us, the delay between luxury and necessity could take centuries, but “from its beginnings, capitalism displayed the tendency to shorten this time lag and finally to eliminate it almost entirely. This is not a merely accidental feature of capitalistic production; it is inherent in its very nature.” That's why everyone today carries a smartphone—and in a couple of years, almost every wrist will bear a smartwatch.

The Cold War is over, and Khrushchev is no longer around to scoff, but the Kitchen Debate continues as the most visible commercial innovations produce “mere gadgets.” Less visible is the steady progress in the necessities, including the innovations we didn't know were necessary because we weren't imagining the future they would bring about. Even less evident are all the failures. We talk of profits, but losses drive innovation forward, too.

It's easy to admire the advances that so clearly improve lives: ever lower infant mortality, ever greater nutrition, fewer dying from deadly diseases. It's harder to see that the larger system of innovation is built on the quest for comfort, for entertainment, for what often looks like decadence. But the long view reveals that an innovator's immediate goals don't matter as much as the system that promotes innovation in the first place.

Even if we give Khrushchev the benefit of the doubt and assume that he really did care about feeding the masses and satisfying the most basic human needs, it's clear the Soviet premier had no idea how economic development works. Progress is not driven by producing ever more butter; it is driven by ice cream. ■

**B.K. Marcus** is managing editor of the Freeman.  
Read more by B.K. Marcus at [FEE.org/Marcus](http://FEE.org/Marcus).

# INSIDE THE MIND OF THE MAN WHO COULD BE BITCOIN'S CREATOR



In political science terms medieval Iceland has been called an “anarchy,” but it is more realistic to describe it as a very peer-to-peer kind of government.

—NICK SZABO

Many observers think Nick Szabo is the pseudonymous Satoshi Nakamoto, creator of bitcoin. Szabo, you see, is a coding wizard who had already created an earlier digital currency called “bitgold.” Could bitgold have been a practice run?

What’s more interesting is that Szabo has written extensively on the history of law. In particular, he writes about Anglo-Saxon emergent law, which collided eventually with the “master-servant” law of Justinian’s Rome. And Szabo argues that what we have today in the United States is but the shrinking vestige of common law operating within a growing body of Byzantine statutes.

All this might sound esoteric, but it has profound implications for cryptocurrencies, smart contracts, digital property titles, dispute resolution, and other potential applications of the blockchain at the heart of bitcoin—especially




Image credit: John Hope





## He Might Have Used Common Law's Best Protocols - by Max Borders



if Szabo is, in fact, the developer who set about writing source code for peer-to-peer law.

Szabo wrote in 2006,

Here's my paper on private jurisdiction in English history. Franchise jurisdiction played a crucial but unheralded role in the history of English law and politics. Some private jurisdictions existed in Anglo-Saxon times but they grew in importance in the Norman and Angevin periods, and in the corporate form remained an important part of the British Empire until the 20th century.

A franchise, such as a corporation, a jurisdiction, or a right to collect certain tolls or taxes, was a kind of property: an "incorporeal hereditament." English property law was very flexible; as a result franchise jurisdictions came in a wide variety of forms. ("Jurisdiction as Property: The Paper," *Unenumerated* [blog].)

One can see how Szabo would have appreciated that flexibility as a developer.

Of course, some of these aspects of the common law (law by many) are still with us, but they have been overtaken in many quarters by edict (law by one) or especially by statute (law by few).

So what happened?

The Anglo-Norman legal idea of jurisdiction as property and peer-to-peer government clashed with ideas derived from the Roman Empire, via the text of Justinian's legal code and its elaboration in European universities, of sovereignty and totalitarian rule via a master-servant or delegation hierarchy. By the 20th century, the Roman idea of hierarchical jurisdiction had largely won, especially in political science where government is often defined on neo-Roman terms as "sovereign" and "a monopoly of force."

Indeed, as I wrote in “The End of Politics” (in the September 2, 2014, *Freeman* online),

Once-great empires soon grew up amid the detritus of war. The clan-king became a god-king. The administration of empire required more layers of hierarchy, which meant delegating power to satraps and governors. The emperor would issue commands to subordinates and those commands would be carried out by those on down the chains of command. Patronage relationships became the norm. The order of man lording power over man took on religious dimensions. Values such as loyalty, honor, obedience, and patriotism firmed up the hierarchy, and without such values, the structure could be weakened either from internal dissent or from better organized enemies.

