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Features

Page 7

Page 14

The Arena

Columns

Culture

Poetry

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Adventures in Economic Fairyland

The first thing a man will do for his ideal is lie.
—Joseph Schumpeter

One of the most intractable problems of economics is not that it's a dismal science, although that can be true. It's that it's easy to use the discipline to justify telling people what they want to hear.

There is a Wizard of Oz quality about economics, especially these days. Data are treated as tea leaves or Rorschach blots. Macroeconomists, in particular, have become an elite cadre of charlatans. These accusations may seem unfair coming from an organization called the Foundation for Economic Education. But as Hayek wrote, "The curious task of economics is to demonstrate to men how little they really know about what they imagine they can design." We take that task very seriously.

In other words, practitioners of economics not only use numbers to mislead the public; they use both theory and data to self-deceive. This may sound harsh. But no social scientist can operate free of his own values and biases. We all do it. The question is, to what extent do our biases interfere with our understanding of the world around us? And if no one is able to break the spell of ideology, how can we be better truth seekers despite our colored lenses?

Unfortunately, most people crave palatable narratives a lot more than they crave truth. And once a narrative starts to spread — right or wrong (and usually wrong) — it can infect the national psychology for years. Don't believe us?

Ask yourself which of the following are accepted as common knowledge:

- Government spending make-work programs got the United States out of the Great Depression.
- Scandinavian countries are proof that you can have high taxes and income redistribution without negative economic effects.
- International trade makes some countries richer and others poorer.
- Encouraging consumer spending stimulates the economy.
- Minimum wages have a net positive effect on employment and on the living standards of the poor.

Most economic myths like the examples above have one or two of a few common features that make them good candidates as memes:

1. They offer the illusion of control by experts.
2. They offer the illusion that the economy can be fixed.
3. They seem plausible or intuitive.
4. They seem motivated by good intentions.
5. They are just-so stories that can be "proven" by data legerdemain.
6. They provide the wielder with a "gotcha" or "told ya so" in arguments.
7. They can be reinforced by technically obscure, impenetrable studies.
8. They reinforce what we wish were the case.
9. They are costly to debunk.
10. They are easy to remember and share.

So what do we do about these myths? Thus far, it seems we have been tasked with something rather insurmountable.

Let's assume that the sort of economics we propound in these pages is almost entirely correct and overwhelmingly tracks with the truth. Sure, we are biased. But let us stipulate that we are biased toward reality, not ideology or fantasy.

If we are in the business of educating people about the truth, is ours too costly and difficult a road? How many of the 10 qualities of the false narratives above do our counternarratives have? By our estimation: not many. Unfortunately, educating people about phenomena that are counterintuitive, not-so-easy to remember, and suggest our individual lack of human control (for starters) can seem like an uphill battle in the war of ideas.

So we sally forth into a kind of wilderness, an economic fairyland. We are myth busters in a world where people crave myths more than reality. Why do they so readily embrace untruth? Primarily because the immediate costs of doing so are so low and the psychic benefits are so high.

If we are on the side of truth in economic matters, we have to be more creative in how we demonstrate such truths. We have to tell better stories, use better illustrations, use metaphors and cognitive shortcuts that help us with the immensity of this task. And we have to be prepared to stay engaged in an ideological struggle that will last long after we have passed from this life. FEE

Voting Advances Liberty

CASEY GIVEN

Anyone with a hint of public choice knowledge can repeat the case against voting by heart. Most voters are rationally ignorant, supporting politicians and causes they know little about. The chance of an individual's vote actually affecting an election outcome is almost nil. In fact, an individual has a greater chance of dying en route to the voting booth than being the deciding vote in an election. So, why bother risking your life at worst and wasting hours of your life at best waiting in line for little more than a self-congratulatory sticker?

These facts are undeniable and present a powerful case against voting. Considering that libertarians' policy positions do not neatly fit either major party and that the Libertarian Party has had limited electoral success, it's tempting to sit on the sidelines laughing at what a fool's game elections are. This strategy, however, ignores the secondhand effects that voting has on influencing policy and political movements in the long term. By engaging in the political process, libertarians can help build a freer tomorrow by voicing market-oriented public policy ideas through the channels that elections open up.

Elections are not just about voting. In the months leading up to Election Day, candidates engage in a battle of ideas. Whether through canvassing, commercials, debates, radio and television interviews, or town halls, electioneering opens up multiple communications media that are more difficult to engage with in the political off-season. We can use these media to spread the message of liberty.

Libertarians forget that most people are not as tuned in to the world of ideas as they are. As much as we may enjoy reading the seemingly infinite variety of blogs, books, and policy papers about freedom and free markets, most people could not care less. Between their busy professional and family lives, individuals often only take interest in politics in the short window before elections that opens every few years. How should we expect to take liberty mainstream if we slam this window shut with the sanctimoniousness of a cranky old man?

It's particularly ironic that so many among our ranks shun politics when much of the movement's success over the past few years is largely the result of one campaign in particular. Although many libertarians look back at our political naïveté six years ago with a sigh (no, he really never had a chance of winning), the undeniable truth is that Ron Paul's presidential campaign introduced millions to the ideas of liberty. While he did not win, the Texas congressman's campaign was wildly successful in recruiting a new generation of warriors for freedom.

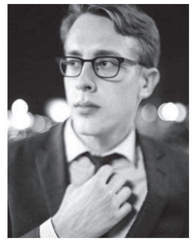
From the rubble of Students for Ron Paul arose Young Americans for Liberty, a powerful student organization with over 500 chapters across the United States. The new energy for liberty created by the campaign has not been limited to the United States, either. My employer, Students For Liberty, was formed the same year as Paul's presidential run and has since gone global — now claiming a network of over 150,000 students on six continents. (SFL Antarctica, unfortunately, is still to come.)

While these victories for liberty cannot be solely attributed to Paul, it's hard to claim that the movement would be as strong as it is today if it wasn't for his 2008 and 2012 campaigns. The influence of "the good doctor," as so many young libertarians once fondly called him, is a prime example of the secondhand effects voting has on shaping political discourse and movements in the long term.

The influence of Paul's campaigns is not unique. For decades, libertarian scholars have pointed out the secondhand effects voting has on shaping future policies. In *The Machinery of Freedom* (available for free in PDF), David Friedman points out that the Socialist Party of the early 20th century "succeeded in enacting into law virtually every economic proposal in its 1928 platform — a list of radical proposals ranging from minimum wages to social security," despite having "never gained control over

continued on page 6

Voting Does Not Advance Liberty



JOSEPH S. DIEDRICH

Few pillars of American society are regarded as highly as the right to vote. Yet, at the end of the day, voting does not advance liberty. Rather, it sanctions the status quo and encourages uncivilized behavior. It's also a waste of time — time that could be spent actually advancing liberty.

For starters, the numbers suggest that voting doesn't correlate with freedom. In their most recent presidential elections, nine of the most economically oppressed nations in the world — Argentina, Chad, Democratic Republic of Congo, Equatorial Guinea, Iran, Republic of the Congo, Turkmenistan, Venezuela, and Zimbabwe — had an average voter turnout of 73.04 percent. The worldwide average was 66.2 percent. In freer countries like Switzerland, not even half the populace bothered to vote.

Maybe the Swiss are onto something.

Engaging in the political spectacle only serves to reinforce it. After all, most politicians agree on substance: yay to taxes, war, welfare, privacy invasions, social policing, and so on. Rather than focus on substantive issues, politicians clamor about marginal controversies — because they have to. The only way to win is by widening any ostensible disparities. Neither candidate has any interest in a display of agreement.

During the campaign, politicians treat prospective voters like kings. After the election, the winner completes a bait-and-switch, as Frédéric Bastiat points out in *The Law:* "When the legislator is finally elected — ah! then indeed does the tone of his speech undergo a radical change.... The people who, during the election, were so wise, so moral, and so perfect, now have no tendencies whatever."

Many of us recognize the unsavory nature of politics but vote anyway. But regardless of which candidate you choose, voting signals that one is content with the status quo. In other words, the very act of voting suggests that you're happy with choosing between two mediocre alternatives, so long as you have a choice. Outside of politics, however, alternatives never stop at two — they're infinite.

Voting also encourages voters to act in uncivilized ways. It brings out the worst in us. Normally, we frown upon insults and hatred. Come election time, though, it suddenly becomes okay to accost your neighbor — so long as she's a member of that other party. Campaigns, rallies, and voting booths turn otherwise pleasant people into antisocial thugs.

Voting is also a colossal waste of time. Let's say you vote once every two years. Over the course of your life, you'll spend literally days at the polling place — and in all that time, odds are you will never once decide the result. There are better ways to advance liberty.

Instead of voting, throw your energies into entrepreneurship. Because the government will always be reactionary, the productive among us will always be one step ahead. And your abstention will send a message to the State: "You are irrelevant to me!"

Throughout history, the most powerful changes have materialized outside the political system. Gutenberg didn't waste his time voting or trying to get elected. Instead, he invented moveable type and ushered in the printing revolution. Voting didn't invent the automobile. It didn't cure polio. The State has never increased our standard of living; only peacefully cooperating individuals have.

Today, inventions like 3-D printing, driverless cars, and bitcoin have the clear potential to improve our lives. Two hundred years from now, it won't matter who won an election in 2014. What will matter are the discoveries, inventions, and efforts of private entrepreneurs attempting to satiate our ever-evolving demands.

Unfortunately, voting eats away at the entrepreneurial spirit: it lulls people into a false sense of accomplishment. Once they've cast their ballots, voters feel no obligation to continue advocating for their cause. It's like the religious man who goes to church every Sunday but acts immorally the rest of the week. (Well, at least he goes weekly.)

continued on page 6

anything larger than the city of Milwaukee." Likewise, libertarians can "regard politics not as a means of gaining power but as a means of spreading ideas," as Friedman put it, by engaging in electioneering to shift the Overton Window of acceptable policy proposals toward a freer tomorrow.

Several prominent nonvoters have disagreed with such a strategy by asserting that nonvoting is itself a protest statement that could gain attention. In his *New Libertarian Manifesto* (also available in PDF), for example, Samuel Edward Konkin III suggests shifting the focus from voting to education, publicity, recruitment, and perhaps some anti-political campaigning ("Vote For Nobody," "None of the Above," "Boycott the Ballot," "Don't Vote, It Only Encourages Them!" for example) to publicize the libertarian alternative.

The problem with such thinking is that millions of people already do not vote, and they are not perceived by the media as doing it out of principle. To the contrary, get-out-the-vote campaigns operate on the assumption that people do not vote out of ignorance instead of principled protest. One Pew study on nonvoters reveals this perception to be largely true: "Nonvoters are younger, less educated and less affluent than are likely voters." Thirty-six percent of nonvoters are under 30, and only 13 percent are college graduates. By joining their ranks, libertarians do not strengthen their voice of protest but rather silence it in a sea of irrelevance.

