FEE | THE FREEMAN

Volume 64, No 8 OCTOBER 2014

Features

Page 9

Columns

Culture

Poetry

Page 39

THE FREEMAN

Published by
The Foundation for Economic Education
1718 Peachtree Street NW, Ste 1048
Atlanta, GA 30309
United States
Phone: (800) 960-4333; E-mail: freeman@fee.org
www.fee.org

President	Lawrence W. Reed
Executive Director	Wayne Olson
Chief Operating Officer	Carl Oberg
Editor	Max Borders
Managing Editor	Michael Nolan
Poetry Editor	Luke Hankins

Columnists

Charles Baird	David R. Henderson
Doug Bandow	Sandy Ikeda
Tom Bell	Sarah Skwire
Stephen Davies	Jeffrey Tucker
Burton W. Folsom, Jr.	Iain Murray

The Foundation for Economic Education (FEE) is a nonpolitical, nonprofit educational champion of individual liberty, private property, the free market, and constitutionally limited government.

The Freeman is published monthly, except for combined January-February and July-August issues. Views expressed by the authors do not necessarily reflect those of FEE's officers and trustees. To receive a sample copy, or to have *The Freeman* come regularly to your door, call 800-960-4333, or e-mail mnolan@fee.org.

The Freeman is available electronically through products and services provided by ProQuest LLC, 789 East Eisenhower Parkway, PO Box 1346, Ann Arbor, Michigan 48106-1346. More information can be found at www.proquest.com or by calling 1-800-521-0600.

Change Is Coming to *The Freeman*

The Freeman's print edition has been with us for a long time. FEE has only been its steward since 1955. But we've guarded it jealously ever since. It's gone through many changes—colors, sizes, and forms. And now it's undergoing another change.

But first things first: *The Freeman*'s print edition isn't going anywhere.

The big news is we're going quarterly: spring, summer, fall, and winter. As of December 2014, we'll finish up our monthly print run. After that—as a print subscriber—you'll start to receive your print *Freeman* in March, then June, September, and December. Your new *Freeman* will have the best of the best. It'll come in full color throughout and have a new look.

Why go quarterly?

First, it's cost-efficient. We can send out more magazines at higher quality. Plus every dollar we spend being less cost-efficient is a lost opportunity to reach a young person on her tablet. Of course, we don't want to miss too many of those opportunities.

But that's not all. A higher print run each quarter means a far wider distribution each quarter. Indeed, we've been in the process of expanding our channels with a new focus on marketing and distribution. We're starting to understand the print *Freeman* as a publication created to make new friends of FEE.

Our supporters will be happy to see only our showcase material in print, knowing that the savings are going to grooming the next generation of Miseses, Greaveses, and Reads. We also think students will pick up a full-color version of our best material and keep it around for a while—perhaps on the coffee table, perhaps in the bathroom. The new format also allows us to produce a special edition issue each year.

Our think-tank partners and fellow travelers will want to spend time with this new product line, as well. It's sleek. It's colorful. It's modern. And the ideas? Well, they're timeless, of course. But we'll keep them in the 21st century where they belong—reaching a new generation of freedom-lovers.

As FEE distinguished fellow Jeffrey Tucker reminds us in his recent tribute to FEE at Liberty.me:

> In some ways, [the millennial generation] is the most knowledge-exposed generation to live on this planet. Reaching this generation, then, requires a special focus. Knowledge is one thing but wisdom and principles are another. Being bombarded with non-stop data bits is not the same thing as having a useful worldview rooted in a coherent set of changeless principles. Knowing facts about the world is not the same as understanding cause and effect. This is precisely what FEE seeks to impart, and its renewed focus can extend the influence of the core ideas with greater clarity to the particulars of the mission.

Freedom is our prime value. And we still take our mission seriously after all these years. Making an impact comes first. If we have to choose between attracting a bright young person who's curious about our ideas, and someone who was sold on liberty long ago, we know what we have to do. And while we see a duty to pass our ideas to new generations, we are under no illusions: We have to keep the old guard happy too. We think we've found the right balance.

Many have gotten used to the current *Freeman* hitting their mailboxes every month. We understand. This change is hard for our editorial staff, too. But ultimately, we realize that if we're serious about striking that balance between the economics of impact and the tradition we love, we needed to squeeze more out of our donor dollars. And that's the fundamental reason for the change.

So stay with us. Give the 2015 *Freeman* a try. For a $50 donation to FEE you'll ensure this: you'll get the quarterly *Freeman* for a year, and now two young people will, too. FEE

Deputizing America

Sooner or later, we'll all work for the State—unless we do something about it

IAIN MURRAY

It's an old Western movie trope. The harassed sheriff needs help against Desperado D. Blackhat and his gang of gunslingers. He goes into the saloon, finds the gambler who was once the most feared crack shot this side of the Pecos, and makes him his deputy. Together, they run Blackhat and his gang out of town. If you thought that type of quick-and-dirty deputizing died with the Wild West, think again. Government is deputizing people all over the country to do its law-enforcement work. But unlike that gambler, they don't get the chance to say no.

Take, for instance, FedEx. The delivery company has been indicted by federal prosecutors for not doing the Drug Enforcement Agency's (DEA's) job for it. The DEA alleges that FedEx knowingly shipped pharmaceuticals for online pharmacies that were based on invalid prescriptions, because it should have known "the principals, company names, shipping addresses and billing addresses that were initially connected to" a network of pharmacies closed down by the DEA in 2003. As a recent *Wall Street Journal* editorial summarized,

> Translation: FedEx employees should have connected the dots. But if it's so easy, why didn't the DEA do it? The truth is that unmasking the bad guys would have required an extensive metadata analysis of customer data that is not FedEx's job.

The DEA also alleges that FedEx should have known its orders were based on fraudulent prescriptions from visiting the pharmacies' facilities for inspection. That's not something a shipping company is set up to do. It is something a law enforcement agency is set up to do, but the DEA didn't do it. So by their indictment of FedEx, the feds are telling all other delivery firms that they are now forcibly deputized to do the DEA's job in the War on Drugs. If they don't play along, they need to show up in court. [Editor's note: See next article for more information on this case.]

> THE GOVERNMENT is making businesses into its policemen.

Banking regulators have been playing a similar game. Under a campaign known as Operation Choke Point, they have been telling banks that if they don't investigate their customers for "high-risk" activity, they will be subject to subpoenas and everything that implies. As a result, banks have simply been cutting off links to potentially risky customers on the simple basis of what business they are in. As Department of Justice documents show, the motivation for Choke Point was the feds' lack of manpower to investigate the risky businesses themselves. So they deputized the banks to do their job for them.

If New York's Department of Financial Services (NYDFS) has its way, bitcoin businesses operating in the state will be deputized, too. The NYDFS, supposedly concerned about fraud risk, is demanding that businesses that use bitcoin keep a public record of every transaction. This would destroy the currency's appeal by undermining one of its most potent selling points: users' expectations of privacy. As Jim Harper, global policy counsel for the Bitcoin Foundation, told Coinbase, Surveillance of transactions is at odds with both bitcoin users' and consumers' privacy demands, and the level of privacy they could expect is similar to that dictated by deals between corporations and governments in the fiat currency realm.

There are many more examples, from gambling regulators forcing credit processing companies to stop unlawful online gambling transactions—without a clear definition of "unlawful" in this context—to immigration authorities deputizing employers to confirm potential employees' immigration status.

In each of these cases, the executive is essentially requiring businesses to deploy employees to work for the government rather than the company. The justification, supposedly to protect consumers from fraud or other abuse by a third party, traditionally has been reserved to the government as part of its law enforcement powers. That's why the term "deputizing" is so appropriate—the government is making businesses into its policemen. The only difference is it will charge them with a crime if they don't agree. No wonder the easy way out is just to stop doing business with the third party altogether.

This is a disturbing and unprecedented tendency. It's time that we put a stop to it, before we all end up working for the government whether we like it or not. Next time, it won't just be dodgy online pharmacies or payday lenders that are in the crosshairs, but anyone or anything the government of the day doesn't like or understand. In a world where you can't do business because the government has its nose in everything, innovation will grind to a halt, much like the Western movie genre. **FEE**

Iain Murray (Iain.Murray@cei.org) is vice president at the Competitive Enterprise Institute.

Crony Phony Drug War

The Feds attack FedEx on behalf of Big Pharma and expand the police state

WENDY MCELROY

The Wall Street Journal recently reported that the FedEx Corp. pleaded not guilty in a San Francisco federal court "on 15 charges related to transporting painkillers and other prescription drugs that had been sold illegally."

The "illegal drugs" do not refer to cocaine or meth but to generic medications people can buy from online pharmacies for far less than brand-name ones produced by pharmaceutical corporations (Big Pharma). As part of a crackdown on prescription drug abuse, a number of companies—including competitor UPS—agreed to pay civil fines over claims that they sold or delivered medications they knew were not for legitimate medical use. FedEx refused, and the Department of Justice (DOJ) is seeking a massive punitive settlement. Prosecutors claim FedEx earned "at least $820 million, and if the company is found guilty, it faces a potential maximum fine of twice that, or about $1.6 billion."

People arguably have the right to determine their own medical treatments, including what drugs they use. And one can argue about whether a parcel delivery company should be responsible for what gets delivered. But the criminal case against FedEx raises a separate issue: crony capitalism.

Beyond the legality of drugs

Crony capitalism refers to the political dynamic in which commercial success depends upon the relationship a business has with government. Businesses that support a political faction, perhaps through campaign donations, receive favors such as tax exemptions or laws restricting their competitors.

Big Pharma contributed nearly $10 million to various political campaigns during the 2011–2012 presidential elections. Hedging their bets, the major manufacturers funded both Democrat incumbent Barack Obama (just over $1 million) and Republican challenger Mitt Romney (approximately $699,000). So far, in 2014, the top two contributors in Big Pharma have made political donations of $1,242,991 and $1,031,695, respectively; there are at least 18 other contributors from the industry. The total expended in lobbying during 2014 is $8,870,000.

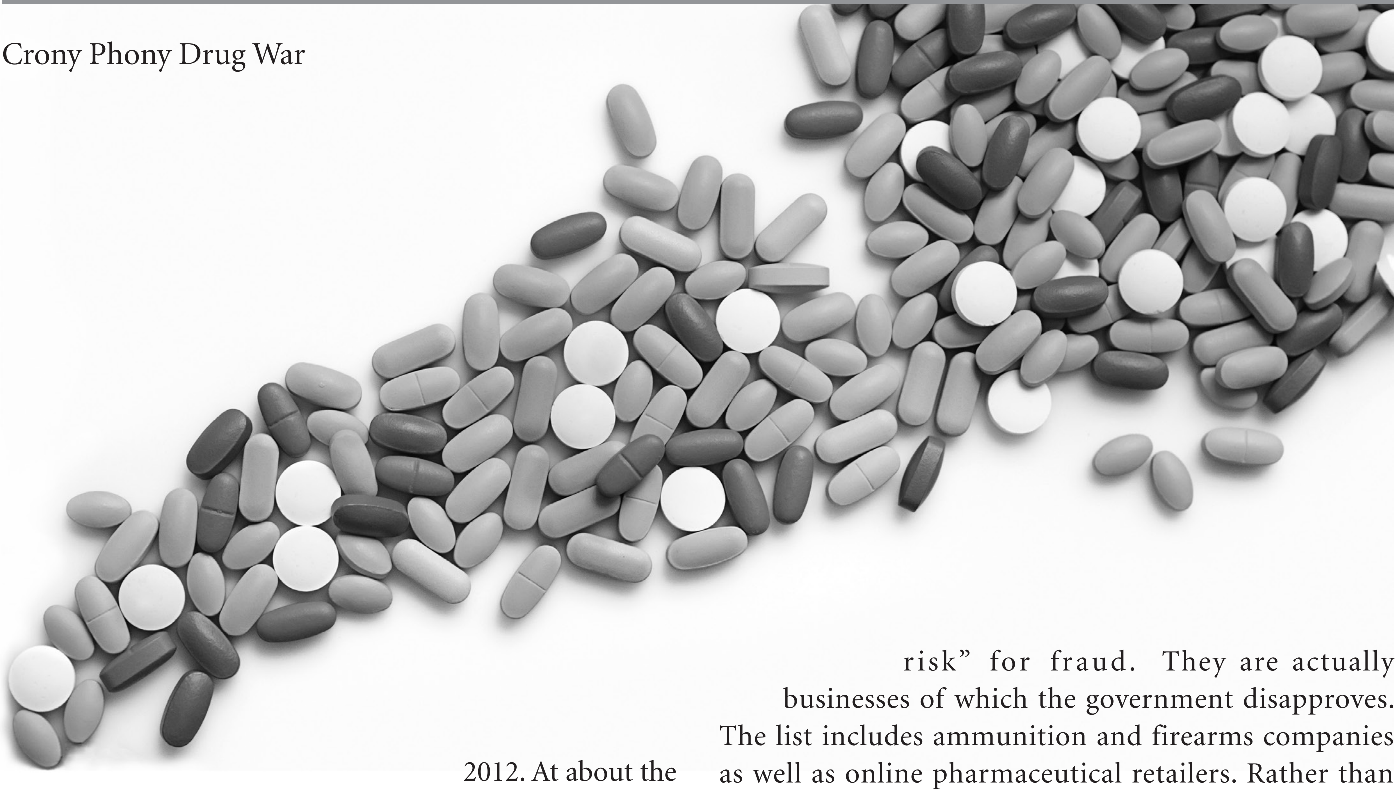
> NO WONDER the federal government moved quickly to protect Big Pharma. Every time someone buys from an online source, Big Pharma loses its monopoly rents.