Hierarchy became more elaborate over time as each layer was added, and hierarchy persisted, apparently, as humanity’s dominant social technology.

This militaristic law is so ingrained in our understanding now that it’s difficult for most of us to imagine life outside of it. Our understanding is of wise stewards minding the upper echelons of statecraft, while the rest of us teem and hustle in the relatively peaceful interstices the regulatory state provides for us. It’s hard to conceive of alternative forms of governance and law doing better, and when people call these alternative forms *anarchy*, we get lost in bad connotations.

Most of us have been thoroughly inculcated with this Hobbesian rationale. For example, just in debates among classical liberals, there are those convinced that persistent peace requires a final arbiter—one whose final word quashes conflict and whose law is made absolute through enforcement. And when it comes to alternatives, our failure of imagination has given rise to some of the most predatory regimes in history. As Szabo writes,

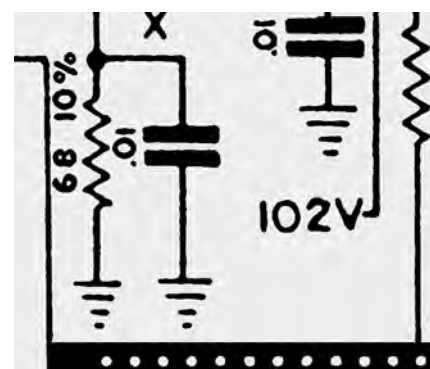
Our experience with totalitarianism of the 19th and 20th centuries, inspired and enabled by the Roman-derived procedural law and accompanying political structure (and including Napoleon, the Csars, the Kaisers, Communist despots, the Fascists, and the National Socialists), as well as the rise of vast and often oppressive bureaucracies in the “democratic” countries, should cause us to reconsider our commitment to government via master-servant (in modern terms, employer-employee) hierarchy, which is much better suited to military organization than to legal organization.

Indeed, we should reconsider our unreflective commitment to such hierarchies, because law and society are not only possible without them but could be more robust, peaceful, and prosperous without them. But how do we move beyond those hierarchies?

“It turns out there’s only one thing that guarantees production of good laws. The people bound by the laws have to agree to be bound by them.”

—Michael Gibson

If the “underthrow” of Leviathan lies ahead, it will be thanks not only to encryption technology but also to understanding the beauty, flexibility, and robustness of emergent law.



The person who designed the basic protocols of the blockchain understood the power of “dumb networks” (see “Decentralization: Why Dumb Networks Are Better” in the Spring 2015 *Freeman*) as opposed to Byzantine codes. As Szabo writes,

Fortunately, franchise jurisdiction has left permanent influences on modern governments, including on the republican form of government in general and the United States Constitution, federalism, and procedural rights in particular. It also left a record of a wide variety of forms of law and government that can provide us with alternatives to the vast employee hierarchies wielding coercive powers that have given rise to modern oppression.



Likewise, the inventor of bitcoin is helping us imagine a different sort of world. I wrote the following in part two of “The End of Politics”:

The architecture of the Web has already shown the world what’s possible in terms of upgrading our democratic operating system (DOS). This is true both in the sense that our new social technologies are like our online technologies, and in the sense that our online technologies enable new social technologies to emerge. Little platoons are already emerging on the spine of the blockchain, for example. And just as Lyft and Uber are showing taxi cartels how it’s done (or as Kickstarter is showing the NEA how it’s done, or as Bitcoin is showing the Federal Reserve how it’s done) new parallel governance structures will soon show State hierarchies around the world how it’s done.

What might the world look like when this process is further along? It’s hard to predict. But the network architectures show the way.