For years, many libertarians have retreated to the realm of ideas instead of engaging in a political world that too often does not understand liberty. While such a strategy may be fulfilling for some, it is ultimately not a blueprint to making the world a freer place. Whether we like it or not, the State will keep growing regardless of how many Hayek books we hand out. Instead of shaming libertarians who campaign, organize, and vote, it's time to thank them for seeking to produce liberty in our lifetime. This, after all, is the larger challenge that not many dare to take up. FEE

Casey Given is an editor and political commentator with Young Voices, a project aiming to promote millennials' policy opinions in the media.

Even if you're not the entrepreneurial type, you can still do better than electoral politics. There is a way in which we already vote every day — not by drawing lines or checking boxes, but with our minds and our money.

Commercial "elections" take place an incalculable number of times every day across the globe. Markets present real choices among infinite alternatives. We make individual commercial decisions that affect ourselves and others. What emerges from this gallimaufry of countless interrelated transactions is nothing short of miraculous. Thousands of years of comparably infinitesimal commercial "elections" have culminated in the wonders of civilization that we enjoy today.

Every decision simultaneously affects demand, supply, and price, and ultimately leads to a more preferable society. Choosing Burger King over McDonald's, regular over decaf, or leather over suede are all actions vastly more influential to the future composition of society than choosing the elephant over the donkey. No matter for whom you vote in a political election, the government always wins. But if enough people stop "voting" for Duracell batteries, eventually they won't exist.

What's more, the market process is peaceful. Compare the grocery store to a political rally. Which is more civilized? In the realm of mutually beneficial commerce, we tend to get along.

At the next election, you could visit the voting booth. Connect the arrows for your favorite politician. Send a signal: "I'm perfectly fine with the way things are. Don't change a thing. I've done my part now." The State will emerge victorious — just as inert, stubborn, and monstrous as ever.

Or, you could go see a movie. Purchase a ticket. Send a signal to all the theater owners and all the movie producers: "I prefer this movie over that one. In fact, I prefer watching a movie over everything else I could be doing right now." You'll help shape the future. You might even have some fun.

Choose to make a difference. Don't vote. FEE

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The Four Core Beliefs of Enterprise

How to solve complex business problems

LAWRENCE W. REED AND WAYNE OLSON

The term *tunnel vision* carries such a negative connotation that no one ever really wants it, even if they're traveling through a tunnel. We say we want to be conscious of as much of our surroundings as possible, not simply a narrow sliver. We want to perceive all the relevant factors and remain aware of new things that might improve our situation.

Alas, that's almost always easier said than done.

Just ask Bartley J. Madden, author of a new, 122-page book, *Reconstructing Your Worldview*. Better yet, if you're an aspiring entrepreneur, read the book and visit his website LearningWhatWorks.com.

Madden has spent decades trying to understand the business world during his career in money management, investment research, and university teaching. His longtime fascination with methods of solving complex business problems led him to realize that the way we say we want to see the world and the way we actually do are two very different things. It takes a conscious, thoughtful effort to open wide our mind's eye, so to speak. If you learn to do it systematically, the result can be a new worldview that will reshape how you notice opportunities and capitalize on them.

Nearly 40 years ago, we heard Austrian economist Israel Kirzner lecture on his specialty, entrepreneurship. He employed an analogy we'll never forget. He asked his audience to imagine a free, dynamic economy as a place where a quiet blizzard of $10 bills is raging just overhead. Most people never notice it, but one very special kind of person does: the entrepreneur. He sees the bills and musters the courage to reach up and grab one. In other words, he deploys his "entrepreneurial alertness" to seize an opportunity: to buy low and sell high, to assemble factors of production to make a product or service worth

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more than its input costs, or to move a good from one place to another where it's more desired. Perhaps an even more apt analogy would be a blizzard in which most of the flying bills are fake and worthless, and only a few are "winners." But in any event, it's the entrepreneur whose powers of observation are great enough to see any of them at all.

Entrepreneurial alertness is essentially what Madden implores us to cultivate. We must start by recognizing what he calls "the four core beliefs" we need to solve problems in business:

1. Past experiences shape our current assumptions.
2. Language is perception's silent partner.
3. Improving any system's performance requires that we identify and fix its key constraints.
4. Human behavior is purposeful; we act not simply in response to stimuli (much as a ball rolls in the direction in which it's pushed) but in a conscious, living fashion. We compare our *actual* experiences to our *preferred* experiences and then act to create new experiences that come as close to the preferred ones as possible.

These four core beliefs are more profound than Madden believes we commonly assume.

Each teaches a vital lesson. On a whole, their underlying message for economics concerns how innovation develops when the market is open to new entrants. Established businesses get caught up in the same old ways of looking at the world and the opportunities for value creation. So do government bureaucracies, but the difference is that government bureaucracies tend to institutionalize the conventional ways of looking at the world and create barriers to anyone trying to change them; private industries that fail to change will be swept away.

The book is thoroughly researched and rich with citations that allow the reader to pursue the subject in depth. Madden even delves into how people form beliefs and act on them, using the latest findings.

He beautifully illustrates the first two of the four core beliefs with a Kmart-versus-Walmart example. Kmart's management had in their minds the word "store" and defined it in ways they'd always seen a "store" behaving and delivering profitable results for them: freestanding and run independently by its own manager. So they stuck to that business model, namely: put a big box in a big town and assume that is necessary for generating the desired economies of scale. In contrast, as Madden explains, "in Sam Walton's worldview, each store was an integrated part of a networked system" that could create value in the wide-open small-town markets.

A "worldview" is not about one innovative idea that turns out well, but about openness to experimentation and knowledge building. Madden continues, "Walmart's networked system of stores and distribution centers resulted in fast-paced learning and high efficiencies.... Over time, Walmart greatly expanded and improved its business processes at a far more rapid pace than did Kmart," eventually leaving Kmart in the dust, even in the larger towns.

The third core belief is that in order to make a complex process create more value, it's not enough to pick individual components and improve them; you have to identify where the constraints are in the process. If the bottleneck is at process B in the production line, improving the efficiency of process A will merely increase the size of the problem at process B. The problem is that the managers of process A in the centralized operation have every incentive to propose "improvements" that actually create no value.

Madden follows this thought to an in-depth discussion of the merits of distributed systems over centrally planned systems, including "lean thinking" concepts, where he makes this key point: "A lean culture has a horizontal orientation in order to better coordinate work and reduce waste along the entire value streams that end with the customers.... In contrast, a command-and-control orientation is composed of vertical silos with incentives to improve local efficiencies."

Placing this belief in a much broader context, he observes that "nature has a propensity for distributed solutions" and, echoing Hayek, "when a society's institutions evolve through a naturally "evolutionary" process, rather than one of an imposed human design, the result tends to reflect decentralization and a selection of whatever works best."

The fourth core belief should appeal to all those who have read Ludwig von Mises's magnum opus, *Human Action,* or are even moderately familiar with the central insights of the Austrian school that Mises represents. When you're dealing with people, you're dealing with independent actors who will respond to stimuli according to their own "control systems," which Madden likens to a thermostat. Their reaction to something depends on whether it will move them closer to a desired state that represents their goals. So you can't ignore the incentives — you can't move people around like pieces on a chessboard, as Adam Smith's central-planning "man of system" tries to do.

This is where government programs almost always fall down, but Madden makes it clear that private businesses can easily fall into the same trap if they're not mindful — in which case, the market gives them the feedback that they've made a mistake, something that rarely if ever happens to the people running government programs.

In a summary video (tinyurl.com/pvv7pnc), Madden offers an example in Michelin run-flat tires. Company managers got trapped in their historical line of thinking and their accustomed vocabulary: *engineering breakthrough in tire technology leads to enormous profits*. They fell in love with the run-flat technology, and so, apparently, did a bunch of industry observers. You could dispense with spare tires forever! How cool is that? Michelin failed, however, to see the total value stream ending with the customer; in particular, the company failed to take into account how the customer was supposed to get a tire repaired once he experienced a flat. Repair shops had their own control systems around whether they wanted to invest in the physical and human capital that would be required to handle this new product. And in the end, repair shops decided not to, so the product was dead on arrival.

One outstanding example of a dysfunctional interruption in the value stream from manufacturers to customers is the approvals process for new pharmaceuticals at the Food and Drug Administration (FDA). Madden has fully discussed this problem and a practical means to overcome some of the worst effects in his earlier book *Free to Choose Medicine*. And in the final chapter of his current book, he demonstrates that the situation at the FDA is an excellent case study in the violation of the principles underlying the four core beliefs.

If you take Madden's advice and reconstruct your worldview through the prism of his four core beliefs, you're likely to think and behave more like a seasoned entrepreneur. Success becomes more probable, though never assured in an uncertain world. In an age in which changes happen fast, labor and capital are more mobile than ever, and technology opens doors widest to those who grasp it first, every little bit helps. FEE

Lawrence W. ("Larry") Reed is president of FEE.

Wayne Olson is FEE's Executive Director.

MADDEN'S FOUR CORE BELIEFS

1. Past experiences shape our current assumptions.
2. Language is perception's silent partner.
3. Improving any system's performance requires that we identify and fix its key constraints.
4. Human behavior is purposeful; we act not simply in response to stimuli (much as a ball rolls in the direction in which it's pushed) but in a conscious, living fashion. We compare our *actual* experiences to our *preferred* experiences and then act to create new experiences that come as close to the preferred ones as possible.

5 Economic Myths That Just Won't Die

A persistent set of economic narratives still plagues us

COREY IACONO

Most people get their economic information through Internet memes and hit pieces filled with nonsense. A common theme is that the forceful hand of government is all that is needed to make things right.

For example, everyone "knows" that government laws ended child labor, and that the New Deal ended the Great Depression, but are these actually valid claims?

Here are five such myths that too many people just accept as true.

Myth 1. The idea that economic growth helps the poor is trickle-down economics … it doesn't actually help them.

In a 2001 paper titled "Growth Is Good for the Poor," economists Art Kraay and David Dollar of the World Bank found that when average incomes rise, the average incomes of the poorest fifth of society rise proportionately. This result held across regions, periods, income levels, and growth rates. In 2013, more than a decade after their original paper, Kraay and Dollar explored the relationship between economic growth and poverty again, using data from 118 countries over four decades. They came to the same conclusion. According to the economists,

> This evidence confirms the central importance of economic growth for poverty reduction … institutions and policies that promote economic growth in general will on average raise incomes of the poor equiproportionally, thereby promoting "shared prosperity" … there are almost no cases in which growth is significantly pro-poor or pro-rich.

EVERYONE "knows" that government laws ended child labor and that the New Deal ended the Great Depression, but are these actually valid claims?