Politically speaking, the money is a good investment. On May 5, 2013, a *Forbes* headline announced, "Obamacare Will Bring Drug Industry $35 Billion In Profits." The article explained that "the U.S. pharmaceutical industry's market value will mushroom by 33 percent to $476 billion in 2020 from $359 billion last year." The increase comes despite "expiring patents on blockbuster drugs" such as Lipitor.

Profits-on-paper (rents) can be secured and increased if Big Pharma drives its competitors out of business. This is particularly important as online and foreign competitors offer dramatically lower prices and the convenience of home delivery.

Crony capitalism on the sly

The federal government began pressuring FedEx in



Zelenenka Yuliia/Shutterstock.com

2012. At about the same time, Big Pharma's price inflation became public, causing a scandal. ABC News reported on an Arizona woman who received an anti-venom drug for a scorpion sting. "The bill that arrived ... came out to $83,046, or $39,652" per vial, or "about 10 times what the hospital paid for each vial." Even the $4,000 per vial charged to the hospital is outrageous. The article went on to note that the drug "costs about $100 per dose" in Mexico, and the woman would have saved "$39,552 a dose if she had ordered the drug from a licensed Mexican pharmacy." No wonder the federal government moved quickly to protect Big Pharma. Every time someone buys from an online source, Big Pharma loses its monopoly rents.

The Obama administration excels at imposing agendas on the sly. For example, the DOJ initiative called Operation Choke Point pressures banks to refuse financial transactions from businesses that are allegedly a "high risk" for fraud. They are actually businesses of which the government disapproves. The list includes ammunition and firearms companies as well as online pharmaceutical retailers. Rather than take the controversial step of banning these legal businesses, the federal government makes it ever more difficult for them to function. The lawsuit against FedEx continues this federal strategy, as a bit of background illustrates.

> BIG PHARMA obviously benefits if online competitors are choked out, but turning FedEx into an arm of law enforcement has advantages for the federal government as well.

A 2012 article in *The Wall Street Journal* reported, "The Drug Enforcement Administration has been probing whether the companies [FedEx and UPS] aided and abetted illegal drug sales from online pharmacies for several years, according to company filings, although the investigation has gone largely unnoticed. Both companies were served with subpoenas starting more than four years ago."

The aiding and abetting consisted of delivering orders to customers; without access to the two giant shipping companies, it is not clear how many online pharmacies could remain in business.

UPS quickly entered into discussions with the DOJ about paying fines and cooperating. Ultimately, in March 2013, UPS paid a $40 million fine for the privilege of signing a nonprosecution agreement with the DOJ. FedEx balked. There were several points of contention:

1. FedEx repeatedly requested a list of online pharmacies that the Drug Enforcement Administration considered illegal. In a written statement, Patrick Fitzgerald, senior vice president for marketing and communications, explained, "Whenever DEA provides us a list ... we will turn off shipping for

those companies immediately. So far the government has declined to provide such a list."

2. The DOJ wanted all packages from online pharmacies to be opened and the contents noted, whether or not there was reason to suspect a package contained illegal goods. Fitzgerald countered, "sealed packages ... are being sent by, as far as we can tell, licensed pharmacies. These are medicines with legal prescriptions written by licensed physicians." Moreover, FedEx is "a transportation company that picks up and delivers close to 10 million packages every day. They are sealed packages, so we have no way of knowing specifically what's inside and we have no interest in violating the privacy rights of our customers."
3. FedEx refused to be "deputized" as a law enforcement agency and preferred to remain a private business.

Further implications

Big Pharma obviously benefits if online competitors are choked out, but turning FedEx into an arm of law enforcement has advantages for the federal government as well. If federal agents searched private mail without warrants or probable cause, people would cry "Fourth Amendment!" This is the constitutional guarantee that people will be "secure in their persons, houses, papers, and effects, against unreasonable searches and seizures" by the federal government.

But private shippers are not bound by constitutional restraints. The "right" to check packages can be written into the business agreement that customers sign. If a customer objects, then he is free to go elsewhere. By controlling FedEx policy, the DOJ would be able to search packages in absentia and make targeted arrests if illegal contents are found.

BY CONTROLLING FedEx policy, the DOJ would be able to search packages in absentia and make targeted arrests if illegal contents are found.

FedEx is determined to fight the lawsuit. The criminal trial will test how much secondary responsibility shippers must legally assume for the contents of shipments.

In a recent interview with *Bloomberg*, Larry Cote, a former chief counsel at the DEA, referred to the trial as an "unprecedented escalation of a federal crackdown on organizations and individuals" in order "to combat prescription drug abuse." Making messengers liable for the messages transmitted has dangerous implications for all communications, including personal ones. As TechDirt observed, "We often talk about secondary liability on the internet, but it's the same basic principal [*sic*] here. The company that's merely acting as the conduit shouldn't be liable for what's traversing over its system. The implications of changing that, and holding a company liable are very serious. It's going to create massive incentives for shipping companies to not just open up and look at what's in our packages, but to also make on-the-fly determinations of whether or not they think it's legal."

If the federal government can order private shippers to open all packages in order to fight "illegal drugs," how long will it be before all financial mailings are opened in order to fight tax evasion or money laundering? Privacy of email and telephone calls is already nonexistent in America. The criminal case against FedEx is an important step toward destroying what remains of mail privacy and expanding the police powers of the State. FEE

Contributing editor Wendy McElroy (wendy@wendymcelroy.com) is an author and the editor of ifeminists.com.

By the Numbers: Is Private Gun Ownership Responsible for Police Militarization?

DANIEL BIER

Are private guns to blame for police militarization and racial tensions with cops? That's the conclusion of Adam Winkler, a *Huffington Post* blogger and law professor at UCLA. In the wake of a police officer shooting an unarmed black teenager in Ferguson, Missouri, Winkler argues that private gun ownership is a major culprit for the tensions between citizens and cops.

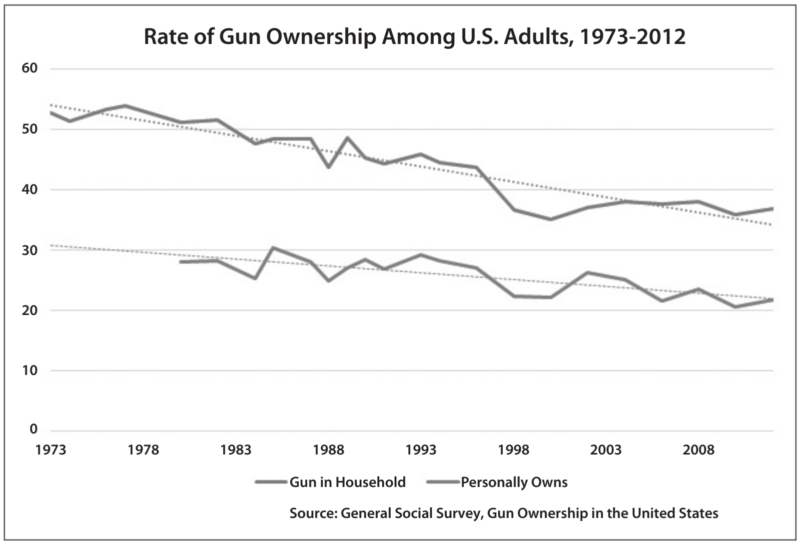
> The problems of racial harassment and police militarization are exacerbated by the fact that America has a heavily armed civilian population.... Whatever one's personal views about guns, there is no denying their presence in every American city, from Philadelphia to Ferguson. Nor should we fail to recognize the profound impact this has on law enforcement.

> Because there are so many guns out there, police officers are trained to live in fear of the very people they are supposed to protect and serve.... At training academies throughout the nation, new recruits are taught that cop-killers need two things: a will to kill and an opportunity to act. There's little an officer can do about will.... Officers can, however, limit the opportunities for a cop-killer to act by being prepared and quick to defend themselves.

He further contends that police militarization is actually in part the result of private gun ownership: "The Brown protests have also set off a debate about militarization of the police since 9/11. That militarization is partially a result of our heavily-armed civilian population. The armored vehicles that have become the symbol of militarization are being purchased by law enforcement agencies to protect officers against gunfire."

There are many problems with this argument, but first let me note that the armored vehicles Winkler mentions, such as mine-resistant, ambush-protected vehicles, or MRAPs, are designed to protect soldiers from land mines and improvised explosive devices, or IEDs, in wartime, not to protect peace officers from gunfire. They are mine-resistant, not bullet-resistant, vehicles. If guns are really the concern, "overkill" just doesn't even cut it here.

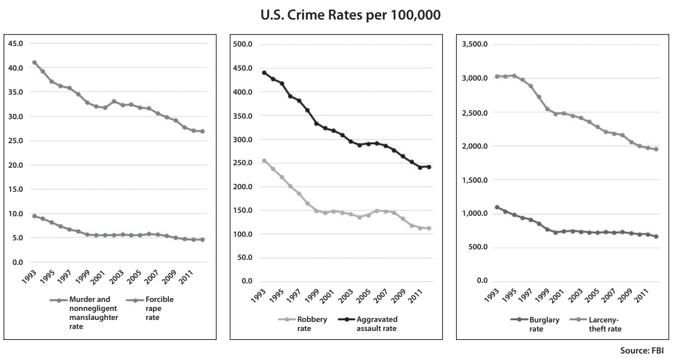
But the biggest issue with Winkler's claim is that widespread private gun ownership far predated police militarization. Large numbers of private citizens have owned firearms throughout American history.



Moreover, gun ownership in the United States has been declining, both before and throughout the process of militarizing law enforcement. The 1980s saw early stirrings of it, with the spread of SWAT teams and Reagan-era "tough on crime" policies. It grew in the mid-1990s under the Clinton administration, which authorized the DOD's 1033 program, expanding and formalizing the process for giving military gear to police. Finally, after 9/11, militarization took off in earnest, with two wars, paranoia about terrorism, a booming defense industry, and billions of dollars in Homeland Security money to drive it.