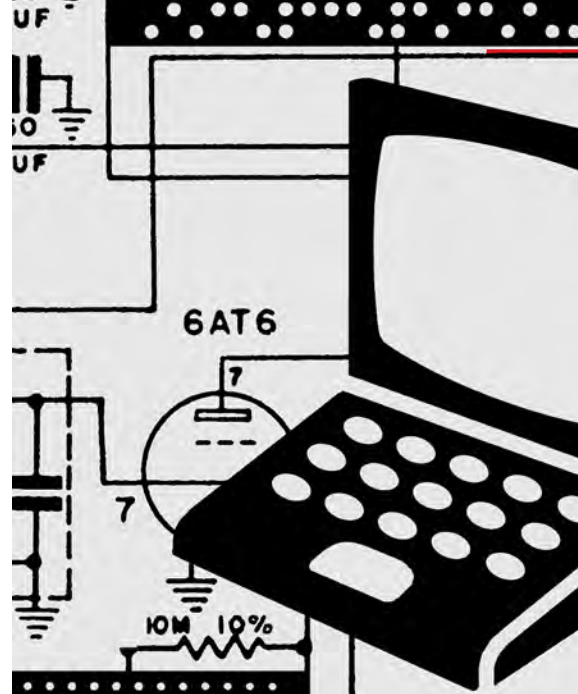
All of this was my rather roundabout way of saying that we’re already weaving together new law and using it, without permission.

Echoing legal scholar Bruce Benson’s *Enterprise of Law*, writer and venture fund manager Michael Gibson leaves us with an even brighter glimpse of the future in “The Nakamoto Consensus”:

It turns out there’s only one thing that guarantees production of good laws. The people bound by the laws have to agree to be bound by them. Not hypothetically or tacitly, as in some imaginary will of the people or behind a veil of ignorance. Consent must be real, transparent, and continuous. No law can bind a single person unless that person consents to be bound by that law. All laws must be strictly opt in. Lawmakers could be saints, devils or monkeys on typewriters—doesn’t matter. The opt out-opt in system lets only good laws survive. Bad laws are driven out of production.

Bad laws can only inflict harm and destroy wealth up to the cost to opt out of them. We can overthrow the state one contract at a time. (*Let a Thousand Nations Bloom* [blog], April 3, 2015.)

This single insight—articulated so well by Gibson—is what surely informed Szabo and inspired Nakamoto.



But if the “underthrow” of Leviathan lies ahead, it will be thanks not only to encryption technology but also to understanding the beauty, flexibility, and robustness of emergent law. Smaller jurisdictions created by forking the code or by allowing people to vote with their boats are enough to reduce the costs of exit.

Szabo writes,

The overall goal of Juristopia is to improve the most important functions of government (especially defense and the abatement of public nuisances) while preventing the corruption, oppression, war, genocide, and other abuses that have so often come with police powers and taxation. Those evils have been particularly prone to occur when those powers are bundled into a locus of sovereignty, *a la* the personal totalitarianism of the Justinian Code, Bodin, and Hobbes or the parliamentary totalitarianism of Bagehot. These traditions of legal procedure, assuming political relationships are a matter of delegation rather than of property, have given us almost all of the worst in Western history: the Caesars, the Tsars, Napoleon, the Kaisers, the communist dictators, Mussolini, Franco, and Hitler among others—based on the profoundly false and destructive assumption, derived from the legal procedure of the Roman Empire, that there must be “one person” who is “responsible” for all politics and law—a person or (for Bagehot) small organization sitting at the top of a vast pyramid of principal-agent, usually boss-employee, relationships.

Although it discards totalitarian political structure and legal procedure, our proposed form of government is based on historically proven legal mechanisms. With the clarity of legal procedure it avoids the vague nonsense that often passes for political philosophy. Much of the political structure of Juristopia is based on highly evolved common law mechanisms such as property and contract, but these are used in the same basic manner as in the common law, rather than as misleading analogies or mere labels.

Let’s hope this process unfolds before the hierarchies grow too authoritarian in response.

Whether Nick Szabo is Satoshi Nakamoto I cannot say. But at the very least, Szabo was part of a community from which Nakamoto drew knowledge and inspiration. And that community was built on great ideas that are finally being given expression in ones and zeros. ■

**Max Borders** is editor of the *Freeman*. Read more by Max Borders at [FEE.org/Borders](http://FEE.org/Borders).

## OLIVER STONE: MEET FRIEDRICH HAYEK



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IN DEFENSE OF INSIDER TRADING

by *Alexandre Padilla*

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Gordon Gekko, the legendary character portrayed by Michael Douglas in Oliver Stone's *Wall Street*, is listed 24th in the American Film Institute's 100 greatest heroes and villains. If it weren't for the fact that Ivan Boesky, one of the infamous convicted insider traders of the late 1980s, inspired the character, such a ranking wouldn't be significant.