This means that policies that enhance economic growth through methods such as limiting the size of government and lowering barriers to international trade are key to alleviating poverty. Economic growth, not transfer programs, is in fact the primary driver of poverty reduction, and this empirical truth has been proved for a long time.

Myth 2. Free trade doesn't lead to better economic outcomes in the real world.

Paul Krugman once quipped, "If there were an Economist's Creed, it would surely contain the affirmations 'I understand the Principle of Comparative Advantage' and 'I advocate Free Trade.'" However, critics of free trade, such as development economist Ha Joon Chang, have made very odd statements such as this one:

> There is a respectable historical case for tariff protection for industries that are not yet profitable. … By contrast, free trade works well only in the fantasy theoretical world of perfect competition.

Comments like these are puzzling because proponents of free trade don't assume there is perfect competition. They simply recognize that if one country can produce a product at a lower opportunity cost than another, trade between the countries (or individuals) is mutually beneficial. (This is known as the theory of comparative advantage.)

Economists have examined countless times whether or not freer trade leads to greater economic growth. In regard to trade liberalization — reform that lowers barriers to international trade — the evidence consistently shows that such reforms improve economic performance over time.

According to one study that examined 141 trade liberalizations and compared economic performance before and after liberalization (after controlling for confounding factors), "Per capita growth of countries [after] liberalization was some 1.5 percentage points higher than before liberalization, and investment rates were 1.5–2.0 percentage points higher."

Subsequent research from Antoni Estevadeordal and Alan M. Taylor took the analysis further by comparing growth rates before and after 1990, when a wave of trade liberalizations occurred. The economists divided countries into an experimental group (the countries that liberalized trade regimes) and a control group (those that did not). According to a summary of their research, the authors "find strong evidence that liberalizing tariffs on imported capital and intermediate goods raised growth rates by about one percentage point annually in the liberalizing countries." Research has also shown that trade liberalization has caused greater economic performance in sub-Saharan Africa, a region desperately in need of growth.

Reforms that result in freer trade generally lead to superior economic outcomes. This is a well-documented observation. Although there may be situations in which freer trade is undesirable, these situations are not the norm, and free-trade policies are still the "reasonable rule of thumb," as Krugman has put it.

Myth 3. The government ended child labor. In a free market, child labor would still exist.

The assertion that government laws and regulations ended child labor is endlessly repeated and often used as "proof" that without such laws, child labor would be pervasive in the market economy. The Economic History Association has shown this is not the case:

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> Most economic historians conclude that [child labor] legislation was not the primary reason for the reduction and virtual elimination of child labor between 1880 and 1940. Instead they point out that industrialization and economic growth brought rising incomes, which allowed parents the luxury of keeping their children out of the work force.

According to the National Bureau of Economic Research, "While bans against child labor are a common policy tool, there is very little empirical evidence validating their effectiveness."

Not only is there little evidence supporting the effectiveness of these laws; there is evidence that such laws actually make the families they are intended to help worse off. Research on child labor bans in India found that "along various margins of household expenditure, consumption, calorie intake and asset holdings, households are worse off after the [child labor] ban."

Myth 4. Countries like Sweden and Denmark prove that high taxes don't harm economic growth.

Saying that high taxes don't harm economic growth because its effects aren't superficially visible in one country, or a few, is like saying that cigarettes don't harm an individual's health because many young and healthy people smoke them and there are no immediately clear detrimental effects. Many factors affect economic growth. In order to see how high taxes affect growth, researchers control for confounding variables and use large national and international data sets.

According to research published by the European Central Bank that used annual data from 1965 to 2007 for 26 economies, "the effect of an increase in taxes on real GDP per capita is negative and persistent: an increase in the total tax rate (measured as the total tax ratio to GDP) by 1% of GDP has a long-run effect on real GDP per capita of –0.5% to –1%."

Numerous other studies on government size and economic growth have come to the same conclusion. Furthermore, a study of the macroeconomic effects of Danish taxation found that

> Danish taxation generates an overall efficiency loss corresponding to a 12 percent reduction in total income. It is possible to reap 4/5 of this potential efficiency gain by going from a high-tax Scandinavian system to a level of taxation in line with low-tax OECD countries such as the United States.

However, even relatively low-taxed countries like the United States are not immune to the detrimental effects of taxation. A seminal paper by Keynesian economists Christina and David Romer found that taxes are often raised during times of economic expansion and cut during times of economic downturn. This tendency makes it harder to observe the effect of taxes on economic growth. However, the Romers found that they could accurately estimate the effects of tax changes by examining those that were undertaken for reasons unrelated to economic growth. According to the Romers' estimates, "tax increases are highly contractionary. The effects are strongly significant, highly robust, and much larger than those obtained using broader measures of tax changes." Specifically, they find that increasing taxation by 1 percent of GDP shrinks GDP by 3 percent.

INCREASING taxation by 1 percent of GDP shrinks GDP by 3 percent.

Overall, it seems clear that higher levels of taxation stifle economic growth and that countries with a higher total tax burden have slower-growing economies than countries with smaller tax burdens, holding other things equal.

Myth 5. Capitalism isn't economically superior to socialism.

A considerable amount of research has examined how a transition from socialism (or a repressed-market economy) to a market economy (or a freer market economy) — a process known as economic liberalization — affects economic growth.

For example, using data from 140 countries over the time period 1960–2000, economists from Bocconi University compared countries that underwent economic liberalization to those that didn't. After controlling for other relevant variables, they found that

> economic liberalization is good along all dimensions: it is accompanied by better structural policies and better macroeconomic policies, and it is followed by improved economic performance. This timing suggests a causal interpretation, at least with regard to economic outcomes.

Subsequent research published in the *Journal of Economic Surveys* has found that "there are strong indications that liberalization … stimulates economic growth." For a specific example, look no further than China.

Research from Oxford University's economics department has found that China's economic growth, which has been driving its massive poverty reduction, was fueled by trade liberalization, rapid privatization, and sectorial changes. As a result of these reforms, China's GDP per capita grew 4.1 percentage points faster than it otherwise would have, lifting millions out of poverty.

IT IS OFTEN assumed that government is a tool for creating better economic and social outcomes, but what if government is actually an obstacle to these ends?

A review of over 40 studies on the relationship between economic freedom and economic growth (with economic freedom measured using the Fraser Institute's Economic Freedom of the World Index) found that research consistently demonstrates that freer markets are robustly associated with greater economic performance. Studies have shown that economic freedom causes economic growth; the relationship is not a mere correlation.

Empirical research also finds that "countries can increase the utility of their national resources by approximately 45% simply by converting to market-based economies" and also consistently finds that the private sector is more efficient than the public sector.

Conclusion

It is often assumed that government is a tool for creating better economic and social outcomes, but what if government is actually an obstacle to these ends? The evidence cited here suggests that governments cannot simply legislate problems out of existence. In fact, intervention often exacerbates the problems it was meant to solve.

Furthermore, the assertions that traditional economic theories don't apply to reality are false. Research shows that taxes do distort the economy, growth is good for the poor, and freer trade does lead to greater economic performance. FEE

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When Government Spreads Disease: The 1906 Meat Inspection Act

Government has been spoiling stuff since well before the TSA

JEFFREY A. TUCKER

You know the old myth about the meat-packing industry. In 1906, Upton Sinclair came out with his book *The Jungle*, and it shocked the nation by documenting the horror of the meat-packing industry. People were being boiled in vats and sent to larders. Rat waste was mixed with meat. And so on.

As a result, the Federal Meat Inspection Act passed Congress, and consumers were saved from ghastly diseases. The lesson is that government is essential to stop private enterprise from poisoning us with its food.

To some extent, this mythology accounts for the wide support for government's involvement in stopping Ebola today. Not only that, but the story is also the basis for the U.S. Department of Agriculture's food inspection efforts, the Food and Drug Administration's regulation of medical drugs, the central plan that governs food production, the Centers for Disease Control and Prevention, and the legions of bureaucrats who inspect and badger enterprise every step of the way. It is the founding template for why government is involved in our food and health at all.

It's all premised on the implausible idea that people who make and sell us food have no concern as to whether it makes us sick. It only takes a quick second, though, to realize that this idea just isn't true. So long as there is a functioning, consumer-driven marketplace, customer focus, which presumably includes not killing you, is the best regulator. Producer reputation has been a huge feature of profitability, too. And hygiene was a huge feature of reputation — long before Yelp.

Lawrence Reed deals ably with other myths of the meat-packing industry. Sinclair's book was not intended as a factual account. It was a fantasy rendered as a socialist

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screed. It did drum up support for regulation, but the real reason for the act's passage was that the large Chicago meat packers realized that regulation would hurt their smaller competitors more than themselves. Meat inspections imposed costs that cartelized the industry. That's why the largest players were the law's biggest promoters. Such laws almost have more to do with benefiting elites than with protecting the public.

Still, there is more to this little-known history that speaks to the entire basis for government management of health. The legislation required federal inspectors to be on-site at all hours in every meat-packing plant. At the time, regulators came up with a shabby method for detecting bad meat, namely poking a rod into the meat and smelling the rod. If it came out smelling clean, they would poke the same rod into the next piece of meat and smell it again. They would do this throughout the entire plant.

But as Baylen J. Linnekin points out in "The Food-Safety Fallacy: More Regulation Doesn't Necessarily Make Food Safer" (*Northeastern University Law Journal*, vol. 4, no. 1), this method was fundamentally flawed. You can't necessarily detect pathogens in meat by smell. It takes a long time for bacteria to begin to stink. In the meantime, bacteria can spread disease through touch. The rod could pick up bacteria and transmit them from one piece of meat to another, and there was no way for inspectors to know about it. This method of testing meat most certainly spread any pathogens from bad meat to good meat, ensuring that an entire plant became a house of pathogens rather than having them restricted to just one carcass.

As Linnekin explains:

> USDA inspectors undoubtedly transmitted harmful bacteria from one contaminated piece of meat to other uncontaminated pieces in untold quantities and, consequently, were directly responsible for sickening untold numbers of Americans by their actions.
>
> Poke-and-sniff — incredibly a centerpiece of the USDA's meat inspection program until the late 1990s — was, in terms of its sheer efficiency at transmitting pathogens from infected meat to clean meat, nearly the ideal device. Add to this the fact that the USDA's own inspectors were critical of the inspection regime from the start, and that the USDA abdicated its inspection role at hundreds of meat processors for nearly three decades, and it becomes quite apparent that instead of making food safer, poke-and-sniff made food and consumers less safe.

Yes, you read that right. Poke-and-sniff began in 1906 and was common until the 1990s. The USDA's own website recounts the career of one meat inspector who praised the shift from the old practice, a practice that persisted longer than even Soviet communism.