Meanwhile, rates of gun ownership throughout the United States dropped or stagnated. Winkler drops the oft-quoted and often misunderstood statistic that there are "320 million guns in the United States, approximately one per person," but apparently doesn't recognize that this stat doesn't mean everyone gets a gun. (A good way to check: Look around you. Do you see any guns? No? Okay, myth busted.) Today, the actual rate of gun ownership is just 34 percent, down from an average of over 52 percent in the 1970s.

Not only is gun ownership down, so is crime—dramatically so. Starting in 1990, and continuing through recessions, terrorist attacks, and wars, crime has fallen. Murder, rape, robbery, and assault—and even property crimes—are all down. Cops toting .50 caliber machine guns and driving land-mine-resistant vehicles cannot be responding to an epidemic of violence, because one simply doesn't exist.



How Dangerous Is It to Be a Cop?

DANIEL BIER

Defenders of police militarization such as that on display in Ferguson, Missouri, this summer, often claim that it's necessary to provide military gear to cops, given how dangerous law enforcement has become.

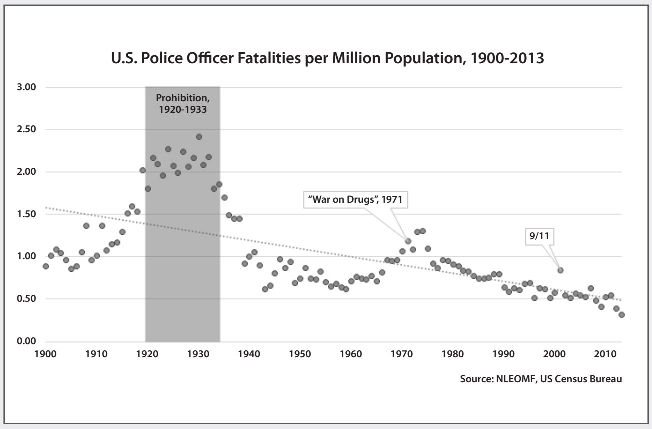
Indeed, in the name of the War on Terror and the War on Drugs, the federal government has provided thousands of pieces of military-grade body armor, mine-resistant armored personnel carriers, assault rifles, grenade launchers, helicopters, and night-vision goggles to local police and sheriffs. Almost every county in America has received equipment from these programs.

But has policing really become so dangerous that we need to arm peace officers like an invading army? The answer is no. It's never been safer to be a cop.

To start with, few police officers die in the line of duty. Since 1900, only 18,781 police officers have died from any work-related injury. That's an average of 164 a year. In absolute terms, officer fatalities peaked in 1930 (during alcohol prohibition) at 297, spiking again in the 1970s before steadily declining since.

If you look at police fatalities adjusted for the U.S. population, the decline is even starker. 2013 was the safest year for American policing since 1875.

In 2013, out of 900,000 sworn officers, just 100 died



from a job-related injury. That's about 11.1 per 100,000, or a rate of 0.01%.

Policing doesn't even make it into the top 10 most dangerous American professions. Logging has a fatality rate 11 times higher, at 127.8 per 100,000. For fishing, the rate is 117 per 100,000. For piloting/flight engineering, it is 53.4 per 100,000. It's twice as dangerous to be a truck driver as it is to be a cop—at 22.1 per 100,000.

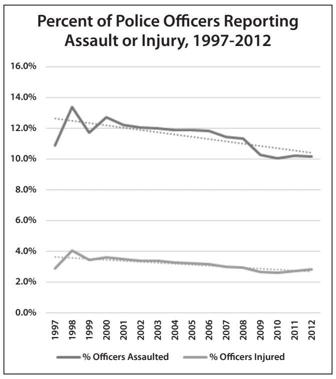
Another point to bear in mind is that not all officer fatalities are homicides. Out of the 100 deaths in 2013, 31 were shot, 11 were struck by a vehicle, 2 were stabbed, and 1 died in a "bomb-related incident." Other causes of death were aircraft accident (1), automobile accident (28), motorcycle accident (4), falling (6), drowning (2), electrocution (1), and job-related illness (13).

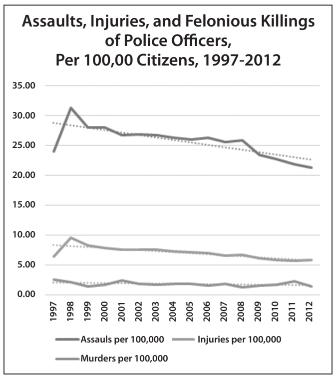
The FBI hasn't yet released details on how many of these deaths were homicides; based on averages over the last decade, however, the murder rate is likely around 4 per 100,000. The average for U.S. cities is 5.6. It's more dangerous to live in Baltimore (35.01 murders per 100,000 residents) than to be a cop in 2014.

This is not to say that police officers do not have a difficult job. They certainly do. They're required to have daily contact with drunks, the mentally disabled, and criminal suspects. Arrests can often lead to physical confrontation, assault, and sometimes injury. Police are constantly dragged into families' and neighbors' petty squabbles. It can be a stressful and sometimes thankless task.

But policing just isn't unusually deadly or dangerous—and it's safer today than ever before. The data do not justify the kinds of armor, weapons, insecurity, and paranoia being displayed by police across the country. Short of an outbreak of land-mine-related crimes in America's heartland, there's no reason to deploy mine-resistant vehicles and .50 caliber machine guns to rural sheriffs' departments. FEE

But even if far fewer people own guns and commit crimes than did so in the past, it's still possible that police officers are uniquely under threat in recent years. Maybe killings, assaults, and injuries of police are on the rise. But they're not.





Source: FBI, Census Bureau

In every way, this theory fails to align with the facts. Not only is gun ownership down, but so are crime and attacks on police. Private gun ownership is not responsible for militarization, racial profiling, or tensions with police.

But Winkler is right about one thing: Police officers are being taught to be paranoid about citizens and guns, and that fear is being channeled against minorities, from ATF stings targeted at poor blacks and Hispanics, to New York's racist stop-and-frisk program, to New Jersey's felony prosecution of a single mom who tried to do the right thing (tinyurl.com/jvzuhnx).

But the reason isn't that there is more of a threat than there used to be. It's that people are being systematically misinformed—by reporting like Winkler's—about the risks they actually face. Telling poor minorities that hostilities with police are really partly their fault—and that if they would just give up their guns, everything would be okay—is not just absurd, it's actively harmful. FEE

Daniel Bier (dbier@fee.org) is the executive editor of The Skeptical Libertarian. *He writes on issues relating to science, skepticism, and economic freedom, focusing on the role of evolution in social and economic development.*

Secession Today?

Three things the U.S. can learn from the Scottish referendum

STEVE PATTERSON

It's official: Scotland will remain part of the United Kingdom. On September 18, Scotland held a referendum on whether it would become an independent country. Fifty-five percent voted to remain part of the union, and 45 percent voted to secede. Though the country's political structure won't radically change, its bid for independence has big implications outside of Scotland.

The United States, in particular, can learn a few things from the event, and those things may help us remove secession's stigma.

1. Secession is a legitimate political topic.

In the United States, even mentioning the word "secession" is taboo. People assume you're either nuts or a racist. They shouldn't. Secession is a well-established political action, and it's unwise to dismiss the idea out of hand. After all, the United States was founded by an act of secession from England.

The idea makes sense: If a group of people does not believe their government represents them, they have a right to create their own. If you support the idea of self-governance, you must support the right to secede. At least 45 percent of the voters in Scotland (a great majority of them younger than 25) don't feel well represented in Westminster; it's no surprise they wanted a change.

Millions of Americans don't feel well represented in Washington, D.C. The possibility of secession, however small, should remain on the table. It's time we stop acting like it's a nonsensical idea. But the United States doesn't have the greatest track record on secession, which brings me to point number two.

2. Secession can be peaceful.

If Scotland had voted for independence, it would not have been a violent event. Listen to the political commentary on both sides. Practically everyone said the same thing: "Regardless of my personal opinion, I support the right of Scotland to decide for itself." This sentiment was echoed by Tories, Liberals, and Nationalists alike. The referendum would have been respected, without need for violence or war. Sure, secession might have been messy; Scotland and England share many political ties. But a messy political action is quite different from a violent one.

The last time the United States dealt with secession, the bloodiest war in U.S. history ensued. Around 150 years ago, a large group of states in the South wanted to secede from their political Union, and it sparked a civil war that killed over half a million Americans. But it didn't need to happen—if the Scots could secede peacefully, so could Americans. Which brings me to the third point.

3. Secession can happen with small numbers of people.

Scotland has a population of roughly five million people. That's it. Relatively speaking, that's a small number. By comparison, the greater Atlanta area—home to FEE—has a population of more than five million. Talking about the secession of one state is still largely taboo in the United States—and the idea of one city going it alone would probably sound laughable to many. But there are more people living around Atlanta than in the entire country of Scotland, and few would question the legitimacy of Scotland's right to secede. If we were talking about multiple states seceding, that's likely to be an order of magnitude more people. So, if we think of Scotland's right to secede as being legitimate, why wouldn't Atlanta's secession also be legitimate?

This isn't a case for American secession; it's about keeping the topic open for discussion. Certainly there are many steps between Americans being angry and Americans forming a new country. But if Washington refuses to represent millions of citizens, secession should be considered an option. It doesn't require animosity or violence, just the freedom to self-govern in peace.

At the very least, the discussion around secession is not over. The American Civil War was 150 years ago, and everybody who was involved is dead. It's time to remove the stigma and restart the conversation FEE

Steve Patterson (steve-patterson.com) is a freelance motion graphics producer and writer. He is the creator of The Truth About... *educational animation series.*

What Gave Bitcoin Its Value?

Those who use the work of Mises to challenge bitcoin should think again

JEFFREY A. TUCKER

Many people who have never used bitcoin look at it with confusion. Why does this magic Internet money have any value at all? It's just some computer thing that someone made up.

Consider the criticism of goldbugs, who have, for decades, pushed the idea that sound money must be backed by something real, hard, and independently valuable.

Bitcoin doesn't qualify, right?

Maybe it does. Let's take a closer look.

> THE INITIAL value of money, before it becomes widely traded as money, originates in its direct utility. It's an explanation that is demonstrated through historical reconstruction. That's Mises' regression theorem.

Bitcoin first emerged as a possible competitor to national, government-managed money nearly six years ago. Satoshi Nakamoto's white paper was released October 31, 2008. The structure and language of this paper sent the message: This currency is for computer technicians, not economists nor political pundits. The paper's circulation was limited; novices who read it were mystified.

But the lack of interest didn't stop history from moving forward. Two months later, those who were paying attention saw the emergence of the "Genesis Block," the first group of bitcoins generated through Nakamoto's concept of a distributed ledger that lived on any computer node in the world that wanted to host it.

Here we are six years later and a single bitcoin trades at $500 and has been as high as $1,200 per coin. The currency is accepted by many thousands of institutions, both online and offline. Its payment system is very popular in poor countries without vast banking infrastructures but also in developed countries. And major institutions—including the Federal Reserve, the OECD, the World Bank, and major investment houses—are paying respectful attention.

Enthusiasts, who are found in every country, say that its exchange value will soar in the future because its supply is strictly limited and it provides a system vastly superior to government money. Bitcoin is transferred between individuals without a third party. It is nearly costless to exchange. It has a predictable supply. It is durable, fungible, and divisible: all crucial features of money. It creates a monetary system that doesn't depend on trust and identity, much less on central banks and government. It is a new system for the digital age.

Hard lessons for hard money

To those educated in the "hard money" tradition, the whole idea has been a serious challenge. Speaking for myself, I had been reading about bitcoin for two years before I came anywhere close to understanding it. There was just something about the whole idea that bugged me. You can't make money out of nothing, much less out of computer code. Why, then, does it have value? There must be something amiss. This is not how we expected money to be reformed.