Unfortunately, Gekko's place on the list represents what people think about insiders, individuals who trade on the basis of nonpublic information.

The idea that some people in the corporate world—the insiders—can make profits or avoid losses “simply” by trading on information not available to the general public often leads to emotional reactions. For example, when Federal District Court Judge Richard J. Holwell sentenced former hedge fund manager Raj Rajaratnam to 11 years in jail for insider trading, he said, “Insider trading is an assault on the free markets,” adding that “his crimes reflect a virus in our business culture that needs to be eradicated.”

This year, the Second US Circuit Court of Appeals in New York reversed the convictions for insider trading of hedge fund managers Todd Newman and Anthony Chiasson. This decision overturned the framework the government had relied on for decades to bring a series of successful insider trading prosecutions. Three months later, Rep. Jim Himes (D-CT) and Rep. Steve Womack (R-AR) introduced a bipartisan bill to ban insider trading, because “you would never say, ‘Let's let the judges make the law around armed robbery.’”

But are insiders like armed robbers? Are they truly the villains of financial markets that we are told they are?

It might be the case that insiders are greedy people. Gekko's famous line in *Wall Street*, “Greed is good,” was borrowed from Boesky's 1986 commencement speech at the

University of California-Berkeley's Haas School of Business. It might be the case that insiders care only about making profits and avoiding losses. However, borrowing Adam Smith's words, is it possible that insiders, while pursuing their own gains, are *led by an invisible hand to promote an end that was no part of their intention*? Is it possible that *by pursuing their own interest, they frequently promote that of society more effectually than when they really intend to promote it*?

Once people understand the nature and role of prices, as well as how insiders, through their buying and selling decisions, rely on inside knowledge, they might see how such practices can help reinforce rather than hinder the market process.

### HAYEK AND “THE USE OF KNOWLEDGE IN SOCIETY”

One of the greatest economics debates of the 20th century was the socialist calculation debate. Friedrich Hayek and Ludwig von Mises argued that centrally planned economies “in which the government controls all the means of production” could not be as effective as market economies in which the means of production are privately owned. Markets ensure allocation of goods and labor to their most valued uses.

Monetary prices can only emerge in a system where factors of production can be the objects to exchange for the purpose of allocating them to various alternative lines of production. Prices emerge out of the competition for resources with alternative uses that are valued differently by all individuals. Therefore, without monetary prices, there cannot be any profit-and-loss mechanism to help owners to allocate their resources effectively and efficiently in the economy.

Socialist economists such as Oskar Lange replied that



planners could attempt to mimic the market mechanism by applying a trial-and-error procedure. But as Hayek pointed out, the decisions made by market participants that lead to price changes are not only based on scientific knowledge; they are also based on the “knowledge of the particular circumstances of time and place.” This local knowledge, Hayek argued, is the product of experience by those affected and cannot be communicated to a central planning board.

According to Hayek, prices convey more than just information about the decisions of myriad individuals; prices also convey the experiential knowledge dispersed among those myriad individuals—which they rely on to make their decisions. In other words, prices crystallize the local knowledge on which thousands of individuals rely to make their decisions.

Therefore, according to Hayek, the most significant aspect of the price system is “the economy of knowledge with which it operates, or how little the individual participants need to know in order to be able to take the right action.” Without prices, individuals would have to acquire astronomical amounts of dispersed knowledge in order to decide where to allocate their resources or to make production decisions. As a corollary, when individuals can’t use their local knowledge to make decisions, it impairs the effectiveness of the price system. Because individuals’ local knowledge is no longer crystallized in those prices, the entire system gets distorted.

#### THE USE OF INSIDE KNOWLEDGE IN THE STOCK MARKET

Hayek’s insights on the nature and role of prices and, particularly, the importance of local knowledge, are fundamental to the appreciation of how insider trading can improve market operations.

Most insiders, whether they are directors, officers, or large shareholders, acquire the nonpublic material information in the course of their work. The information they use when they engage in insider trading is nothing more than Hayek’s “knowledge of the particular circumstances of time and place.” As a result, when insiders decide to buy or sell stocks based on the information they acquired in the course of their work, that local knowledge gets incorporated into stock prices, leading to price changes. These price changes can help other market participants make decisions, even if they don’t know fully why the prices changed. On the other hand, when insiders cannot trade or must hide their trades, the price signal gets distorted or delayed.