When people teach about this history in a conventional classroom environment, they tell the story of meat-packing horror and the act's passage. But there the story ends. There is a pervasive lack of curiosity about what happened next. Did the regulations achieve their aims? Did the situation improve, and, if so, was this improvement due to the regulations or to private innovations? Or did the problem get worse, and, if so, can the worsening be traced to the regulations themselves? These are the sorts of questions we need to ask.

As for why bad practices last and don't get weeded out through experimentation, this is the way it is with regulations. Once a rule is in place, no one can seem to stop it, no matter how little sense it makes. You know this if you have ever been in the security line at the airport. The sheer irrationality strikes me every time — and it strikes the Transportation Safety Administration employees, too. They are taking away bottles of shampoo but allowing lighters on planes. Sometimes they confiscate a corkscrew and other times not. They test your hands to make sure you haven't been handling bombs, but the sheer implausibility is so apparent that the inspectors themselves can hardly keep a straight face.

Whenever government imposes a rule, it begins to operate as if on autopilot. No matter how brainless, damaging, irrational, or outmoded it happens to be, the rule ends up trumping the reasoning of the human mind. This becomes a very serious matter regarding health. Ruling this sector of life, you don't want an overlord who is unresponsive to new information and new evidence and innovation — a regime that specializes in following a routine, no matter how bad, rather than improving itself with a testable goal in mind.

This is why in societies where governments rule, all things slip into a frozen state. This is why even today Cuba seems like a tableau of the 1950s. This is why when the curtain was pulled back on East Germany and the old Soviet Union, we found societies that seemed stuck in the past. This is why the postal service can't seem to innovate and why public schools are still structured as if it were the 1970s. Once a government plan is established, it tends to stick, even when it is not achieving its aims.

The case of poke-and-sniff in meat packing should serve as a warning for all government regulatory measures, whether designed to protect us from disease, bring us safety or achieve any other end. We live in a world of change and of growing knowledge. Our lives and well-being depend on economic systems that can respond to change, extract that growing knowledge, and enable it to be used in ways that serve human needs. A competitive market economy specializes in doing just that. FEE

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Next to the Compass Rose

Sarah Skwire

Done, the map is obvious.
The landmarks are the only ones
we could have chosen:
the rock shaped like a rabbit
not the one shaped like a dog
this river
which is somewhat larger than that creek
which does not appear
on the final version anyway.

It is evident to anyone
the swamp must be avoided
(the swamp, you see, is here)
the slope of land as you approach it
is a warning sign.

Elsewhere
as we have clearly marked
there is no water.

And out here at the edge
next to the compass rose
we note that there are dragons
who eat
(we also note)
cartographers.

You roll it up
remark the clarity
and the straightforward route
from here to there
and ask

(holding the unknown
made familiar
hard fought onto parchment
in four colors of ink
laid down by us
and by those others
who did not return)

what took us so long
and why we erred
so often
and at such cost
and with so many losses.

Sarah Skwire's (sskwire@libertyfund.org) poetry has been published in Standpoint, The New Criterion, Vocabula Review, *and elsewhere. She is a fellow at Liberty Fund, Inc.*

The Power of No

Being able to say no is what enables us to say yes

SANDY IKEDA

An action is voluntary to the extent that we can effectively choose to do it or not. In particular, being able to say no defines the scope of our personal autonomy, while being able to say yes allows us to creatively explore (or not) the freedom autonomy gives us. In this sense, our ability to say no expands the possibilities to which we might say yes.

Government is the apparatus of organized *political means* — that is, the initiation of physical violence against others. The greater the scope of government, then, the less an ordinary person is able effectively to say no and the less she is able meaningfully to say yes.

Voluntary action

If someone asked you to invest half your savings in a venture, would you do it? You would probably weigh and consider many factors, including the opportunities you would have to forsake, how trustworthy the person making the request was, how risky and lucrative the investment was, and so on. In the end, you would make a decision, probably a very difficult one, yes or no.

But if someone aggressively demands that you sacrifice half your wealth and credibly threatens severe physical punishment if you don't, if you're like most people, such a demand will significantly narrow your range of meaningful choice and greatly diminish not only your wealth but also your liberty. (Here I disagree with some scholars who equate wealth with liberty.)

It makes a world of difference whether you give up your wealth voluntarily or under duress. Saying yes to a peaceful request potentially expands the possibilities in your life; saying no to a peaceful request tends simply to maintain your autonomy and the status quo, without loss of liberty. But being forced to sacrifice your property does shrink your liberty, even if you would have done so voluntarily for the particular cause, because you can't really say no.

The right to say no

It's in this sense that the right to say no is a condition for saying yes. That is, effectively being able to say no carves out a sphere of personal autonomy for you, a space that is yours and no one else's unless you choose to share it. Things like privacy, as well as the ability to break relationships and exit from places, are all aspects of that autonomy, and they are conditions for being able to enter new places and new relationships.

Sometimes we face a choice between what is right and what is relatively easy, between principle and expediency. If the government taxes us to pay for a cause we believe is wrong, do we refuse to pay and risk imprisonment or death, or do we submit? Saying no in such a case may be the supreme expression of liberty, but it also starkly defines the limits of that liberty.

In general, the fewer things that we feel we need to say no to, the wider is the scope of our personal autonomy and the more possibilities there are of saying yes.

Expanding the potential to say yes

Libertarians are often accused of being too negative. Sometimes it's justified. There are some who limit their sense of liberty to slogans such as "Don't Tread on Me!" and whose idea of the free society is one in which everyone does her own thing without caring or having to care about anyone outside her close-knit network.

Fortunately, there are a lot of libertarians — people who hold personal autonomy and nonaggression as paramount values — whose understanding of liberty

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goes far beyond that. They appreciate that libertarianism is a political philosophy that permits more meaningful social interaction and diversity than any other political philosophy does.

That's my point here. I, too, may be interpreted as emphasizing the negative since, well, I'm arguing the importance of being able to say no, which sounds rather negative, at least superficially. But the point is that being able to say no, by defining our own personal social space, is what enables us to say yes.

Government and the shrinking no

When a governing agency, whether one based on private agreement or conventional aggression, passes and enforces laws on which it is feasible to reach at least a workable majority, the occasions on which we can't say no will tend to be relatively few. For example, it may be possible to reach something close to a majority in support of organized regional defense along with the levies needed to finance it. (Although even in such a case, some would still object.)

But as F.A. Hayek points out in *The Road to Serfdom*, the more the governing authorities intervene into our private lives, the greater the number of potential losers from it and so the greater the likelihood of political conflict. Achieving a majority in such cases becomes highly problematic. Best, then, to keep government small. (Whether the governing agency is voluntary or political, our liberty is protected to the extent that it's feasible to leave or exit the agency's jurisdiction. In this sense "exit" is tantamount to saying "no.")

As the rules the governing agency enforces become more numerous and less general, universal, and stable, we have fewer occasions to say no to the important demands that are made on our person and property. As government grows, therefore, both our opportunities effectively to say no and meaningfully to say yes will disappear.

Postscript: I was inspired to write this column in part by the philosopher James Otteson, who gave a talk at the last meeting of the Association of Private Enterprise Education on "Privacy and Moral Beauty." You can get the gist of that message in this short video: tinyurl.com/opk8kqv. The usual caveat applies. FEE

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GDP Economics: Fat or Muscle?

GDP calculations say count your hookers and drugs, then skip the gym

DAVID J. HEBERT

Recently, Italy "discovered" it was no longer in a recession. Why? The nation started counting GDP figures differently.

> Adding illegal revenue from hookers, narcotics and black market cigarettes and alcohol to the Eurozone's third-biggest economy boosted gross domestic product figures.
>
> GDP rose slightly from a 0.1 percent decline for the first quarter to a flat reading, the national institute of statistics said.

Italian officials are, of course, celebrating. In politics, perceptions are more important than reality. But such celebration is troubling for several reasons, which have less to do with headlines or black markets and more to do with fat.

One of F.A. Hayek's lasting insights was that aggregate variables mask an economy's underlying structure. For example, a country's GDP can be calculated by summing the total amount of consumption, investment, government spending, and net exports in a given year. The higher this number, the better an economy is supposed to be doing. But adding these figures together and looking only at their sum can be wildly misleading.

One way to illustrate why is through the following example: I am currently six foot one and weigh 217 pounds. As it turns out, Adrian Peterson, a running back for the NFL's Minnesota Vikings, is the same height and

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weight. Looking at only these two variables, Peterson and I are identical. Obviously, this isn't true.

Likewise, cross-country GDP comparisons are difficult to make. If two nations grow at the same rate, for example, but one nation "invests" in useless boondoggles while the other grows sustainable businesses, we wouldn't want to claim that both countries have equally healthy economies.

But what about comparisons of a country's year-to-year GDP? Is this valuable information? Well, yes and no.

If we know that more stuff is being produced this year than last year, we can infer that more activity is happening. However, this doesn't mean that government should subsidize production in order to increase activity. In that case, all it's accomplishing is increasing the number of things that are being done at the expense of other things that could have been done.

A COUNTRY'S GDP can be calculated by summing the total amount of consumption, investment, government spending, and net exports in a given year. The higher this number, the better an economy is supposed to be doing. But adding these figures together and looking only at their sum can be wildly misleading.

What economists should be looking for are increases in economically productive activity from year to year. For example, digging a hole and then filling it back in does increase the measure of activity, but it's not adding any value to society. Digging a hole in your backyard and filling it with water is also activity, but it's productive because you now have a swimming pool, which you value enough to employ people to create.

It's no mystery that Italy is seeing a higher GDP as a result of its change in measurement and that as a result it's avoided a recession *on paper*. That is, it's counting more activities as "productive" than it was previously. It is wrong to conclude, though, that more production is actually happening in Italy. These activities were happening before; they just weren't being counted in any official statistics.

There are many problems with using GDP as a measure for an economy's health. Changing what counts toward GDP only introduces yet another confounding factor. When I step on the scale, I can get some basic idea of how healthy I am. But when I take my shoes off and step on the scale again, I didn't magically become healthier. I just changed what's counting toward my weight. It would be wrong for me to conclude that I can skip the gym today as a result of this recorded weight loss. Similarly, citizens of Italy should not be celebrating their increased GDP. They still face the same problems as before and must still address them.

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In the Shadows of the Unknown

Fear is a political instrument, but knowledge is power

CONNOR BOYACK

Your doorbell rings in the dark of night, so you quietly approach the peephole to size up your visitor. The porch light doesn't illuminate the person well enough to see him clearly, but he's definitely wearing a mask. You move your eyes lower to get a better look at the tall figure. He's standing, waiting, on the other side of the threshold. He's holding a machete.

On any other night, this scenario might send adrenaline coursing through your veins, fueling an almost palpable fear. But tonight is different. It's Halloween. And rather than feeling scared, you casually open the door to discover that the dimly lit figure is the teenager from down the street dressed as the killer from a slasher flick.