There's the problem: our expectations. We should have been paying closer attention to Ludwig von Mises' theory of money's origins—not to what we think he wrote, but to

what he actually did write.

In 1912, Mises released *The Theory of Money and Credit*. It was a huge hit in Europe when it came out in German, and it was translated into English. While covering every aspect of money, his core contribution was in tracing the *value and price* of money—and not just money itself—to its origins. That is, he explained how money gets its price in terms of the goods and services it obtains. He later called this process the "regression theorem," and as it turns out, bitcoin satisfies every condition of the theorem.

Mises' teacher, Carl Menger, demonstrated that money itself originates from the market—not from the State and not from social contract. It emerges gradually as monetary entrepreneurs seek out an ideal form of commodity for indirect exchange. Instead of merely bartering with each other, people acquire a good not to consume, but to trade. That good becomes money, the most marketable commodity.

But Mises added that the value of money traces backward in time to its value as a bartered commodity. Mises said that this is the only way money can have value.

> The theory of the value of money as such can trace back the objective exchange value of money only to that point where it ceases to be the value of money and becomes merely the value of a commodity.… If in this way we continually go farther and farther back we must eventually arrive at a point where we no longer find any component in the objective exchange value of money that arises from valuations based on the function of money as a common medium of exchange; where the value of money is nothing other than the value of an object that is useful in some other way than as money.… Before it was usual to acquire goods in the market, not for personal consumption, but simply in order to exchange them again for the goods that were really wanted, each individual commodity was only accredited with that value given by the subjective valuations based on its direct utility.

Mises' explanation solved a major problem that had long mystified economists. It is a narrative of conjectural history, and yet it makes perfect sense. Would salt have become money had it otherwise been completely useless? Would beaver pelts have obtained monetary value had they not been useful for clothing? Would silver or gold have had money value if neither one first had value as a commodity? The answer in all cases of monetary history is clearly no.

The initial value of money, before it becomes widely traded as money, originates in its direct utility. It's an explanation that is demonstrated through historical reconstruction. That's Mises' regression theorem.

Bitcoin's use value

At first glance, bitcoin would seem to be an exception. You can't use a bitcoin for anything other than money. It can't be worn as jewelry. You can't make a machine out of it. You can't eat it or even decorate with it. Its value is only realized as a unit that facilitates indirect exchange. And yet, bitcoin already is money. It's used every day. You can see the exchanges in real time. It's not a myth. It's the real deal.

It might seem like we have to choose. Is Mises wrong? Maybe we have to toss out his whole theory. Or maybe his point was purely historical and doesn't apply in the future of a digital age. Or maybe his regression theorem is proof that bitcoin is just an empty mania with no staying power, because it can't be reduced to its value as a useful commodity.

And yet, you don't have to resort to complicated monetary theory in order to understand the sense of alarm surrounding bitcoin. Many people, as I did, just have a feeling of uneasiness about a money that has no basis in anything physical. Sure, you can print out a bitcoin on a piece of paper, but having a paper with a QR code or a public key is not enough to relieve that sense of unease.

How can we resolve this problem? In my own mind, I toyed with the issue for more than a year. It puzzled me. I wondered if Mises' insight applied only in a predigital age. I followed the speculations online that the value of bitcoin would be zero but for the national currencies into which is converted. Perhaps the demand for bitcoin overcame the demands of Mises' scenario because of a desperate need for something other than the dollar.

As time passed—and I read the work of Konrad Graf, Peter Surda, and Daniel Krawisz—finally the resolution came. I will cut to the chase and reveal it: Bitcoin is both a payment system and a money. The payment system is the source of value, while the accounting unit merely expresses that value in terms of price. The unity of money and payment is its most unusual feature, and the one that most commentators have had trouble wrapping their heads around.

We are all used to thinking of currency as separate from payment systems. This thinking is a reflection of the technological limitations of history. There is the dollar and there are credit cards. There is the euro and there is PayPal. There is the yen and there are wire services. In each case, money transfer relies on third-party service providers. In order to use them, you need to establish what is called a "trust relationship" with them, which is to say that the institution arranging the deal has to believe that you are going to pay.

> BITCOIN IS BOTH a payment system and a money. The payment system is the source of value, while the accounting unit merely expresses that value in terms of price. The unity of money and payment is its most unusual feature, and the one that most commentators have had trouble wrapping their heads around.

This wedge between money and payment has always been with us, except for the case of physical proximity. If I give you a dollar for your pizza slice, there is no third party. But payment systems, third parties, and trust relationships become necessary once you leave geographic proximity. That's when companies like Visa and institutions like banks become indispensable. They are the application that makes the monetary software do what you want it to do.

The hitch is that the payment systems we have today are not available to just anyone. In fact, the vast majority of humanity does not have access to such tools, which is a major reason for poverty in the world. The financially disenfranchised are confined to only local trade and cannot extend their trading relationships with the world.

A major, if not a primary, purpose of developing Bitcoin was to solve this problem. The protocol set out to weave together the currency feature with a payment system. The two are utterly interlinked in the structure of the code itself. This connection is what makes bitcoin different from any existing national currency, and, really, any currency in history.

Let Nakamoto speak from the introductory abstract to his white paper. Observe how central the payment system is to the monetary system he created:

> A purely peer-to-peer version of electronic cash would allow online payments to be sent directly from one party to another without going through a financial institution. Digital signatures provide part of the solution, but the main benefits are lost if a trusted third party is still required to prevent double-spending. We propose a solution to the double-spending problem using a peer-to-peer network. The network timestamps transactions by hashing them into an ongoing chain of hash-based proof-of-work, forming a record that cannot be changed without redoing the proof-of-work. The longest chain not only serves as proof of the sequence of events witnessed, but proof that it came from the largest pool of CPU power. As long as a majority of CPU power is controlled by nodes that are not cooperating to attack the network, they'll generate the longest chain and outpace attackers. The network itself requires minimal structure. Messages are broadcast on a best effort basis, and nodes can leave and rejoin the network at will, accepting the longest proof-of-work chain as proof of what happened while they were gone.

THE VALUE proposition of bitcoin is bound up with its attached payment network. It is not embedded in the currency unit but rather in the brilliant and innovative payment system on which bitcoin lives. If it were possible for the blockchain to be somehow separated from bitcoin, the value of the currency would instantly fall to zero.

What's very striking about this paragraph is that there is not even one mention of the currency unit itself. There is only the mention of the problem of double-spending (which is to say, the problem of inflationary money creation). The innovation here, even according to the words of its inventor, is the payment network, not the coin. The coin or digital unit only expresses the value of the network. It is an accounting tool that absorbs and carries the value of the network through time and space.

This network is called the blockchain. It's a ledger that lives in the digital cloud, a distributed network, and it can be observed in operation by anyone at any time. It is carefully monitored by all users. It allows the transference of secure and unrepeatable bits of information from one person to any other person anywhere in the world, and these information bits are secured by a digital form of property title. This is what Nakamoto called "digital signatures." His invention of the cloud-based ledger allows property rights to be verified without having to depend on some third-party trust agency.

The blockchain solved what has come to be known as the Byzantine generals' problem. This is the problem of coordinating action over a large geographic range in the presence of potentially malicious actors. Because generals separated by space have to rely on messengers and this reliance takes time and trust, no general can be absolutely sure that the other general has received and confirmed the message, much less its accuracy.

Putting a ledger, to which everyone has access, on the Internet overcomes this problem. The ledger records the amounts, the times, and the public addresses of every transaction. The information is shared across the globe and always gets updated. The ledger guarantees the integrity of the system and allows the currency unit to become a digital form of property with a title.

Once you understand this, you can see that the value proposition of bitcoin is bound up with its attached payment network. Here is where you find the use value to which Mises refers. It is not embedded in the currency unit but rather in the brilliant and innovative payment system on which bitcoin lives. If it were possible for the blockchain to be somehow separated from bitcoin (and, really, this is not possible), the value of the currency would instantly fall to zero.

Proof of concept

Now, to further understand how Mises' theory fits with bitcoin, you have to understand one other point concerning the history of the cryptocurrency. On the day of its release (January 9, 2009), the value of bitcoin was exactly zero. And so it remained for 10 months after its release. All the while, transactions were taking place, but it had no posted value above zero for this entire time.

The first posted price of bitcoin appeared on October 5, 2009. On this exchange, $1 equaled 1,309.03 Bitcoin (which many considered overpriced at the time). In other words, the first valuation of bitcoin was little more than one-tenth of a penny. Yes, if you had bought $100 worth of bitcoin in those days, and not sold them in some panic, you would be a half-billionaire today.

So here is the question: What happened between January 9 and October 5, 2009, to cause bitcoin to obtain a market value? The answer is that traders, enthusiasts, entrepreneurs, and others were trying out the blockchain. They wanted to know if it worked. Did it transfer the units without double-spending? Did a system that depended on voluntary CPU power actually suffice to verify and confirm transactions? Do the rewarded bitcoins land in the right spot as payment for verification services? Most of all, did this new system actually work to do the seemingly impossible—that is, to move secure bits of title-based information through geographic space, not by using some third party but rather peer-to-peer?

It took 10 months to build confidence. It took another 18 months before bitcoin reached parity with the U.S. dollar. This history is essential to understand, especially if you are relying on a theory of money's origins that speculates about the prehistory of money, as Mises' regression theorem does. Bitcoin was not always a money with value. It was once a pure accounting unit attached to a ledger. This ledger obtained what Mises called "use value." All conditions of the theorem are thereby satisfied.

Final accounting

To review, if anyone says that bitcoin is based on nothing but thin air, that it cannot be a money because it has no real history as a genuine commodity, whether the person saying this is a novice or a highly trained economist, you need to bring up two central points. One, bitcoin is not a stand-alone currency but a unit of accounting attached to an innovative payment network. Two, this network and therefore bitcoin only obtained its market value through real-time testing in a market environment.

In other words, once you account for the razzle-dazzle technical features, bitcoin emerged exactly like every other currency, from salt to gold, did. People found the payment system useful, and the attached accounting was portable, divisible, fungible, durable, and scarce.

Money was born. This money has all the best features of money from history but adds a weightless and spaceless payment network that enables the entire world to trade without having to rely on third parties.

But notice something extremely important here. The blockchain is not only about money. It is about any information transfers that require security, confirmations, and total assurance of authenticity. This pertains to contracts and transactions of all sorts, all performed peer-to-peer. Think of a world without third parties, including the most dangerous third party ever conceived of by man: the State itself. Imagine that future and you begin to grasp the fullness of the implications of our future.

Mises would be amazed and surprised at bitcoin. But he might also feel a sense of pride that his monetary theory of more than 100 years ago has been confirmed and given new life in the 21st century. FEE

Jeffrey Tucker (jeffrey.a.tucker@gmail.com) is a distinguished fellow at FEE, CLO of the startup Liberty.me, and editor at Laissez Faire Books. He speaks at FEE summer seminars and other events.

Smart Growth? U Cities vs. Galaxy Cities

Progressive urban policies hurt the poor, pamper the rich, and drive off the middle class

MAX BORDERS

I have voted for every park, every library, all the school improvements, for light rail, for anything that will make this city better. But now I can't afford to live here anymore. I'll protest my appraisal notice, but that's not enough. Someone needs to step in and address the big picture.

– Gretchen Gardner, Austin, Texas

San Francisco, Seattle, and Portland are generally considered progressive cities. Well in advance of other cities, they implemented "smart growth" policies. Now, there is a lot to recommend these cities, but if you're not rich, you'll probably just want to visit.

Some people think cool cities are just expensive. And advocates of smart growth think the cool draws people and the growth has to be "managed." Those who live there are happy to tolerate the planners for all sorts of reasons, but signaling one's ideological bona fides is surely high among them. There is also the (generally unstated) desire to curb the growth—that is, to keep out the newbies before they ruin everything. Your favorite dive bar could become a chain restaurant, god forbid. And many well-heeled urbanites will go without cars and cram themselves into all manner of tiny dwellings to indulge environmental self-congratulation.