In “Corporate Bankruptcy and Insider Trading” (*Journal of Business*, April 1997), H. Nejat Seyhun and Michael H. Bradley looked at the data and found that insiders start selling their stocks as far back as five years before the corporation files for bankruptcy, suggesting that “insiders possess privileged information regarding the future price of their firms’ securities.”

If insiders’ informed sales provide us indirectly with information about their firms’ future situation, we can recognize that the same insiders play another but similar role: whistleblower. In “Learning to Love Insider Trading” (*Wall Street Journal*, October 24, 2009), Donald Boudreaux suggests that insider trades serve the same role as whistleblowers, by communicating to minority shareholders and outside investors not to invest in the company.

“Prohibitions on insider trading prevent the market from adjusting as quickly as possible to changes in the demand for, and supply of, corporate assets,” writes Boudreaux. “The result is prices that lie.”

When prices lie, market participants are misled, causing them to behave in ways that harm themselves and the economy as a whole.

Viewed as a whistleblower function, insider trading could inhibit corporate frauds and, more particularly, accounting frauds such as the ones we witnessed with Enron. As Hayek explained, it really doesn’t matter why prices are dropping, other than indicating to market participants that there might be good reasons not to invest in a specific business.

José M. Marin and Jacques Olivier found that insiders’ sales prior to bankruptcies are not necessarily driven by a sudden need for liquidity or diversification. Their study (“The Dog That Did Not Bark: Insider Trading and Crashes,” CEPR Discussion Papers, 2007) shows that insider sales in the distant past are strong indicators of market crashes resulting from informed investors getting out of the market. But, because insider trading is illegal and the SEC closely monitors insiders’ transactions around events involving significant price changes, when insiders’ selling activity stops, it often means a market crash is imminent.

What these studies show is that insiders’ transactions communicate to the market their knowledge of the particular circumstances of time and place. This knowledge is crystallized into the stock prices and sends a signal to the market about how to reallocate resources.

#### BUSINESS INSIDER

As Adam Smith taught us, there is little doubt insiders are self-interested when they make their buying or selling decisions using inside information. They intend only to enhance their “own security.” Their decisions also lead to an outcome they may not have intended to promote. Their self-interested but informed decisions improve capital markets, as well as intrafirm efficiency. Preventing insiders from using their unique knowledge distorts the signals that stock prices send to other market participants. That leads to greater market instability and, sometimes, more corporate scandals. ■

**Alexandre Padilla** is an associate professor of economics at Metropolitan State University of Denver. Read more by Alexandre Padilla at [FEE.org/Padilla](http://FEE.org/Padilla).

## HOW POLICING WORKS IN A PRIVATIZED CITY

*Atlantic Station Is a City within a City*

BY JEFFREY A. TUCKER

“All the common areas of Atlantic Station, including the streets, sidewalks, parks, and alleys, are private property.”

Thus reads one line buried in the rules of conduct for Atlantic Station, a marvelous city within a city in Atlanta, Georgia. But it’s this one line that makes the critical difference. It’s why this one square mile in the heart of this great city has done more to model beauty, prosperity, diversity, and happy living than 50 years of “urban renewal” and other government programs.

The entire community was built on top of the old Atlanta Steel Mill, which opened in 1901 and closed in the 1970s, leaving desolation in its wake. Atlantic Station opened 10 years ago as a visionary entrepreneurial venture—the brainchild of the Jacoby Group, headed by Jim Jacoby—funded mostly with private money (the city helped with tax breaks and some infrastructure funding).

It is not a gated community walled off from the public for only the elite. There is no charge to get in. Everything is public access and subject to all the laws governing commercial property. The difference between the public and private city, however, is huge.

You can tell when you have entered the space. Whereas many areas of Atlanta struggle, this area in the heart of the city is clean, bright, ebullient, and bustling with enterprise and life.

On an evening recently, on the way to the movies in the spectacular theater there, I sat outside on the patio of a Mexican restaurant and watched adults and children playing games and having fun on the green space that serves as a mini-park in the middle of this urban experiment in capitalism. There were people of all races, classes, and ages. They listened to the live band and sang along.