We don't fear a scary-looking stranger on our doorstep on October 31 because we know it's very likely to be a friendly neighbor seeking sugar. This information, born of experience, empowers us to act rationally. It's possible, of course, that the machete-wielding figure really is a murderer going door to door — but the odds are against it, especially on this night of the year.

Imagine if you didn't know how to assess that risk. Imagine locking your doors, turning off all the lights, and cowering in the dark, waiting for all the trick-or-treaters to go away.

Unfortunately, this is the situation we too often find ourselves in when politicians and the media tell us to be scared — of terrorists, of deadly contagions from overseas, or just of each other. We know that not all of the threats can be real, but how are we to discern the true menaces from the false alarms?

When people are scared, they will support policies that promise to keep us safe, but end up costing us ever more— both in tax dollars and lost liberties. That's why despots throughout history have sought means by which the

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masses could be intentionally kept in the dark: ignorance and fear give the despots power. It doesn't matter which political party is in power. The left tries to scare people with dark visions of unchecked greed and exploitation. The right wants people to fear alleged threats to our security, both abroad and within our borders. Fear pervades politics generally. As John Adams once wrote, it is "the foundation of most governments."

We naturally defer decision making to those who have access to greater political and military intelligence than the general population does. Christopher Guzelian, a legal theorist, posits that politicians are so successful in their use of fear because of "risk information (whether correct or false) that is communicated to society." In other words, we fear the hobgoblins we can't see solely on the basis that we're told they exist and are coming after us. Guzelian concludes that it is "risk communication, not personal experience, [that] causes most fear these days." Without information, and lacking direct experience, we often respond irrationally.

> WHEN PEOPLE are scared, they will support policies that promise to keep us safe, but end up costing us ever more—both in tax dollars and lost liberties. That's why despots throughout history have sought means by which the masses could be intentionally kept in the dark: ignorance and fear give the despots power.

What can we do when we are not ourselves scientists, soldiers, or spies? How do we protect our freedom from a political class that benefits from our fears?

We're all familiar with the fable about the boy who cried wolf. A shepherd boy repeatedly tricked nearby villagers into thinking that a wolf was attacking his flock of sheep. After multiple false alarms, the wolf actually did attack. But this time, when the boy called for help like he had many times before, the villagers did not respond. What changed? This time, they had information. While they didn't know if there was a wolf or not, they did have observational data informing them about the trustworthiness of their source.

Our lives are filled with supposed shepherds warning us about the terror du jour. This warning may be completely concocted for political gain, or simply amplified or misinterpreted as a prediction of how a potential malefactor might act. Perhaps unsurprisingly, in an analysis of predictions made by 300 subject-matter experts — and summarized in his book *Expert Political Judgment: How Good Is It? How Can We Know?* — Philip Tetlock observes that "there is a tendency for experts to claim to know more than they do about the future." Put differently, we rely on people who often do not know what they're talking about.

While we may not have access to the information necessary to know whether a purported political, economic, or other threat is as bad as is claimed, we are not helpless. Some sources are more reliable than others. We can cautiously develop a sense of which sources to listen to based on their track records.

The U.S. government's record is especially bad on foreign threats. "A few recent examples," writes historian Tom Woods, "include the alleged Gulf of Tonkin incident (Vietnam), babies being tossed out of incubators (Iraq I), 'genocide' (Kosovo, where 'hundreds of thousands' of dead turned out to be 2,000 dead on both sides of a civil war combined), weapons of mass destruction (Iraq II), and many others."

Like the villagers in the fable, we cannot trust our shepherd — but what alternative do we have? Having grown weary of being duped by false reports, the villagers might have constructed a tower and employed an observer to stand watch and provide an accurate assessment of the surrounding area. The problem for the villagers, and for us, is that new infrastructure can be expensive. And, in the end, the new guardian may develop the same incentives as the old one.

Fortunately, modern technology offers us a superior strategy to combat those who wish to deprive us of the truth.

Prior to Johannes Gutenberg's invention of the printing press in 1436, it was economically unfeasible for most individuals to own books, leading to widespread illiteracy. Without the ability to read information, let alone scrutinize and judge it, commoners had no intellectual defense with which they could combat falsehoods. The printing revolution empowered people to access and act upon truth, thus holding religious and political officials accountable for their misdeeds.

> FEAR PERVADES politics generally. As John Adams once wrote, it is "the foundation of most governments."

The Internet has similarly revolutionized information access and analysis. Leaks of confidential government documents have turned into a flood; firsthand reports from theaters of war circumvent government censors and combat propaganda; the proliferation of mobile devices has turned every citizen into an agent of accountability who can document the actions of police officers and turn their abuses of authority into viral videos. These and a host of other innovations empower the individual to obtain and act upon the truth. They also minimize the risk of our believing that something is a threat to our health, safety, or welfare when it really isn't.

The most important and innovative byproduct of this technological advance is the decentralization of information, including inputs and outputs. There are now an abundance of sources and a variety of means by which we can listen to them. We're not reliant upon a single shepherd. The world features observation towers in abundance—a marketplace of investigators, researchers, analysts, and commentators. Should one source prove untrustworthy, we have other options from which to choose.

Likewise, our ability to share the truth using technology ensures that controls and censorship will forever be circumvented; with the click of a button, we can now help countless others see that the emperor isn't wearing clothes.

Social media have radically altered the traditional news networks, and citizen journalists are increasingly empowered to identify, investigate, and report on an issue of concern. Worldwide dissemination of information is no longer a fanciful, futuristic dream: the revolution has become our reality.

We live in a dangerous world, where threats do exist and should be dealt with. We should be diligent, however, in figuring out what is or isn't a credible threat. Imagine if your young neighbor was shot and killed by another homeowner unfamiliar with Halloween. Wouldn't we agree that more information would have caused that neighbor to respond differently?

We can't expect people to act reasonably in the face of some purported threat unless they can access the truth and the context that surround it. Thankfully, today we have more tools than ever to check those who cry wolf and expect people to stay cowering in the shadows of the unknown. FEE

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Breaking Bad: Can Regulation Be Fixed?

The problem of "regulatory capture" goes all the way down

ROBERT P. MURPHY

Big business has captured the regulators, which has transformed the federal government into an accomplice to cronyism. Can the regulatory apparatus be repaired — or is it corrupt at its foundations?

The authors of a recent article in *The Wall Street Journal (WSJ)* argue for reform, showcasing the strengths and weaknesses of "pro-capitalist commentary" in today's mainstream media. The authors correctly use free-market logic to expose a problem with government intervention as it is currently practiced, but then inexplicably offer a "solution" that would be susceptible to similar problems.

Specifically, the *WSJ* focuses on "regulatory capture" by big business but ignores one obvious solution: *eliminating* the federal government's role altogether and relying instead on decentralized market mechanisms to protect the public.

The article is promising as it begins:

> The financial scandal du jour involves leaked audio recordings that purport to show that regulators at the Federal Reserve Bank of New York were soft on Goldman Sachs. Say it ain't so.
>
> The news is being treated as shocking by journalists who claim to be hard-headed students of financial markets.… The real scandal here is the excessive faith that liberal journalists and politicians continue to put in financial regulation. The media pack is discovering regulatory capture — a mere 43 years after George Stigler published his landmark paper on the concept.

Exactly right. The same crowd that decries the huge role of money in politics and fears that big business will take over the world then suggests giving the federal government more power … as if Leviathan will be constrained *not* by the billionaire bankers and arms manufacturers but instead by voters punching chads every four years. The idea goes that regulatory power trickles up to bureaucrats with good intentions and an unbiased understanding of the common good.

It's worth dwelling on this crucial point. The whole schtick of the regulatory State is that we can trust a group of technocrats in Washington, DC, to guard the interests of the people by standing up to the greedy and soulless business tycoons who — left to their own devices — would lie, cheat, and kill in order to turn a profit. Yet, anyone with an open mind can see that this approach has, time and again, utterly failed in practice.

For example, Harry Markopolos had been writing the Securities and Exchange Commission (SEC) *since 1999* warning that Bernie Madoff was running a Ponzi scheme, yet the SEC (which had ties to Madoff and his family) ignored the obvious red flags. In the end, Madoff's kids turned him in.

Or how about another classic example, where the federal government stands valiantly in the breach to protect Americans from the big, bad oil companies? The Minerals Management Service (MMS) was the previous name of a group inside the Interior Department. In a major scandal that caused it to change its name, MMS employees in Colorado were caught accepting drugs and sex from the companies they were supposed to be regulating, while MMS employees in Alaska got in trouble for throwing a party with a cake that said "Drill, Baby, Drill" on the frosting. The MMS also played a dubious role in the events leading up to the disastrous BP oil spill in the Gulf of Mexico, where the agency clearly went along with the giant oil company instead of acting as a disinterested referee.

Returning to the original *WSJ* article, after so admirably marching down the field (by quoting Stigler and castigating naïve progressives), it then fumbles the ball just before the end zone. The *WSJ* argues that the "logical policy response" to the inevitable regulatory capture is "to enact simple laws that can't be gamed by the biggest firms and their captive bureaucrats." It recommends ditching the Dodd-Frank nightmare and other rules, but putting in their place "a simple requirement for more bank capital — an equity-to-asset ratio of perhaps 15%." The *WSJ* also endorses "economist Charles Calomiris's plan to automatically convert a portion of a bank's debt into equity if the bank's market value falls below a healthy level."

In light of these suggestions, one wonders if the *WSJ* team really understands how pervasive the problem of regulatory capture is. Look, it's not as if Madoff found a loophole that said, "It's illegal to run a $50 billion Ponzi scheme *unless* you register it in Vermont on the last day of February in a leap year." No, Madoff was clearly breaking existing laws on the books, and the SEC simply looked the other way.

Regarding the specific rules that the *WSJ* recommends — thinking that they will be resistant to regulatory capture — there are obvious dangers of abuse. For example, what types of assets can a bank use to qualify for its "equity-to-asset" ratio, and if they are risky bonds, are they marked-to-market (and how often, if so)? If a politically connected institution hits only a 14-percent equity-to-asset ratio, why would the feds suddenly crack down on it when they ignore the existing rules? Regarding the Calomiris plan, surely the designation that a particular bank's market value has fallen below a "healthy level" is open to abuse. Recall that Henry Paulson in a weekend meeting allegedly got the big banks to accept Troubled Asset Relief Program funds by saying that their chief regulator, Ben Bernanke (then chairman of the Federal Reserve), would declare them capital-deficient on Monday morning if they refused.