Smart growth thus becomes a catch-all: a cluster concept for socially engineering your way to bourgeois bohemia and treating everything in town as the property of an enlightened elite (which every self-respecting progressive goes along with lest she be considered unenlightened, or worse, not a member of said elite).

SMART GROWTH thus becomes a catch-all: a cluster concept for socially engineering your way to bourgeois bohemia and treating everything in town as the property of an enlightened elite.

If they're being honest with themselves, however, denizens of such places have to admit there is not only a growing gap between rich and poor in these towns, but a disappearing middle class. Much of this gap in San Francisco, for example, comes from the fact that some of the largest companies in the world are headquartered there, even among folks who self-identify as progressives. That's a lot of rich people. And of course, progressives say they don't like inequality. But they also don't like sprawl (building out) or high-rises (building up). And in an effort to remedy both inequality and sprawl, progressive town fathers end up making both worse. They're creating "U cities."

U cities

I shamelessly borrow the term "U city" from entrepreneur Gary Hoover, who is used to doing business in developing countries where a lot of the major cities are

U cities. Here's the idea: When you have a strong middle class, the population—when mapped on a curve—looks more or less like an inverted U (X is the number of people, Y is the level of income.) But the inverted U can get flipped to a regular U when, for example, the middle class starts to leave, the rich come and stay, and the poor are trapped by incentives. U cities predominate in the third world, primarily due to rampant cronyism—which limits possibilities for a middle class to emerge. In the United States cronyism is a factor, too. But so also are urban planning and growth management policies.

Smart growth

To understand how wealth disparities worsen in cities like these, we have to look at clusters of policies that go under the name "smart growth." They aren't the only policies that create U cities, but these three areas drive the U city pattern, so they're a good place to start the conversation:

- strict zoning regulations and building codes
- rent control and low-income housing subsidies
- rail investments preferred over roads

These three points alone suffice to set any city on the path to being a U city. (Austin, where I live, is trending that way.)

Let's take it as a given that people like living in cool cities such as San Francisco and Portland. These bourgie meccas are just the sorts of places likely to attract people from tech and other high-net-worth sectors—particularly because smart, forward-thinking people like to be around other smart, forward-thinking people. This creates all sorts of virtuous feedback loops. It also means these cities attract wealthier people. As I alluded to above, some of these innovation clusters tend to have their own gravity and network effects, which are going to raise the cost of living.

Code red

Now, let's add in strict zoning regulations and building codes. In a relatively free housing market, the cost of creating new housing supply is generally far lower. So, for example, city planners don't have to approve a townhome or building for mixed use, declare it residential only, or whatever—if it can be built at all. Not so in areas with byzantine building codes and zoning. In these areas the stock of housing is limited and restricted to certain areas of the city. Of course, this makes housing far more expensive. Now, that's okay for wealthier people. Indeed, they're content with paying more. Once they're there, they really like the idea that not so many more people are moving into the area. If you're a middle-class earner, this makes life considerably more difficult as housing is far less affordable. The wealthier folks snap up the dwellings in limited supply. Middle-class folks look for housing outside the city, if they can stay in the area at all. The poor, however, stay. They are subsidized to do so.

Poor house

By now the progressive town fathers have likely picked up on the fact that this is happening. So they expand or maintain policies like rent control and subsidized housing for the poor. Poor people who've been there for awhile cling to their rent-controlled or subsidized housing—as is reasonable to do given the incentives (but which sadly represents another "poverty trap" for the poor.) Of course, basic economics tells us that rent control exacerbates the problems of a limited housing supply, as developers have far fewer incentives to build properties and tenants have great incentives to stay put. The rental market is therefore less dynamic and the price controls distort the housing market even more—further limiting the availability of affordable housing. Non-rental properties may get built. But as we say, their supply is artificially limited, too, so these are reserved for tech execs.

To give you an idea: As of this writing, the average rental in San Francisco costs $3,437 per month; the mean home value is $910,000. Again, some of this high cost is due to the sort of talent the city attracts. And, of course, some cities (like Frisco) are bounded by water on three sides. But that can't be the whole story.

Expensive tastes

Of course, rich people have expensive tastes. Whatever one thinks about the purported environmental benefits of rail travel—dubious at best (especially relative to other considerations, such as cost)—rich people are not going to want to ride a bus. For conscientious social signalers in progressive cities, the only thing that's going to pull them out of their Priuses is rail transit. The trouble is, light rail is really, really (really) expensive. In fact, on average, rail transit is four times more expensive than driving per passenger mile, according to Cato transportation analyst Randall O'Toole.

Not only is light rail profoundly wasteful in cost-efficiency terms, it means resources that could have gone to increasing road capacity or building bus networks are lost (not that buses benefit town cronies). People who idealize walkable cities are simply kidding themselves, as most people drive their cars anyway and grumble about the awful commuting times—which new rail line thruways end up making worse.

Now, let's not forget that rail is an expensive proposition. To give you an example of just how expensive it is, consider that the average U.S. light rail rider only pays in his/her fare about 10 percent of the total cost of the ride. Boosters rarely bring up costs, and cost overruns always plague such projects once voters take the bait. The people who do use rail don't see or feel the budgetary nightmares their (in most cases, mostly empty) train cars create.

SMART GROWTH policies hurt the poor, pamper the rich, and drive off the middle class. It's strange that cities with so many people who claim to care about inequality would let these trends continue.

That's because a lot of the costs get shifted onto people who will never see or take light rail in their lives—people who live in cities without rail, or people who live in rural areas. So much of the tax burden for these rolling pyramids falls disproportionately on the poor and middle class. After all, funding for such projects—even if they benefit rich, urban progressives—comes from sales and property taxes (which are not progressive taxes). If the price of housing does not suffice to drive off the middle class, the increasing tax burden will. And it's starting to drive off the middle class. The contradictions can turn any self-respecting progressive against herself.

But not at first. You might get responses like those from this Austin woman:

> "I'm at the breaking point," said Gretchen Gardner, an Austin artist who bought a 1930s bungalow in the Bouldin neighborhood just south of downtown in 1991 and has watched her property tax bill soar to $8,500 this year.
>
> "It's not because I don't like paying taxes," said Gardner, who attended both meetings. "I have voted for every park, every library, all the school improvements, for light rail, for anything that will make this city better. But now I can't afford to live here anymore. I'll protest my appraisal notice, but that's not enough. Someone needs to step in and address the big picture."

Perverse effects and strange bedfellows

Hopefully you can now see how smart growth policies hurt the poor, pamper the rich, and drive off the middle class. It's strange that cities with so many people who claim to care about inequality would let these trends continue. It's stranger still that cities with so many conscientious progressives would allow so many policies to make the poor worse off. Of course, a dependent supplicant class keeps in power only those willing to feed their dependency. And yet this dependency class creates a striking contrast in U cities: Poor, superrich, and little in between. The contrast is such that voters continue to double down on contradictory policies. And ultra-progressives in U cities can't figure out why the one percent makes such great bedfellows with those who spurn them. In any case, U cities demonstrate that progressives must choose: Either improve the lot of the poor and middle class, or implement smart growth. Attempts to "balance" such contradictory values will continue to exacerbate the perverse patterns of U cities and create an endless series of policy epicycles that will require an endless succession of "fixes."

Urban progressives who fret about the disappearance of the middle class in America should take heart: The middle class is still here. They've just moved out of your town.

U cities vs. galaxy cities

Now what about inverted-U cities? We could call these "fried-egg" cities, but that's not terribly sexy. I prefer "galaxy cities" for obvious reasons. The idea behind galaxy cities is that, all things equal, you'll not only get a fat bell of a middle class on the graph, but you'll also get a galactic distribution of housing options if you look from above. Some call this sprawl, because more affordable housing extends outward from a denser core, phasing out at the periphery after the suburbs and exurbs. Not-so-obvious reasons for the galaxy metaphor include dynamics that have been unpacked in the work of the Santa Fe Institute (SFI), a group that studies all sorts of phenomena in complex systems.

URBAN PROGRESSIVES who fret about the disappearance of the middle class in America should take heart: The middle class is still here. They've just moved out of your town.

"It's an entirely new kind of complex system that we humans have created," says Luis Bettencourt of SFI, quoted in *Science*. "We have intuitively invented the best way to create vast social networks embedded in space and time, and keep them growing and evolving without having to stop. When that is possible, a social species can sustain ways of being incredibly inventive and productive."

Jane Jacobs would have liked galaxy cities, too. "There is a quality even meaner than outright ugliness or disorder," she wrote in *The Death and Life of Great American Cities*, "and this meaner quality is the dishonest mask of pretended order, achieved by ignoring or suppressing the real order that is struggling to exist and to be served." Galaxy cities are participatory cities. That is to say, their people participate far more in their evolution than do town planners. They are emergent cities.

Future cities

Galaxy cities of the future will be far smarter than any city that adopts smart growth, as galaxy cities will do the following:

Eliminate unreasonable zoning restrictions and costly building codes. Some believe that cities without zoning laws and building codes will have collapsing structures and factories moving in next to residential housing. It would take us too far afield to explain why free prices and a robust system of common law would help settle conflicts that might arise from the absence of zoning and municipal codes. Suffice it to say that with prices undistorted, property rights well established, and municipal courts using tort principles to settle disputes, cities will continue to find equilibria that will make galaxy cities far more hospitable to people across the income spectrum (especially the middle class). And if, god forbid, poor or middle-class people have to live in the same zone as a warehouse, at least they'll be able to afford it.

Get rid of rent control and, instead, voucherize housing for the poor. Assuming full privatization of housing is not politically viable, then cities should simply get rid of government housing projects and rent control. Instead, the municipal government can offer housing vouchers for the poor based on an income scale specific to that city's cost of living.

Think of any given citizen as needing to go to any given point in the city. Instead of going from point A to point G—with only points B, C, D, E, F in between—galaxy cities will build travel networks that assume people want to get from point

A to point n (read: "any point among millions") as quickly, efficiently, and safely as possible. To accommodate galaxy-city travelers, they will create distributed networks and vascular systems. And until there are flying cars, these systems will be built around cars. There are a number of great ways to build car-centric systems:

- Remove regulations against ride-sharing technologies, such as Uber and Lyft;
- Prepare for the coming age of driverless cars (We have the technology!);
- Convert as many intersections as possible to traffic circles;
- Optimize traffic lights using computer modeling;
- Use congestion pricing and hot lanes, where possible;
- Liberalize and privatize all bus and van services;
- End municipal transport and taxi cartels;
- Let resources follow cars rather than hoping cars (or people) follow resources;
- Respect the urban ecosystem as it is rather than as you would hope for it to be.

The extent to which planning for transportation is a market-based phenomenon is the extent to which cities will become more convenient, cost-effective, and dynamic for everyone.

In the connected age, we sometimes forget that most of us move about in urban ecosystems. But most people do. That's why it's more important than ever to consider the economic and policy implications of urban planning fancies that end up making people worse off—or simply drive them away in their cars. FEE

Max Borders (mborders@fee.org) is the editor of The Freeman *and director of content for FEE. He is also cofounder of the event experience Voice & Exit and author of* Superwealth: Why we should stop worrying about the gap between rich and poor.

To Justify the Ways of God to Men

(Summer 1961, age 10)

Paul Dickey

> *"O that I knew where to find Him,*
> *that I might even come to His dwelling."*
> —Job 23:3

Through bedroom windows came the voice of God,
P.A.'ed as loud as hell from a vacant yard.
By paying just a pittance weekly rent,
he'd bought the rights for Heav'n to canvas tent,

for himself, a wrinkled suit. To souls within,
this Milton raged against the night's great sin,
off-stage slipped cash to an accomplice saint
to spike the offering net, cry Job's complaint.