As I sat there, I was suddenly overwhelmed with the sense of being in a mini-utopia. It’s like an idealized scene you see in a commercial for soda or some happy vacation getaway. It was one of the most blissful city scenes I’ve ever witnessed.

It was a typical evening, and it was all taking place in a place that was, only 20 years ago, a burned out, low-rent, disaster zone—the kind of place people flee. Now, the migration patterns have changed. Atlantic Station is a place where you want to live and work.

I was walking along, and a uniformed police officer bade me good evening. I responded with delight, and we had a nice conversation. She wanted to know if I was enjoying the

evening. She made a few bar recommendations, we chatted about the weather, and I went on. She was uniformed, yes, and probably armed, but in a non-threatening way. She looked sharp and helpful, as well as official.

Then it struck me that the police in the community are privately employed by the main stakeholders in the community: the merchants, apartment owners, and other service providers. (The streets are also private but open to the public.) For this reason, the police themselves have a deep investment in the well-being of the community and in the general happiness of the consumers who shop there. They are employees of the free enterprise system.

Sometimes in today’s overly militarized environment, it is easy to forget: policing is a completely legitimate, useful, important profession. Police officers are there to make sure that everyone is following the rules and to apprehend the vandals and criminals who break the rules. You might even call them the thin blue line.

What makes the difference here is the private nature of the contract that employs them. Just like every other employee in this community, they have a direct stake in the value of the space. They are there to serve customers, as every merchant in this community does.

The more valuable the community, the more valuable their own jobs. They have the incentive to do their job well, which means enhancing the experiences of rule keepers while driving out the rule breakers.

In Atlantic Station, those rules are strict, more so than I would have thought. There is a curfew for teens. You can’t wear gang-related or obscene clothing. You can’t carry weaponry. You can’t use indecent language. You can’t smoke. You can’t be boisterous. You can’t shout or be vulgar. You can jog, but you can’t just take off running through the streets like an animal.

If rules like this were imposed by a city government, people would rightly complain about the violation of rights. So why aren’t these rules violations of rights? Because it is private property and the owners determine them.

More important, the point of the rules is not to control people and run their lives; it is to enhance the value of the community for everyone. The rules can be changed depending on circumstances. They can be imposed strictly or not. It all depends on what’s best for Atlantic Station—and, yes, what’s best for business.

But you know what’s interesting, given all the rules? You don’t really feel them. They are not really posted anywhere.

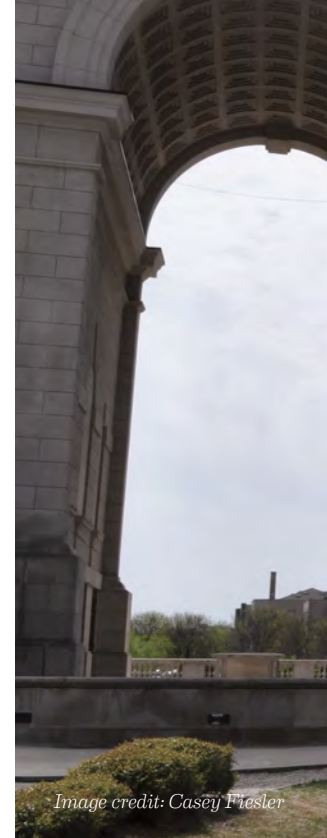


Image credit: Casey Friesler



*It was one of the most blissful city scenes I've ever witnessed.*

You just sense that they exist, and you feel a desire to behave well. The culture of cooperativeness and good behavior is ever present. And the rules have the effect of freeing you from annoying things, not restricting your behavior. It doesn't feel like an imposition. It feels orderly. The rules are enforced but with gentleness and care.

The first time I entered Atlantic Station was about 18 months ago. I had some sense that something was different about the place, but I hadn't understood that it was entirely private. I stepped out on the sidewalk and lit up a cigarette. One of those very nice private policemen came up and greeted me and politely asked me to put it out, on the grounds that smoking was against the rules in this private community. I said, you mean by this building? He said, no, for the whole community.

I didn't resent it. In fact, I was delighted to comply. I even thanked him for being so kind. There were no tickets, no yelling, no moments of intimidation. In Atlantic Station, no one is taking your stuff, threatening to arrest you, or even giving you tickets. You have the right of exit. The rules themselves become part of a larger market for rules.