The problem with State regulation is that there is no competition or choice for the final "customer." In a genuinely free market, private organizations would provide many of the oversight and "regulatory" functions that people wrongly assume only the federal government can offer. For example, ratings agencies would warn consumers of risky financial practices, and if those agencies themselves were asleep at the wheel, *then they would go out of business after a disaster*. In contrast, today's major ratings agencies are propped up by government regulations that require approval from a short list (Moody's, S&P, and Fitch, for example) for a financial institution to hold "safe" assets to satisfy certain regulations.

In my own work, I have stressed the expanded role that insurance companies would play in a truly voluntary society. For example, if an oil company wanted to drill offshore, the relevant property owners would probably require contractual guarantees of indemnification in the event of a spill. (This does not happen in today's world, where federal, state, and local governments control much of the land involved.) Then, major insurance companies would underwrite the process. *They* would send their inspectors for random spot checks and so forth before issuing a policy that could end up costing them billions.

No system is perfect. But it's time everyone looked more carefully at regulatory bodies themselves — not as a remedy for corruption, but as perhaps its very source. FEE

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Layaway: Live after Death

Government intervention resurrects long-dead retail practices

STEWART DOMPE AND ADAM C. SMITH

Everything that is old is new. Denim jeans, gratuitous use of neon, retro glasses, and nü-metal have all returned from the dead to plague the living. In the spirit of making the old new and relevant, Walmart has kicked off its seasonal layaway program, a practice that was discontinued in the mid-2000s but resurrected in 2011.

For those who can't remember this antiquated ritual, which was a common practice during the Great Depression, here's how it works: After the customer makes a small down payment, the store will "lay" the item "away" until the customer completes payment. You might ask: Why didn't people just use their credit cards? The answer is that credit cards didn't really exist back then. Some stores engaged in financing and extended credit to select customers, but the interest rates were high, and, keep in mind, these were stores, not debt collectors or banks.

With the bad economy of the Great Depression, consumer credit dried up as risk of default increased. Layaway was beneficial because it allowed the consumer to guarantee a good's availability while the store minimized its risk exposure. The availability of goods was a concern because supply chains were not as developed, and when a store ran out, it might be out indefinitely.

Layaway largely disappeared during the 1980s with the massive expansion of consumer credit and credit card companies. Credit card companies were able to offer lower rates because they specialized in analyzing and pricing risk. They also took on the burden of debt collection. This shift was a win-win for everyone involved. Customers benefited by being able to immediately enjoy their purchases. Stores benefited from getting the full value of the purchase upfront while simultaneously freeing up storage space that was previously occupied by layaway.

So why has layaway returned? A simple answer would be a tighter market for consumer credit due to the recent recession. Yet, there have been recessions in the past. A more encompassing answer would have to incorporate the machinations of the public sector, too. The passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act and the activities of the newly minted Consumer Financial Protection Bureau (CFPB) have played a considerable role in altering the practices of consumer credit, perhaps permanently.

> THE SOLUTION, then, is not to force consumers into one type of credit service, but to offer multiple avenues by which consumers can afford to buy goods and services.

The CFPB's ostensible purpose is to protect consumers by regulating the financial industry. In practice, this means that the CFPB is against the high interest rates and fees charged to certain market segments and that it frowns upon "exotic" credit products (read: any service that is non-plain vanilla, whatever that means). The outcome has been a tightening up of credit as lenders move away from financial products that the CFPB doesn't like — and, in the case of Walmart's layaway program, a return to those that they do.

Walmart may have only brought layaway back in 2011, but Senator Elizabeth Warren (D-MA), the mastermind behind the CFPB, was cheering Kmart's layaway plans back in 2008. Her argument was that layaway could be a good thing as money that was previously spent on interest and interchange fees could now be spent on "socks, haircuts, prescription drugs and a million other goods and services." In other words, consumers are now putting money toward principal, not interest.

The problem with this statement and general viewpoint is that it makes a false comparison between different types of credit. Credit card companies provide a valuable service by acting as a middle man between customers and stores. Customers get their wares by compensating stores today while credit card companies are assured they will be compensated sometime in the future. This enables transactions to take place that would otherwise not occur, which creates economic value.

The solution, then, is not to force consumers into one type of credit service, but to offer multiple avenues by which consumers can afford to buy goods and services. They can decide the appropriate route to take. Then again, government has never been comfortable with free choice — or, in the case of the CFPB, with the idea that people are even capable of making their own choices.

THEN AGAIN, government has never been comfortable with free choice — or, in the case of the CFPB, with the idea that people are even capable of making their own choices.

Consider the Walmart plan. Customers must make a $10 or 10 percent down payment on their purchase, whichever is greater. This year, holiday layaway started on September 12 and final payment and pickup must be made before December 15. If, for whatever reason, things go awry, Walmart will refund all payments less a $10 cancellation fee.

So is layaway an improvement in extending credit to customers? For most, probably not. The easy mistake would be to compare layaway (free) to carrying a credit card balance (which incurs interest). In that comparison, layaway is obviously attractive. Nevertheless, to make a direct comparison of rates would be a mistake, as the credit services are different. With credit cards, consumers receive the product immediately. With layaway, they receive the product upon final payment. In a sense, customers do not actually need Walmart to offer a layaway program; they can simply start saving the money themselves. Layaway essentially offers Walmart an interest-free loan. Put another way, while credit cards allow consumers to enjoy their goods today and pay later, layaway reverses this transaction by allowing Walmart to enjoy the customer's money today and pay back the customer in the form of goods later. Layaway thus represents a shift in credit away from consumers and toward corporations. So much for consumer protection!

In a competitive market economy, stores and credit card companies have to compete to attract customers. Government intervention will not protect consumers. It will merely kill credit for certain customers and cause stores to resurrect long-dead retail practices.

As economist Alex Tabarrok asks, "Are we living in the Soviet Union? Who worries about Walmart and Kmart running out of goods?"

Clearly layaway, like neon, is a fad past its time. Only hipsters and government bureaucracies relish these fads' return. **FEE**

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The Smaug Fallacy

The wealthy aren't hoarders — they're stewards of capital

IAIN MURRAY

Among the most troubling rhetoric in the debate over income inequality in the United States is the notion that the rich "take in" or "control" wealth.

Recent arguments over the nature of capital suggest that all the wealthy want to do is to *accumulate* it — picture Scrooge McDuck hoarding huge chests full of gold, or Gollum fidgeting with his "Precious." This view is based on the assumption that a wealthy man, having collected his gold, does nothing with it. So perhaps it is most fitting that I term this argument the Smaug Fallacy, after the dragon in *The Hobbit* who slept on stolen gold under the Lonely Mountain.

Here is an example plucked from a recent article in, bizarrely enough, *Technology Review*.

> The gap between the wealthy and everyone else is largest in the United States. In 2010, the richest 1 percent of the population had 34 percent of the accumulated wealth; the top 0.1 percent had some 15 percent.

Then, following Thomas Piketty, the author concludes:

> The implications of [wealth concentration] should be frightening for anyone who believes in a merit-based system. It means we are in danger of entering into an era that, like the 19th century in France and England, is socially and politically dominated by those with vast amounts of inherited wealth.

These types of arguments are fallacious for several reasons.

First, they rely on abstract aggregates and models that have no bearing in reality, which is precisely why it is easy enough to appeal to "19th-century France and England" when *access* to capital today is more ready than at any time in history. More on this later.

> EVEN THOSE wealthy individuals who are frugal — even downright miserly in some cases — are benefiting the rest of us. There are no dungeons of gold. Instead, the frugal *invest* their capital in a number of ways.

Now, the wealthy actually *spend* a lot of their money. The top 10 percent of earners are responsible for 42 percent of consumption in the United States. And they do not spend on wildly expensive items (jewels for the pile), but on slightly more expensive versions of what the rest of us buy. For instance, the average wealthy woman pays $120 for a pair of shoes and $75 for a pair of jeans. While more expensive than the average offering from DSW or Wrangler, these figures aren't massively out of the ballpark for what a more moderate earner might pay.

That the wealthy don't pay that much more than the rest of us for consumer goods but are still responsible for much of the consumption suggests that they engage in a lot of consumer spending — that is, they buy what we buy, just more of it. That money then goes back into the economy, enriching the retailer, the retailer's sales staff, the manufacturer, the manufacturer's staff, the manufacturer's suppliers, the supplier's suppliers, and so on.

Such spending also buys down the stock of capital, transferring its benefits from the wealthy to everyone down the supply chain. Much like the hive of activity that goes into making a humble pencil, an invisible hand reallocates this capital to those who actually produce the goods and services on which the wealthy spend their money. Some of those who benefit will be wealthy themselves, of course, but then the process begins again, and again, and again.

Even those wealthy individuals who are frugal — even downright miserly in some cases — are benefiting the rest of us. There are no dungeons of gold. Instead, the frugal *invest* their capital in a number of ways. They can invest directly in a corporation via the stock market. Increasingly, they might invest in an individual project via peer-to-peer lending or crowdfunding. Or they can let others do the investment work for them and place their money in a bank. The bank then uses that money to make loans to businesses seeking to expand and individuals looking to establish their own capital in the form of a home.

Investment helps the less well-off. Without it, there would be little access to capital for anybody else, including the poor and middle class. Income inequality, such as it is, would indeed be permanent, just as it was in the Middle Ages (at least until one group of the powerful slaughtered another group of the powerful and reallocated their belongings; that's how income "redistribution" has worked through most of history).

FAR FROM regressing to the Middle Ages, modern capitalism is not only making more people wealthier; it is on the verge of a vast explosion in its wealth-creating capacity — as long as regulators don't get in the way.

To paraphrase President Barack Obama — in a way he wouldn't expect — it is the genius of capitalism that it "spreads the wealth around." As the sharing economy grows, the wealthy will have more opportunities to share their wealth to mutual benefit. Those of us with underused capital like a spare bedroom or a car that often sits idle can now share that capital with others through services like Airbnb or Lyft. Soon we'll be able to massively increase the world's computer storage capacity and make some money as well through distributed storage solutions like Storj, and so on.

Far from regressing to the Middle Ages, as leftist economists like Paul Krugman and Thomas Piketty claim, modern capitalism is not only making more people wealthier; it is on the verge of a vast explosion in its wealth-creating capacity — as long as regulators don't get in the way.

As for Smaug, had he lent out some of his money, perhaps he wouldn't have had that final encounter with Bard the Bowman. FEE

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How Far Can the P2P Revolution Go?

Will the sharing economy replace the State?

JEFFREY A. TUCKER

How far can the peer-to-peer (P2P) revolution be pushed? It's time we start to speculate, because history is moving fast. We need to dislodge from our minds our embedded sense of what's possible.

Right now, we can experience a form of commercial relationship that was unknown just a decade ago. If you need a ride in a major city, you can pull up the smartphone app for Uber or Lyft and have a car arrive in minutes. It's amazing to users because they get their first taste of what consumer service in taxis really feels like. It's luxury at a reasonable price.