I'd lie in bed unable to speak or sleep.
Just years before I'd prayed "my soul to keep."
My squinting eyes peered deep into the dark
for girls who soon would light my sinful spark.

Reverent, I bore the human, mortal wound.
The Lost, the Sick, the Doomed, the ladies swooned.

Paul Dickey (pauldickey@cox.net) is the author of two collections of poems, Wires Over the Homeplace *(Pinyon Publishing, 2013) and* They Say This Is How Death Came into the World *(Mayapple Press, 2011).*

Where's the Beef? Canada!

Love of country doesn't mean one must also love the IRS

STEWART DOMPE and ADAM C. SMITH

Burger King has acquired Tim Horton's for $11.4 billion. While an optimist may hope this acquisition produces the donut technology needed for a mass-marketed Luther Burger, a realist has to acknowledge that it's probably about corporate inversion.

Simply put, corporate inversion means a corporation reincorporates in a lower-tax country abroad. The common justification of taxation is that the government provides the public goods that business needs to prosper. But the United States is unique in that it taxes corporations at 35 percent regardless of where the income is earned, and hence regardless of whether the corporation benefited from any public goods.

Payment without benefit is simply bad business. Avoiding particularly high tax rates like those of the United States can yield significant savings for companies—and their shareholders. Charlotte-based Chiquita Brands International, for instance, hopes to save $60 million via its recent acquisition of Ireland-based Fyffes PLC. Burger King's merger, according to analyst estimates, could cut its overall tax bill by 13 percent.

Not everyone is happy with this arrangement. In a poor imitation of *Oliver Twist*, President Obama condemns inversion, stating, "It damages the country's finances … It adds to the deficit. It makes it harder to invest in things like job training that help keep America growing. It sticks you with the tab to make up for what they're stashing offshore through their evasive tax policies."

Populist themes like "economic patriotism" may appeal to voters, but such arguments are nonsensical: Firms are ultimately responsible to their shareholders. As Judge Learned Hand wrote, "Any one may so arrange his affairs that his taxes shall be as low as possible; he is not bound to choose that pattern which will best pay the Treasury; there is not even a patriotic duty to increase one's taxes."

If anything, firms have a moral responsibility to minimize their taxable liabilities. The legal structure of

Eigenes Werk_de.Wikipedia.org

a firm establishes the relationship between shareholders, who own the capital, and managers that make operating decisions. Executives have a fiduciary responsibility to pay the lowest tax possible because they are the stewards of their shareholders' wealth. There is no functional difference between an executive who spends millions of dollars on a lavish party and an executive who gives that money to Washington instead—except that the former is probably a lot more fun to be around.

Think about tax compliance like a rent check owed to one's landlord, with the added complication that it's very difficult to move. Suppose a tenant is currently renting multiple apartments at one location, but decides the rent is just too damn high. Since the tenant can't relocate entirely, suppose she moves some of her stuff out of one of the apartments into a storage unit across town, thus saving significantly on her rent. Would this be seen as unethical in that the tenant is attempting to avoid her fiduciary obligation to the landlord? Of course not. She is simply trying to reduce the costs of residing in a particular location.

EXECUTIVES have a fiduciary responsibility to pay the lowest tax possible because they are the stewards of their shareholders' wealth.

In the same vein, minimizing the firm's tax burden means minimizing part of the firm's operating costs. Just as a resource manager can identify a more cost-efficient way to produce goods and services, so can a tax lawyer identify a more cost-efficient way of maintaining tax compliance. A business has no moral obligation to always use the same suppliers, be they suppliers of production inputs or corporate charters. The law is the law and firms have the option of changing how they are structured and located in order to minimize their taxable liabilities. If they use loopholes, so be it: Loopholes are by definition legal. Firms only have the obligation to pay the tax mandated by the law.

And it's not just companies and shareholders who benefit; taxes raise prices for consumers. When a firm operates in a competitive environment, a reduction in tax rates translates into reduced prices for consumers. No one usually complains when firms find cheaper ways to produce and then pass these savings on to consumers. It is only a strange form of patriotism, driven largely by political interests, that equates love of country with the love of the IRS.

As long as government continues charging firms non-competitive tax rates, inversion will inevitably continue. Advances in telecommunication and information technologies have enabled a massive increase in firm size. Multinational firms are quite common now, and this technology increases their mobility. By choosing where they operate, firms are able to choose the legal regime they want to govern their affairs. After all, if a landlord tries to charge a higher rent than every other comparable property in town, he will soon find himself without any tenants. The real scandal is that individuals may be able to shop around for better rents and landlords, but except for the very wealthy, they are usually bound to the tax regime cooked up by their rulers.

This competition among legal regimes is a powerful constraint on government—and that is a good thing for all of us. America has the second-highest corporate tax rate in the world—the highest when state taxes are included. The solution to this problem lies not in closing loopholes or imitating poor Oliver pleading for more, but in offering a simpler, more competitive tax system. FEE

Stewart Dompe (Stewart.Dompe@jwu.edu) is an instructor of economics at Johnson & Wales University. He has published articles in Econ Journal Watch *and is a contributor to the forthcoming* Homer Economicus: Using The Simpsons to Teach Economics.

Adam C. Smith (Adam.Smith@jwu.edu) is an assistant professor of economics and director of the Center for Free Market Studies at Johnson & Wales University. He is also a visiting scholar with the Regulatory Studies Center at George Washington University and coauthor of the forthcoming Bootleggers and Baptists: How Economic Forces and Moral Persuasion Interact to Shape Regulatory Politics.

Thomas Piketty's Literary Offenses

Literature can inform economics, but not if it's used carelessly

SARAH SKWIRE and STEVEN HORWITZ

As the most talked-about book this summer, Thomas Piketty's *Capital in the Twenty-First Century* has been praised for opening up a conversation about the importance of inequality and its consequences. At the same time, the book has been roundly criticized for using unsound economic theory and inaccurate economic data. But two recent articles by Michael Clune in the *Chronicle of Higher Education* and Stephen Marche in the *Los Angeles Review of Books* call our attention to another form of evidence that is important to Piketty's argument.

"*Capital in the Twenty-First Century,*" Clune observes, "convinces because Piketty supports his arguments about inequality with two innovative forms of evidence largely neglected by his predecessors on both the left and the right. The first is an unprecedented trove of historical economic data.… The second is a series of literary works, which Piketty uses to reveal the social and psychological consequences of this inequality in its erosion of human dignity."

Clune is right. Literature is an ideal way to gain access to the ways in which those far away from us in space, time, and experience have thought and felt about all kinds of human preoccupations—including matters of money. And Piketty is on solid ground when he makes claims such as, "In the novels of Jane Austen and Honoré de Balzac, the fact that land … yields roughly 5 percent of the amount of capital invested … is so taken for granted that it often goes unmentioned.… For nineteenth-century novelists and their readers, the relation between capital and annual rent was self-evident." That Austen and Balzac feel no need to engage in extensive discussion of the return rate on land does suggest that it is so familiar to their readers that such

VanderWolf Images/Shutterstock.com

discussion is unnecessary. And certainly, Piketty is correct to admire the "evocative power" with which "novelists depicted the effects of inequality."

Where Piketty is on rockier ground is in his assertion that the evocative power of literature comes allied with "verisimilitude." Sometimes it does. Sometimes it does not. And his assumption that literature does, as a general rule, have greater verisimilitude than "statistical or theoretical analysis" is problematic for two reasons.

BUT LITERATURE is not evidence of how things have been. It is evidence of how people have written about how things have been. And it is a mistake to occlude that distinction.

The first is Piketty's tendency to treat novels as if they are economic data, rather than data about how people thought and felt about economics. In his discussion of thieving entrepreneurs, for example, Piketty discusses several contemporary entrepreneurs, some criminal and some not—Bill Gates, Carlos Slim, Lakshmi Mittal, and Teodorin Obiang among them. He then asserts that outright theft is often tied directly to the return on capital, and "it has always been this way." His support for that assertion? Tolstoy's novel *Ibiscus*, the anti-hero of which is "a nasty, petty parasite who embodies the idea that wealth and merit are totally unrelated; property sometimes begins with theft, and the arbitrary return on capital can easily perpetuate the initial crime." The line between fiction and fact has been completely blurred here. Literature is no longer used just to embody an idea. It is evidence that "things have always been this way."

But literature is not evidence of how things have been. It is evidence of how people have written about how things have been. And it is a mistake to occlude that distinction.

Piketty's assertion that literature provides verisimilitude is problematic in a second way: His most substantive claim about literature is simply incorrect. Piketty argues that the period between 1914 and 1945 was a major disruption in the history of capitalism. Those years leveled fortunes and reduced inequality. The inflation and growth that followed two world wars so upended the stability of capitalism that "money—at least in the form of specific amounts—virtually disappeared from literature" after 1945. Marche uncritically echoes this claim, writing, "And so, in contemporary novels, readers almost never learn the key facts about the characters—the amounts in their bank accounts and in their parents' bank accounts. The absence is a failure, aesthetically as much as politically. Money is the greatest metaphor of them all."

Unfortunately, the empirical claim that Piketty is making here about post-1945 literature is, like a number of his claims about the empirical economic data, highly suspect. Many who criticize his use of economic data suggest he is guilty of a certain kind of sloppiness, or, at the very least, of cherry-picking data in ways that confirm his priors. The same problem appears to be at work with respect to his literary examples. There are, in fact, many examples of specific prices and salaries in major works of post-1945 literature, as even cursory research indicates.

Had Piketty explored the lists of "Best Business Books" that appear so often, he would have found Richard Bissell's *7½ Cents*, which details the agitations of a group of workers in a pajama factory for a 7.5-cent wage increase. The first page of Sloan Wilson's *The Man in the Gray Flannel Suit* gives an account of the strain imposed on a tight budget when a wife buys a $40 vase during the same week that a husband buys a $70 suit. John O'Hara's *From the Terrace* contains a close accounting of a young man's college expenses, the costs of operating a country club, and the costs involved in starting an airplane company. Frederic Wakeman's *The Hucksters*, John Braine's *Room at the Top,* and Cameron Hawley's *Executive Suite* all contain precise information about business costs and salary amounts.

And Piketty does not just overlook popular midcentury middlebrow fiction. He has missed, or not bothered to consider, some of the major novels of the 20th century. Joseph Heller's *Catch-22* gives us Milo Minderbinder, who manages to buy eggs for 7 cents, sell them for 5, and make a profit. MacArthur Fellow Richard Powers includes considerable financial detail about the fictional Clare Soap and Chemical Company in his novel *Gain*. David Lodge's Booker Prize-shortlisted novel *Small World* is hilariously clear about academic salaries. Philip Roth's Pulitzer Prize-winning *American Pastoral* includes detailed cost accounting of glove manufacturing. And Tom Wolfe's best-selling *Bonfire of the Vanities* is a symphony of precise economic observations about the "masters of the universe" who inhabit the New York City of the mid-'80s.

In fact, open nearly any great modern novel—Gaddis' *JR*, Kerouac's *On the Road*, Donna Tartt's *The Goldfinch*—and you will find such details.

Even without leaving his beloved Paris, Piketty could have determined that his claim about literature was false. Though it was, admittedly, written in 1942, Albert Camus' *The Stranger* contains Meursault's friend Sintès, who is irate because his girlfriend has been unfaithful after he provided her with "three hundred francs for rent, and six hundred for her grub, with a little present thrown in now and then, a pair of stockings or whatnot. Say, a thousand francs a month." And in 1947's *The Plague*, Camus carefully describes a character who responsibly sends his sister 100 francs a month, and another who performs the "discreet but needful duties of a temporary assistant municipal clerk on a salary of sixty-two francs, thirty centimes a day."