Another interesting feature is how Atlantic Station has marketed itself. It is not seen as an experiment in capitalist living. All the promotion uses all the usual lefty buzzwords about energy efficiency, sustainability, diversity, renewable this and that, certifications by various green groups, and so on. None of it matters in the slightest. This is about private property. Period. It's ownership that realizes the ideals, whatever they are.

The lesson I derive from all of this is that institutions matter. You can have the same principles and laws in two places, one enforced publicly and one enforced privately.

The codes of conduct can be identical, but the results can be completely different.

Where monopolistic, tax-funded enforcement can be cruel, inflexible, and violent, the same enforcement within the matrix of an exchange economy can yield results that are humane, orderly, and beautiful. The right to just walk away makes all the difference.

The implications for policing are perhaps the most interesting, given the current controversy over police abuse. When the police function is part of the market order, the phrase "to serve and protect" takes on substantive meaning. It's this feature of public versus private property that is decisive.

There must be many of these communities appearing around the country. Governments at all levels are out of ideas and out of money. When was the last time you heard of some hugely expensive urban renewal program, or massive public housing structure, that was to be built in a major city?

These visions are less and less part of our lives and our future, thankfully. With governments bowing out of the planning business, private enterprise is increasingly moving in with real efforts at restoring community.

Private enterprise is gradually bringing about what governments only promised to do, and it is happening without much fanfare. In fact, I've not seen a single headline about this community, whereas there should be thousands that read something like "Private Commerce Saves Atlanta!"

Private property and inclusive commerce: it's the magic sauce that makes life beautiful. Come to Atlantic Station and see for yourself. ■

**Jeffrey A. Tucker** is director of digital development for FEE. Read more by Jeffrey A. Tucker at [FEE.org/Tucker](http://FEE.org/Tucker).



# WISH

REBECCA ARONSON

I want to lie down like a tiny birch canoe,  
sewn with red thread, afloat in the street  
in the rushing aftermath

of a good spring rain. To curl in the y of a desert willow  
at sundown when its pink blossoms  
are a thousand distant lanterns strung

among the branches. At night

I prop my sleeping body like a shield.  
I fly myself like a volley of arrows

toward the glowing eye of sleep's center.

I circle its edges, closing in. I call sleep's name  
into closets and empty drawers and listen for its echo.

I want to lay my body into the palm  
of my love's hand and diminish there,  
a chip of ice. I want sleep to vanish me

in its secret chamber, its magician's hat,  
where I'll lie curled in the dark  
like an unhatched bird, dreaming as my egg tooth sharpens.





# EATING LIGHT

MARY MOORE

Collocations, rifts, brief  
cleavings and aversions  
come and go as air  
prescribes—the maple leaves

tap on glass. Translucent,  
the leaves shiver and light  
tremors on the uncertain  
rumors, whispers

and stammers, motions-to-be  
signaled in quick torsions  
against the window, muscular  
flexion of light and shade;

then all stalls an instant  
spurning the glass.

The drifter leaves at  
branch tips are

bobbing, the inner leaves  
held still, deep in, veins up,  
eating the light that scuttles  
from leaf to leaf

stem to branch finally  
settling like whimsy itself.

Light's easy shuffle  
through leaves' decks

and tiers, its glib  
feint, dart and flick,  
helps hide the whole  
swallowing act.

But if you look and look  
you catch sight  
of light being eaten:  
the leaves shine, flicker, then

vanish, and a house finch,  
earth brown,  
size of the seedpod  
it perches by,

settles. Rest wrested from  
motion. Consolation?  
A light bead trembles, glints.  
The bird snaps it up.