If your sink is leaking, you can click TaskRabbit. If you need a place to stay, you can count on Airbnb. In Manhattan, you can depend on WunWun to deliver just about anything to your door, from toothpaste to a new desktop computer. If you have a skill and need a job, or need to hire someone, you can go to oDesk or eLance and post a job you can do or a job you need done. If you grow food or make great local dishes, you can post at a place like credibles.co and find a prepaid customer base.

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These are the technologies of the peer-to-peer or sharing economy. You can be a producer, a consumer, or both. It's a different model — one characterized by the word "equipotency," meaning that the power to buy and sell is widely distributed throughout the population. It's made possible through technology.

The emergence of the app economy — an emergent order not created by government or legislation — has enabled these developments, and they are changing the world.

These technologies are not temporary. They cannot and will not be uninvented. On the contrary, they will continue to develop and expand in both sophistication and in geographic relevance. This is what happens when technology is especially useful. Whether it is the horseshoe of the Middle Ages or the distributed networks of our time, when an innovation so dramatically improves our lives, it changes the course of history. This is what is happening in our time.

The applications of these P2P networks are enormously surprising. The biggest surprise in my own lifetime is how they have been employed to make payment systems P2P — no longer based on third-party trust — through what's called the blockchain. The blockchain can commodify and title any bundle of information and make it transferable, with time stamps, in a way that cannot be forged, all at nearly zero cost.

An offshoot of blockchain-distributed technology has been the invention of a private currency. For half a century, it has been a dream of theorists who saw that taking money out of government hands would do more for prosperity and peace than any single other step.

The theorists dreamed, but they didn't have the tools. The toos hadn't been invented yet. Now that they exist, the result is bitcoin, which gives rise to the hope that we have the makings of a new international currency managed entirely by the private sector and the global market system.

These new P2P systems have connected the world like never before. They hold out the prospect of unleashing unprecedented human energy and the creativity that comes with it. They give billions of people a chance to integrate themselves into the worldwide division of labor from which they have thus far been excluded.

THESE NEW P2P systems have connected the world like never before. They hold out the prospect of unleashing unprecedented human energy and the creativity that comes with it. They give billions of people a chance to integrate themselves into the worldwide division of labor from which they have thus far been excluded.

With 3-D printing and computer-aided design files distributed on digital networks, more people have access to become their own manufacturers. These same people can be designers and distribute the results to the world. Such a system cuts out every barrier that stands between people and their material aspirations — barriers such as product regulation, patents, and excise taxes.

It's time that we begin to expect the unexpected. What else is possible?

Entrepreneurs are already experimenting with an Uber model of delivering some form of health care online. In some areas, they will bring a nurse to you to give you a flu shot. Other health services are on the way, causing some to speculate on the return to at-home medical visits paid out of pocket (rather than via insurance).

What does this innovation do for centralist solutions like Obamacare? It changes the entire dynamic of service provision. The medical establishment is already protesting that this consumer-based, one-off service approach runs contrary to primary and preventive care — a critique that fails to consider that there is no reason that P2P technology can't provide such care.

How much can things change? To what extent will they affect the structure of our political lives? This is where matters get really interesting. A feature of P2P is the gradual elimination of third parties as agents who stand between individuals and their desire to cooperate one to one. We use such third parties because we believe we need them. Credit card companies serve a need. Banks serve a need. Large-scale corporations serve a need.

One theory holds that the State exists to do for us what we can't do for ourselves. It's the ultimate third-party provider. We elect people to serve as our representatives, and they bring our voices to the business of government so that we can get the services we want. That's the idea, anyway.

But once government gets the power to do things, it expands its power in the interest of the ruling elite. The taxicab monopoly was no more necessary than the government postal service, but the growth of P2P technology has increasingly exposed the reality of how unnecessary the State as a third-party mediator really is. The post office is being pushed into obsolescence. It's hard to see how the municipal taxi monopoly can survive a competitive contest with P2P technology systems.

Policing is an example of a service that people think is absolutely necessary. The old perception is that government needs to provide this service because most people cannot do it for themselves. But what if policing, too, could employ P2P technology?

What if, when there is a threat, whether to you or to others, you could open an app on your phone and call the private police immediately? You can imagine how such a technology could learn to filter out static and discern threat level based on algorithms and immediately supplied video evidence. We already see the first attempts in this direction with the Peacekeeper app.

Rather than a tax-funded system that has become a threat to the innocent as much as the guilty, we would have a system rooted in consumer service. It might be similar to the private security systems used by all businesses today, except it would apply to individuals. It would survive not through taxation but subscription — voluntary and noncoercive.

How much further can we take this? Can courts and laws themselves be ported to the online world, using the blockchain for verifying contracts, managing conflicts, and even issuing securities? The large retailer Overstock.com is experimenting with this idea — not for ideological reasons but simply because such systems work better.

HOW MUCH further can we take this? Can courts and laws themselves be ported to the online world, using the blockchain for verifying contracts, managing conflicts, and even issuing securities?

And here we find the most compelling case for optimism for the cause of human liberty. These technologies are emerging from within the private sector, not from government. They work better to serve human needs than the public-sector alternative. Their use and their growth depend not on ideological conversion but on their capacity to serve universal human needs.

The ground really is shifting beneath our feet, despite all odds. It is still an age of Leviathan. But based on technology and the incredible creativity of entrepreneurs, that Leviathan no longer seems like a permanent feature of the world. **FEE**

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Living the Easy Life

Most Westerners don't know how good they have it

DOUG BANDOW

CAIRO — "I could be arrested when I leave here," said a journalist I met at the tony Marriott near Cairo's Tahrir Square. A student activist acting as an interpreter observed that he, too, could be detained at any time. A veteran human rights activist calmly stated, "Some of our groups will be closed. Some of us will be imprisoned. It is inevitable."

Most foreigners travel to Egypt to play tourist. I visited with a human rights delegation. As a result, I came away with a very different picture of this fascinating nation than do most foreigners.

I was also reminded how lucky Americans — and, indeed, most Westerners — are. Forget American exceptionalism or manifest destiny.

Most important are the basic characteristics of a free society. The rule of law. Civil liberties. Criminal procedures. Legal safeguards. Democratic processes. Obviously, even nations that purport to have all of these often fall short. However, few Americans, Europeans, or citizens of democratic Asian nations live in constant fear of arrest, imprisonment, and torture. Those in rule-oriented societies rarely see every authority figure as a threat.

> EVIDENCE OF extreme force is everywhere. Tanks next to prisons; armored personnel carriers in city squares and on city streets; concrete blast barriers, barbed wire, and armed sentries around sensitive government installations; portable fences piled high near potential protest points; and a ubiquitous mix of uniformed and plain-clothes security personnel.

In Egypt, the uncertainty began when I arrived. On both of my trips the government knew about me because my host organization had requested meetings on my delegation's behalf. Both times I was pulled aside. The first time, an entry guard took my passport and I waited for an hour before being waved on. The second time, the delay was far shorter, with security officials formally welcoming me — after asking for my phone number and hotel destination.

Of course, the United States occasionally stops people from entering, but not typically because the visitors want to assess America's human rights record. Most often, foreigners get blocked from visiting if officials believe they want to stay.

Even after leaving the arrivals area on my first trip, I had to wait again while the videographer joining us unsuccessfully tried to persuade officials to let him bring his camera into the country. The Egyptians said no. (He went on to rent a smaller one.) While there are places in the United States where you can't film, no one's going to stop you from having a camera of any sort.

Both visits were filled with interviews relating all sorts of harrowing stories. Most every society has injustice, and errors are sadly common in U.S. jurisprudence. However, most Americans don't expect a visit to a friend to turn into a stint in prison.

In Egypt, for reasons of political repression and personal revenge, people face arbitrary arrest, perpetual detention, fraudulent trials, and horrific imprisonment. No doubt, some of the accounts we heard could be exaggerated or even false, but reports from people in many walks of life and across the political spectrum were consistent and demonstrated that the slightest resistance to state authority risks freedom and even life. Indeed, being in the wrong place at the wrong time can be equivalent to a death sentence.

Moreover, those with whom we met were vulnerable to arrest. Students told us about classmates arrested at demonstrations. Journalists discussed colleagues detained after criticizing the regime. Attorneys reported on lawyers detained while representing defendants. Family members described the arrests of husbands and wives, brothers and sisters, fathers and mothers. No one is exempt from persecution.

Nor is there any effective oversight or appeal to limit official abuse. If you were tortured or suffered from inhumane prison conditions, you can complain only to the public prosecutor. But that government office seems strangely uninterested in following up on allegations against government officials. Accountability obviously is less than perfect in the United States, but here, at least, there are alternative channels of protest: private lawsuits, media coverage, public demonstrations. That's one of the advantages of pluralistic societies. Authoritarian regimes rarely view themselves as bound by any rules.

While members of my delegation, largely Americans and Europeans, felt relatively secure, we knew tht other foreigners had been arrested for various offenses. At least in the United States no meeting other than one involving a criminal conspiracy could land a listener in jail.

In fact, on my second trip we found ourselves attacked

Jason Benz Bennee/Shutterstock.com

by a pro-coup television talk show host (government critics long ago were driven off the air) and the head of a "human rights" council (sponsored by the regime) who cheerfully mixed fact and fantasy. No harm was done since I don't plan on running for office in Egypt, but the regime obviously has tools short of prison for use against foreign critics.

Evidence of extreme force is everywhere. Tanks next to prisons; armored personnel carriers in city squares and on city streets; concrete blast barriers, barbed wire, and armed sentries around sensitive government installations; portable fences piled high near potential protest points; and a ubiquitous mix of uniformed and plain-clothes security personnel.

It is unsettling enough to be stopped by a policeman in the United States. After hearing stories of dubious arrests followed by months of detention, no one wants to end up anywhere near an Egyptian cop. After clearing passport control to leave on my second trip, I waited with a friend for a couple of other members of our group to emerge. While we were talking, a border agent came over and asked us for our passports. I assume we were targeted since we were conveniently nearby. He gave our passports back after barely glancing at them. But I felt uneasy the entire time.

Egypt is a fascinating country with hospitable people. Although there was much to frustrate typical Westerners — for instance, we joked about being on "Egypt time" — the chaotic streets were a source of energy. The economic and social challenges facing Egypt would be enormous in the best of cases, but, tragically, the nation suffers under an unashamed military dictatorship. Consequently, liberty is limited and frequently at risk.

Despite all of the problems faced by those in the West, even imperfectly free societies offer extraordinary advantages we should never forget and should work to protect. Walking the streets of Cairo, I thought: There but for the grace of God go I. With my U.S. passport I can leave and return to a society that, despite enormous problems, generally respects people's lives, liberty, and dignity. **FEE**

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Containment

Bruce Boston

I lowered a box on the
machinery of the city.
It chewed its way out.