Piketty's sloppy treatment of 20th-century literature might otherwise be unremarkable in a book on economics. However, when sympathetic readers like Clune and Marche explicitly point to Piketty's use of literary evidence as a strength of the book's case against capitalism, the importance of being accurate about the literary evidence and its implications is even greater. When placed alongside the questions raised about the accuracy of his historical data, his clumsy treatment of literary detail is more reason to be skeptical of the evidence on which *Capital*'s grand conclusions are based. If nothing else, his claim that the economic effects of the wars and crises of the first half of the twentieth century caused a "significant rupture" from the nineteenth-century worldview cannot be supported by the very kind of literary evidence he points to.

When Mark Twain outlined James Fenimore Cooper's literary offenses, he noted that before a college professor expresses an opinion about Cooper, it would be "much more decorous to keep silent and let persons talk who have read Cooper." Perhaps Monsieur Piketty should have done the same in regard to twentieth-century fiction.

We are strong supporters of using literary examples as evidence of the way people have thought about economic matters. However, we have also argued that using literature this way must be done with great care and with great respect for both economics and literature. Scholars who want to engage in this kind of work must understand both the economics and the literature well enough to combine them in effective and intellectually responsible ways. Accurately reporting on what the literature says and does not say and avoiding sweeping claims unsupported by the literary evidence seem like necessary first steps.

Crossing disciplinary boundaries can lead to powerful intellectual insights. It can also lead to careless work and confirmation bias. We applaud Piketty's attempt to expand the range of evidence that is seen as relevant to economic arguments, and we are glad to see scholars like Clune and Marche recognizing that part of Piketty's work. We remain, however, unconvinced by Piketty's particular argument. Whatever the strengths or weaknesses of the traditional economic data Piketty is using, the twentieth-century literary evidence does not make the case he claims it does. FEE

Sarah Skwire (sskwire@libertyfund.org) is a fellow at Liberty Fund, Inc. She is a poet and author of the writing textbook Writing with a Thesis.

Steven Horwitz (sghorwitz@stlawu.edu) is the Charles A. Dana Professor of Economics at St. Lawrence University and the author of Microfoundations and Macroeconomics: An Austrian Perspective, *now in paperback.*

The authors thank Garrett Hutchinson for his research assistance.

The Best Debt in the World

It's hard to believe, but Britain's student loan problem is worse than the Yanks'

EMMA ELLIOTT FREIRE

In late 2010, tens of thousands of British students took to the streets of London. They protested government plans to cut direct funding of higher education and raise the cap on tuition from £3,290 ($5,500) to £9,000 ($15,000). Some of them occupied government buildings and clashed violently with police. Hundreds were arrested.

Maybe they shouldn't have gotten so worked up. It's now becoming clear that most of them won't repay their loans in full. Some of them will even be getting their education for free.

The British government's student loan scheme is more generous than its American counterpart. Any British student who is accepted to a university is automatically entitled to a government loan for his or her entire tuition. Most universities are charging £9,000 per year. British students can also get loans for their living costs, which range from £4,418 to £7,751 per year. The average student will graduate £44,000 ($74,000) in debt.

The core difference between the British and American systems lies in the repayment terms. American students typically have to start repaying their loans six months after graduation. Opportunities for loan forgiveness are extremely limited, and loans cannot be discharged via bankruptcy. By contrast, British students don't have to start repaying until they are earning £21,000 ($36,000) per year. They must then repay their loans at a rate of 9 percent of their gross income as long as they stay above the threshold. Their outstanding balance is automatically forgiven 30 years after it becomes eligible for repayment. Also, the loans do not appear on their credit reports.

"The thing people worry about with debt is that they won't be able to pay it back. The way this is structured means that is not a worry ever, and it doesn't follow you around until your old age," says Sam Bowman, research director at the Adam Smith Institute, a free-market think tank.

Bowman finds it helpful to understand loan repayment as a tax. "You can either think of it as a graduate tax or it's the best debt in the world," he says. "It makes sense to think of it as a graduate tax, a specific kind of tax on a specific action that is designed to offset the cost of that action."

Uncharted waters for repayment

The first students to take on the new, larger loans have yet to graduate, so it is hard to estimate what their repayment rates are likely to be. However, the Institute for Fiscal Studies (IFS), an independent research center, is already projecting that 73 percent of students will not repay their loans in full. It believes the average amount written off will be around £30,000 ($50,500).

A report released in July by a committee of the British parliament reached similar conclusions: "By providing favourable terms and conditions on student loans, the Government loses around 45p [cents] on every £1 it loans out." When the new policies were first announced in 2010, the government projected it would only lose 28p per £1 lent. The report notes that government loans to students are expected to total £330 billion by 2044. "We are concerned that Government is rapidly approaching a tipping point for the financial viability of the student loans system," the report states.

By and large, students still think of themselves as having "real debt" for their education. "One valid criticism of the loan system is that students don't realize how generous it is," says Nick Hillman, director of the Higher Education Policy Institute. "Students think they're paying for the entirety of their education when actually they're not. Taxpayers are covering quite a lot of the cost."

The IFS report notes that the lowest-earning 10 percent of graduates will only repay £3,879 (in 2014 prices). A survey earlier this year showed that 40 percent of graduates are still looking for a job six months after leaving university.

Image from Shutterstock

If this trend continues, some graduates may never start earning £21,000.

A few savvy individuals are learning to work the system. British financial advisors encourage parents who could contribute to their child's education to have their kid take out government loans instead. Martin Lewis, who runs the popular website moneysavingexpert.com, writes, "If a parent pays the £27,000 tuition fees upfront, and their child becomes a poet and never earns above £21,000, the whole £27,000 would have been wasted."

The only people who can expect to repay their loans plus interest in full are the small group who take high-paying jobs soon after graduating and get regular pay increases for the next 30 years. These individuals are thinking hard about whether they need a degree. "The only income group that has gone to university less are the richest. That might be surprising, but what the debt does is it imposes some cost on people for going to university," says Bowman. "So if they have other options, they take them. Maybe they could skip college and join their parent's business or their parents can find them jobs."

This is one immediate impact of the new loan scheme. There will undoubtedly be unintended consequences that may only become evident years or decades from now. For example, Britain may see an increase in the number of stay-at-home parents. Loan repayment is tied to an individual's income. A spouse's earnings are irrelevant. Child care is already very expensive. For some families, the extra 9 percent they would lose in loan payments will be enough to push one parent out of paid employment.

Loans without borders

Loan repayments are collected by Her Majesty's Revenue and Customs, the British equivalent of the IRS, via withholding from a person's paycheck. This system makes it fairly simple to collect money from anyone working for a British employer. Things become harder when a graduate leaves the country.

"There is no way that the government can collect money from people who go abroad," says Bowman. "There is a big incentive for them to stay away. Say you're an English graduate and you go to America for a couple of years to work. If you have this debt waiting for you when you get home, there's a big reason for you to stay abroad for as long as possible."

The number of students who actually would permanently leave is probably very small. "It would be a much bigger problem than the student loan book if we were seeing Irish levels of emigration," says Bowman. However, a determined few will be able to dodge repayment.

And then there's the question of students who come to Britain from other European Union (EU) countries. Since 2006, EU law has required Britain to offer these students the same loan deals for tuition, though not for living costs. It is a tradition in British politics to blame problems that are largely homegrown on the widely hated EU. As the issues with loan repayment have come to light, stories about EU students borrowing money and then "going to ground" have also been hitting the headlines.

This problem is still fairly small, since EU students have only been receiving loans since 2006. Hillman says that about half of EU students who study in Britain either choose not to borrow or repay their loan in full before they leave the country. Many EU students enroll at British universities because they want to work in Britain later. Thus, they have a strong incentive to repay. However, data are now emerging that show unpaid loans in the low millions. "The issue is less about what has happened to date but what might happen in the future because there aren't many people yet who are liable to repay, but it's growing all the time," says Hillman.

"If a French or Dutch person studies at a British university then goes home and gets a job, we can certainly chase them through the French or Dutch courts because they've signed a legal contract and they should repay," Hillman says. "But the trouble is that it's an incredibly expensive business. The person may owe £27,000, which is a lot of money, but chasing someone through the courts can easily cost that much."

One way to address this problem would be an EU-wide agreement. "But there's no real incentive for other European countries to do this because other European countries don't use loans in the same way we do," says Hillman.

Relative improvement

Despite the problems, both Hillman and Bowman say the new system is an improvement over the way British higher education used to be funded. Tony Blair's government only introduced tuition in 2004. "Before loans and fees came in, British taxpayers paid 100 percent of the cost of going to university. Now they don't. But they still fund part of the loan cost," says Hillman.

Bowman says it is important to remember the overall British context. "The alternative is not a kind of free market where you have everybody paying their own way and banks privately making loans to people. The alternative is going back to a situation where the government pays for everything, and that's a disaster," he says. "The political climate in the UK is very hostile to any kind of marketization of anything. That's not going to change for a couple of years, at least until we're growing rapidly, and we all feel rich and safe again."

Potential solution

One interesting idea put forward by David Willetts, a Member of Parliament and former minister of state for universities, is to sell government student loans to universities, making them responsible for collecting repayment. This approach would address a problem that afflicts both American and British higher education: Universities collect tuition up front and then have little incentive to ensure that loans are repaid.

Bowman supports the proposal. "Making universities responsible for whether people repay might make them more willing to turn people away if they're not a great bet in terms of their future earning, and that might counteract some of the qualification inflation. Right now, you need a university degree for any job that isn't blue collar manual labor."

He believes Willetts' idea is politically viable. "Britain has lots of middle-class people who think of themselves as being working-class. They feel like they're fighting against the man when in reality they are the man. You could say to them that we don't want people who haven't gone to university picking up the bill in any way for people who have gone to university."

The only question is whether universities would go along with it. Right now, they have a very beneficial arrangement.

The outcome will depend on how loan repayment rates develop in the next few years. Graduates will probably soon grasp that they have the best debt in the world. Maybe taxpayers will start to realize that this debt isn't such a good deal for them. FEE

Emma Elliott Freire (emma.elliott.freire@gmail.com) is a freelance writer living in England. She has previously worked at the Mercatus Center, a multinational bank, and the European Parliament.

Five Lessons K–12 Can Learn from Higher Ed

Colleges aren't perfect, but they can be instructive for the public schools

JENNA ROBINSON

U.S. colleges and universities don't get everything right. On the whole, they're overpriced, operationally hidebound, and ideologically stagnant. Despite those problems, American higher education does some things very well—well enough that students from around the world still choose to come to the United States to get advanced degrees.

Primary and secondary schools could learn a lot by taking a close look at some of the best practices in higher education. The underlying difference is that higher education behaves more like a free market, where individual choices and actions determine the outcome.

> U.S. HIGHER education doesn't get everything right. But it does behave more like a free market than primary and secondary education. Individual choices and actions determine outcomes.

Here are five things that universities get right:

1. STUDENTS LEARN AT THEIR OWN PACE. When a student gets to college or university, she arrives with a cohort of other students. They're mostly the same age, and they'll probably all take English 101 within their first year on campus. But that's where the class structure ends. After English 101, students all go their own ways, taking classes to suit their particular talents and interests. Entrance exams mean that students enroll in the math or foreign language courses commensurate with their skills. And if a student flunks differential equations or organic chemistry, he doesn't have to be held back a whole year. He moves on with the rest of his courses while he retakes the one problem class. There are even classes like "economics for non-majors" that allow students to explore a subject without taking difficult prerequisites or learning complicated methodology.

In K–12, students advance in lockstep with their peers. Students must learn all subjects at the same speed. Special talent in math or language doesn't result in early promotion to the next level. Until students reach late middle school or early high school, they are expected to learn at exactly the same rate as their peers. And adherence to social promotion (which is allowed in half of U.S. states) means that all students advance from one grade to the next, regardless of achievement. This practice occurs despite the evidence that retaining students who fail their courses generates better outcomes for those students.