# AFTER 35

JOSHUA ROBBINS

Sunday's late-afternoon heat strolls

The neighborhood's new blacktop

And dogs the strays collapsed in playground

Shade & whatever mercy found

The wren & buckled its orphaned heart

Beneath the picnic table where I sit

Taking in what little breeze

Comas the live oaks draws out laughter

From the back porches surrounding the park

Soon evening will arrive with its darkening

Refrain of malt liquor & stars

Wafts of agave blooms & marijuana

All the particulars that give me reason to sing

Even though this year was yet another call

Without response from the other world

What I pray is beyond this dust a descant

Of clear light & purpose where the body

Crescendos into the unknowable

What keeps me yearning what keeps you here

In this world of torn light and my excuses

I want to tell you I'm afraid things do not

Go on this way waking too early

Driving to work and later chopping onions

Some wine soft music to dance to





As the hardwood creaks & our toddler sleeps  
In the next room dreaming a familiar  
Melody neither of us will ever hear

I want to tell you I'm afraid  
Of grave walls how I didn't run yesterday  
That I'm afraid I don't love you enough

I know about the small bills stashed  
In your favorite books that you will wake  
One morning when the sun's small salvations

Seem just enough & more  
Than what I can give you what if  
I've been here all along singing

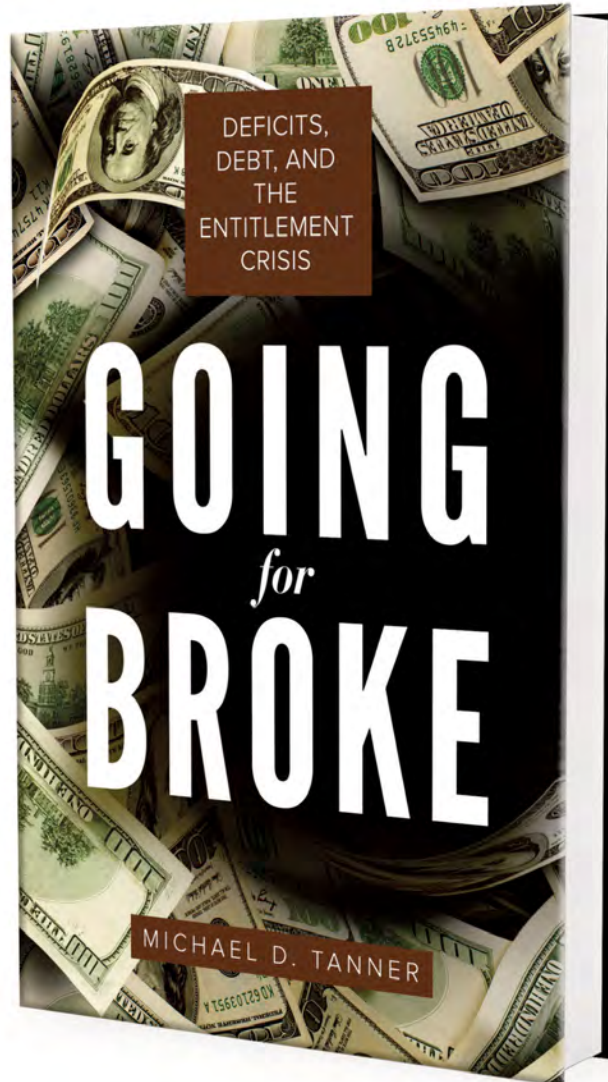
To the same God that is not the same God  
Asking for water for wings to rise  
Singing please I thought by now

I'd have something more to say  
Above the rooftops norteno tunes  
Rise & drift on through July

What I want is to hear you call me home  
Listen I'm afraid there is no other world  
I'm afraid this will never be enough

“A must-read book on  
America’s fiscal future: clear,  
compelling, and...terrifying.”

—DOUGLAS HOLTZ-EAKIN, *former Director of the Congressional Budget Office*



Our growing national debt has dropped out of the headlines recently—but that doesn’t mean the problem has gone away. Despite a national debt over \$18 trillion, politicians from both parties continue to avoid taking serious responsibility and action when it comes to the difficult decisions that must be made regarding Medicare, Medicaid, Social Security, and more. In *Going for Broke*, Michael Tanner provides a critical, in-depth analysis of these entitlement programs and lays out much-needed solutions for real reform. **HARDBACK: \$18.95**


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Planning does not accidentally deteriorate into the militarization of the economy; it *is* the militarization of the economy... When the story of the Left is seen in this light, the idea of economic planning begins to appear not only accidentally but inherently reactionary. The *theory of planning* was, from its inception, modeled after feudal and militaristic organizations. Elements of the Left tried to transform it into a radical program, to fit into a progressive revolutionary vision. But it doesn't fit. Attempts to implement this theory invariably reveal its true nature. The *practice of planning* is nothing but the militarization of the economy.