I threw a shawl over
a reflection of the sun.
It burnt it to a crisp.

I placed a frame around
the moon and it sailed
blithely past its borders.

I wound chains round
my strangest desire and
it wore them like ribbons.

I locked dissonance in
a cage like an animal and
it bent the bars and
escaped into the wilds.

I shoved Kafka, handcuffed,
into a patrol car and he
never stopped laughing
all through his trial.

Bruce Boston (bruboston@aol.com) is the author of more than 50 books and chapbooks, including the dystopian sci-fi novel The Guardener's Tale *and the psychedelic coming-of-age-novel* Stained Glass Rain. *His writing has received the Bram Stoker Award, the Asimov's Readers Award, the Rhysling Award, the Grandmaster Award of the Science Fiction Poetry Association, and a Pushcart Prize.*

My Tiny Cosmopolitan Apartment

Global trade made my little flat a place of international treasures

JOSEPH S. DIEDRICH

I live in a studio apartment, so my kitchen is my living room is my bedroom. The other day, I was staring out my sole window when something startled me. (And it wasn't the subwoofer two floors up.)

It was my coffee. While sipping from my mug, I glanced at the bag of beans. It read, "Origin: Ethiopia." Next, I read the text on the bottom of my laptop: "Designed by Apple in California. Assembled in China." I looked down at my necktie: "Bruno Piatelli. Roma."

This little exercise became a game. From what other far-off places did my stuff come? I sleep on bed sheets from Egypt. I drink bottles of Shiraz from Australia. I pour Canadian maple syrup on my pancakes. Some things weren't technically "foreign," but they still came a long way: books printed in New York, apples grown in Washington orchards, and beer brewed in St. Louis.

Within the narrow confines of my apartment was an expansive world market — a veritable microcosm of the global economy.

What startled me most wasn't that so much had traveled so far. Rather, it was that I found nothing from my own city. While I had purchased some items in Madison, they didn't originate here.

What about the "buy local" bandwagon? If I were to follow the consumer movement du jour to its fullest extent, I'd be much poorer. Because of a much more constrained division of labor, I'd spend more money on lower-quality goods. I probably wouldn't even have coffee, and I certainly wouldn't own an Italian necktie.

Yet I don't intentionally avoid local goods. Every Saturday morning, like a ritual, I visit the county farmers market. I buy delicious seasonal fruits, vegetables, and cheeses from nearby farmers — not because they're local, but because they're the best. Produce tends to be tastier if it hasn't spent a week on a flatbed.

> FOUR HUNDRED fifty square feet doesn't sound like much. Yet somehow I've managed to fit states, countries, and even continents inside. The most remarkable thing of all? I didn't intend for this to happen.

Adam Smith once wrote, "In every country it always is and must be the interest of the great body of the people to buy whatever they want of those who sell it cheapest." The less trade is restricted between individuals and across borders, the more "the body of people" can "buy whatever they want" the "cheapest." As society becomes more and more integrated, we can better take advantage of the division of labor, leading to lower prices, greater prosperity, and a higher standard of living for everyone.

When I buy a preferable foreign product instead of its domestic counterpart, I obviously benefit myself. I receive a better product at a better price. I also clearly help the foreign producer.

I benefit the domestic economy, too. By purchasing cheaper foreign goods, I reserve more of my money to spend elsewhere, including in domestic exchange. More importantly, I send a signal to domestic producers: Don't waste your time making that thing! By doing so, I incentivize domestic producers to reallocate their resources to more highly valued endeavors.

It's true that free trade and globalization make the rich richer. But they also make the poor richer. Trade provides cell phones to people in developing countries. It increases wages. It fosters international peace. And it makes denizens of tiny dwellings feel like the freest, richest people in the world.

Four hundred fifty square feet doesn't sound like much. Yet somehow I've managed to fit states, countries, and even continents inside. The most remarkable thing of all? I didn't intend for this to happen. I didn't decide one day to start purchasing only "foreign" goods. I never consciously attempted to avail myself of "exotic" treasures.

Nobody ever intends for this to happen. Every day, we make countless, often subconscious cost-benefit analyses. When it comes to purchasing actual goods, we weigh all the factors we care about — price, quality, size, shape, taste, and so on. We search for the highest-quality consumer goods within our respective price ranges. Just by buying what we like, we unwittingly amass personal bazaars.

We are capable of planning only for our individual selves. Despite the ubiquity of cosmopolitan collections of consumer goods, nobody could ever plan for such a thing. We simply lack the capacity to organize an entire economy to fit our specific needs.

This was the keen insight of economist F.A. Hayek, who recently celebrated the 40th anniversary of his Nobel Prize. While he admitted that "all economic activity" involves planning, not all planning is the same. Because there's "no dispute about whether planning is to be done or not," what matters is "whether planning is to be done centrally, by one authority for the whole economic system, or is to be divided among many individuals."

My apartment has only one window, but I feel like I can see the whole world. Every treasure I own is a window to a place I've never been and to people I've never met. **FEE**

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Silk and Seduction

A capitalist thread runs through the history of temptation

SARAH SKWIRE

"I should hate to see our country endangered by my underwear."

– *Greta Garbo,* Ninotchka

The very word is a luxury. It slides over the tongue like the fabric slides on skin. And the fabric itself? It shines in candlelight. It whispers seductively. It makes the gowns for queens and princesses, the scarf at the throat of the aviator, the lingerie that suggests and arouses before it is even worn.

> QUEEN ELIZABETH owned silk stockings. The capitalist achievement does not typically consist in providing more silk stockings for queens but in bringing them within the reach of factory girls in return for steadily decreasing amounts of effort.... The capitalist process, not by coincidence but by virtue of its mechanism, progressively raises the standard of life of the masses.

Since the earliest days of the famous Silk Road trade route that connected China's silk manufacturers with the rest of the world, everyone has wanted silk. It is light. It is warm. It is strong. But we scarcely care about those sensible concerns. It is so very, very beautiful. And we want it.

The powerful pull that silk has for us — both as itself and as a symbol of a more luxurious and glamorous world — plays a central role in Kate Chopin's famous story, "A Pair of Silk Stockings." Chopin's story follows "little Mrs. Sommers," a wife and mother on a very tight budget, as she decides what to do with her unexpected $15 windfall. She begins, as I suspect most mothers with budget constraints would, with very practical plans:

> A dollar or two should be added to the price usually paid for Janie's shoes, which would insure their lasting an appreciable time longer than they usually did. She would buy so and so many yards of percale for new shirt waists for the boys and Janie and Mag.... And still there would be left enough for new stockings — two pairs apiece — and what darning that would save for a while! She would get caps for the boys and sailor-hats for the girls.

As little Mrs. Sommers makes her plans and gathers her strength to face the crowds at the department store, her ungloved hand rests, for a just moment, on a pair of silk stockings. And like the real and fictional shoppers detailed by Virginia Postrel in *The Power of Glamour*, Mrs. Sommers becomes tempted by the "longing, projection, and … impulse to buy."

Her practical plans are no match for the promise of such luxury. "She went on feeling the soft, sheeny luxurious things — with both hands now, holding them up to see them glisten, and to feel them glide serpent-like through her fingers." She buys them, and then buys new shoes and gloves, a few magazines, lunch at a restaurant, and tickets to a play — all the while wiggling her toes blissfully in her new silk stockings.

Chopin's story is, for some readers, a warning about the dangers of succumbing to one selfish temptation. Those serpent-like stockings draw Mrs. Sommers down a path of more and more luxury until her little windfall is all spent. For others, it is a quietly sad story about a woman who married unwisely and can no longer afford the pleasures of her past — and who has made a habit of sacrificing the few pleasures she can afford for the benefit of her family. For those readers, Mrs. Sommers has broken under the strains of scarcity, and her single day of frivolous spending is understandable, poignant, and all too human.

But Kate Chopin was not the only writer who found silk, and silk stockings in particular, a perfect symbol of a small but enticing luxury — a forerunner of Lauder's Lipstick Index, perhaps. In Ernst Lubitsch's great 1939 film *Ninotchka*, the severe Russian comrade played by Greta Garbo heads to Paris to chastise three others who have been led astray by the city's delights. (How severe is she? She praises "the last mass trials" as a "great success. There are going to be fewer but better Russians.")

Ninotchka is, of course, instantly corrupted as well. And what does it? Well, there's a handsome aristocrat, of course, and there's champagne and Paris, but most importantly, there is silk. The movie's Paris scenes are draped in it. From the moment that Ninotchka sees her first Parisian hat and demands to know, "How can a civilization survive

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that allows its women to put such things as that on their heads?" to the moment when she stands in the communal kitchen of her shared Moscow flat, with nothing left of her Paris romance but a single silk teddy, Ninotchka's discovery of the joys of Paris is a hymn to the pleasures of the market. And those pleasures, Lubitsch suggests, are the key to the triumph over communism. Ninotchka's friend Anna warns her, "You know how it is today. All you have to do is wear a pair of silk stockings and they suspect you of counter-revolution," and the movie strongly suggests that "they" might be right to be so worried.

The musical version of *Ninotchka*, 1957's *Silk Stockings*, employs Cyd Charisse's ballet training to good effect in a wordless scene that conveys the transformative power of these small silk luxuries. Beginning the scene in her drab Russian dress, black cotton stockings, and flat Oxford shoes, Charisse dances through her Paris hotel room, drawing one luxury after another from their hiding places. The first luxury she retrieves? A pair of silk stockings.

As the dance ends, the now fully Parisian-clad Charisse leaves the room as she contemptuously tosses the old black stockings aside.

In 1942, Joseph Schumpeter, who was famously interested in both economics and women, noted that

> Queen Elizabeth owned silk stockings. The capitalist achievement does not typically consist in providing more silk stockings for queens but in bringing them within the reach of factory girls in return for steadily decreasing amounts of effort.... The capitalist process, not by coincidence but by virtue of its mechanism, progressively raises the standard of life of the masses.

I don't know if Schumpeter saw *Ninotchka* or not, though it certainly sounds as if he might have. I do suspect he knew that Queen Elizabeth loved her stockings and ordered more, but refused a patent to a later inventor of a machine that would have made such stockings faster and easier to knit. She was worried that the machine would put too many of her subjects out of work. What she feared is, of course, precisely the creative destruction that Schumpeter is famous for describing. And it is that creative destruction that enables capitalism and that puts silk stockings into the hands of Mrs. Sommers, Greta Garbo, Cyd Charisse, and anyone else who is willing to flirt with a little material seduction in order to obtain a seductive material. FEE

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Kate Chopin, "A Pair of Silk Stockings," 1897.

Ernst Lubitsch, *Ninotchka*, Greta Garbo and Melvyn Douglas, 1939.

Rouben Mamoulian, *Silk Stockings,* Cyd Charisse and Fred Astaire, 1957.