2. STUDENTS AND PARENTS HAVE SKIN IN THE GAME. Paying tuition affects parents' and students' behavior in two ways. First, they shop around for the best deal—not necessarily the cheapest school, but the school at which they can get the most bang for their buck. Second, paying tuition motivates students to care about their educational success (or lack thereof). No one wants to see their hard-earned dollars go down the drain—and scholars have found that this is true for money spent on higher education, particularly as a student approaches graduation. Loans, savings, and money earned from working are better motivators for students to stay in school than scholarships or grants.

If students fail their elementary school courses, they don't have any financial stake in that failure—at least, not until very far in the future. And parents can't easily make comparisons to tell whether they're getting any bang for their buck. Thus, they don't have strong incentives to hold schools and teachers accountable. More importantly, parents who send their children to public schools can't take their education dollars elsewhere. Even if one student leaves, the school district will quickly fill her spot with someone else.

3. PROFESSORS ARE REQUIRED TO HAVE DEGREES IN THEIR FIELD. Community college and university departments only hire professors and lecturers with degrees in the subjects they teach. Professors teaching Introduction to American Government at State U. can be expected to have a Ph.D. in political science—probably with a concentration in American politics. They also research in that same field, keeping abreast of the latest scholarship on their topic. Professors are experts in their own disciplines when they enter a classroom to teach undergraduates.

In K–12 schools, many teachers have degrees in education and have spent more time studying pedagogy than the subject they teach. In many states, teachers are even rewarded with raises for getting advanced degrees—regardless of whether that degree is in their field. But the success of programs like Teach for America makes it clear that an education degree can't substitute for good subject knowledge.

4. STUDENTS CAN ATTEND ANY SCHOOL FOR WHICH THEY'RE QUALIFIED. College students aren't "zoned" for particular schools. Even public colleges and universities don't limit applications to students from certain area codes (although they often cap out-of-state enrollment). This system means that every student who chooses to go to college must weigh the costs and benefits of each option and make a decision about where to apply and attend; he or she cannot simply rely on a default option. Because students can choose where to attend, colleges compete to offer students what they want: good graduation rates, tuition discounts, face time with professors, and opportunities for extracurricular activities. The importance of *U.S. News and World Report*'s yearly college rankings is a testament to the power of education consumers' choices.

In stark contrast, a large majority of students in most public school districts simply attend the school for which they're zoned, and few students consider charter, private, or home-school options.

5. PROFESSORS ARE PAID AS INDIVIDUALS, NOT AS A COLLECTIVE. University professors in demanding fields, with unique or extraordinary talent, or with impressive resumes are paid more. Thus, the mean salary for a professor of engineering is $117,911 annually, while a history professor earns $82,944. Instructors, who do no research, earn less than tenure-track professors, who are expected to publish. Moreover, professors are evaluated on their merits when they are up for tenure. How many journal articles have they published? How good (or bad) are their student evaluations? Have they performed any administrative, advising, or outreach work to the satisfaction of the committee? University teachers receive no credit for simply sticking around for a requisite amount of time.

In K–12 public schools, however, "longevity pay" accrues to all teachers who continue to show up. Schools award tenure, in most cases, simply for teaching for a certain number of years without getting negative reviews. Most tellingly, teacher pay is rarely based on individual merit. Teachers receive raises en masse, sometimes for school performance and sometimes just because it's a good budget year.

Higher education is by no means perfect. But by allowing some market processes, it has avoided the worst failures of the public school system. Politicians and K–12 educators should take heed. FEE

Jenna Robinson (jarobinson@popecenter.org) is the director of outreach at the Pope Center for Higher Education Policy.

Plot Holes in Fiction and in Life

SANDY IKEDA

Fans of J.R.R. Tolkien's trilogy *The Lord of the Rings* (*LOTR*) have long been aware of a possible plot hole. The central narrative concerns the hero, Frodo Baggins, who must destroy a powerful ring by walking through forbidding terrain and defeating or eluding monstrous foes and throwing the ring into a live volcano. The journey takes many months and costs Frodo and his companions dearly.

Over the years, many readers have noticed a much easier and less dangerous solution. Why, they ask, didn't Frodo just have Gandalf ask his friends the mighty eagles to fly him swiftly over enemy territory so he could then simply toss the ring into the volcano? I've run across this post on Facebook a few times, which cleverly patches that hole with only a slight change in the narrative. (Others argue that there's really no hole to patch because the "eagle solution" itself has flaws. And so the debate continues.)

IN REAL LIFE, you can't ignore factual or logical plot holes. If you try to, they will come back and bite you.

Anyway, it occurred to me that the kind of social theory that I and many Austrian economists engage in could usefully be framed in terms of plot holes.

What's a plot hole?

I'll define a plot hole as a failure of logic, a factual mistake, or an obvious solution to a critical problem central to a story. (Wikipedia defines it slightly differently.) Of course, any particular plot hole may involve more than one of these errors of fact, logic, or perception, and there may be more kinds of plot holes than these. But here are examples of each of the ones I've mentioned. They come from movies, but some of them, such as the plot hole in *Lord of the Rings*, have literary counterparts.

Factual hole: In the movie *Independence Day*, key characters survive a massive fireball by ducking into the open side-door of a tunnel just as the inferno blasts by. Anyone who knows about firestorms would tell you that the super-heated air alone would instantly kill anyone in that situation.

Logical hole: In *Citizen Kane*, miserable Charles Foster Kane dies alone. How then does anyone know that his last word was "Rosebud"? Keep in mind that it's a reporter's search for the meaning of that word that drives the story forward.

Perceptual hole: The *LOTR* problem mentioned above is an example of this. No one seems to realize that there may be a much safer and more effective way to defeat the enemy.

I would think that one of the things that makes writing fiction difficult is that events and characters have to hang together. The writer needs always to keep in mind the rules of the universe she's creating, to recall what her characters know and when they know it, and to make sure that these details all constrain every action and event.

Life is full of "plot holes"

In real life, we make mistakes all the time. I think it's interesting that those mistakes appear to fit neatly into the three categories of plot holes I've identified.

Factual hole/error: A person who doesn't know the difference between liters and gallons buys a 100-liter barrel to hold 100 gallons of rainwater. No explanation necessary.

Logical hole/error: Thinking that since you've made a string of bad investment decisions, your next decision is therefore more likely to be a good one. But it's quite the contrary: If you've been consistently making bad decisions, it follows that if nothing else changes, your next decision will also be a bad one. (See "gambler's fallacy.")

Perceptual hole/error: Selling your car for $15,000 when, unbeknownst to you, you could have sold it for $20,000. The better deal simply escapes your notice and, if you were ever to learn about it, you would feel regret.

Here's the difference, though: In fiction, a writer can get away with any of these three plot holes as long as no reader sees it. Even if you do notice one, but you otherwise enjoy the story, you might be willing to overlook it. But in real life, you can't ignore factual or logical plot holes. If you try to, they will come back and bite you. It will be painfully obvious that you can't put 100 gallons of water into a 100-liter barrel. And if you bet on your next investment being a winner because you've just had a bunch of losers, it's very likely that you'll be disappointed. These kinds of holes you're bound to discover.

I wrote about errors in an earlier column, but the distinction comes from my great teacher Israel Kirzner. He identifies a class of errors that derive from "overoptimism." The more optimistic you are, the more likely it is that you'll *deliberately pass up* solid opportunities for gain and thus the more likely it is that you'll be disappointed. That's not to say that optimism is a bad thing. If you weren't optimistic and so never acted on that optimism, you'd never know if that optimism were warranted or not. You would never learn.

The other kind of error, what Kirzner calls "overpessimism," happens when you're so pessimistic that you *unwittingly pass up* a realizable opportunity. And because you don't take chances, you don't learn. This type of error is akin to a perceptual hole. Thinking you can only get $15,000 for your car means not selling to someone who would in fact pay more. Here, it's not inevitable that you will discover your error because, after all, someone does buy your car (for $15,000). But you could have done better if you'd been more alert.

So errors of overpessimism, what I'm calling perceptual holes, are very different from factual and logical holes in that they are much harder to detect.

> GIVEN THE right rules of the game—private property, free association—they can discover those mistakes and correct them via an entrepreneurial-competitive process. Unlike plot holes in fiction writing, then, plot holes in living social systems are a feature, not a bug.

Plot holes and social theory

For many Austrian economists like me, economics, as a branch of a social theory, accepts as a datum that people are prone to make mistakes. But given the right rules of the game—private property, free association—they can discover those mistakes and correct them via an entrepreneurial-competitive process. Unlike plot holes in fiction writing, then, plot holes in living social systems are a feature, not a bug.

So our challenge as flesh-and-blood people, and what makes our lives interesting, is to discover plot holes, especially perceptual ones, and to fill them in. The challenge of social theorists is to understand as much we can about how that happens. In novels it's the people outside the story who discover holes; in society it's the people living the story who do.

Plot holes in novels spell failure. Plot holes in real life mean opportunity. FEE

Sandy Ikeda (sanford.ikeda@purchase.edu) is an associate professor of economics at Purchase College, SUNY, and the author of The Dynamics of the Mixed Economy: Toward a Theory of Interventionism.

Movement on the Rise?
It's about time. We've tried everything else.

DOUG BANDOW

The New York Times wonders if the libertarian moment has arrived.

Supporters of Rand Paul and father Ron think so. Award-winning economist turned left-wing pundit Paul Krugman is not convinced.

Unfortunately, there have been false starts before. Ronald Reagan's election seemed the harbinger of a new freedom wave. His rhetoric was great, but actual accomplishments lagged far behind. Taxes were lower, but when he left office government looked pretty much the same as it did when he was sworn in, only bigger.

So, too, with the 1994 Republican takeover of Congress. As before, there was a tendency to confuse partisanship with philosophy. Admittedly, members of the GOP tend to toss around such phrases as "individual liberty" and "limited government." However, their behavior in office looked little different from that of many Democrats. Like the Reagan Revolution, the Gingrich Revolution also sputtered out.

Since then, there's been even less to celebrate—in America, at least. George W. Bush was an avid proponent of "compassionate," big-government conservatism. Outlays rose faster during his administration than they had during Bill Clinton's. No one did more to bail out business and enrich corporate America than Bush, the architect of the big-spending response to the 2008 financial crisis.

Barack Obama continued the tradition, promoting corporate welfare, pushing through a massive "stimulus" bill for the bank accounts of federal contractors, and seizing control of what remained private in the health care

Image from Shutterstock

system. About the only good news is that incipient federal bankruptcy has discouraged Congress from adopting other massive new spending programs.

Over the last half-century, members of both parties took a welfare state that was of modest size despite the excesses of Franklin Delano Roosevelt's New Deal and put it on a fiscally unsustainable basis as part of the misnamed "Great Society." Economist Lawrence Kotlikoff figures government's total unfunded liability at around $220 trillion. America's annual GDP is just $17 trillion. How Uncle Sam will ever make good on all its promises is impossible to imagine.

> HAS THE libertarian moment arrived? The bankruptcy of statism and collectivism and all their variants is evident. So is the desperate need for liberty-minded solutions.

The national government has done no better with international issues. Trillions went for misnamed "foreign aid" that subsidized collectivism and autocracy. Only the recent growth of international markets and the sustained pain of domestic failure moved many poor countries to reform. And even so, the foreign money continues to flow, only in renamed programs for slightly different purposes.

Moreover, trade liberalization faces determined resistance, and is often blocked by countries that enjoy the greatest benefits of global commerce. Indeed, the Left in wealthy, industrialized nations has discovered how to kill trade agreements with kindness, loading them with environmental and labor regulations in the name of the world's poor, but guaranteed to prevent new jobs from being created for those very same poor.

Even worse has been foreign policy. The ecstasy most people felt after the collapse of the Berlin Wall a quarter-century ago has been forgotten. The defense budget has turned into a new form of foreign aid for America's populous and prosperous allies. The U.S. has been constantly at war, repeatedly proving that the Pentagon is no better at social engineering than any other government agency. Yet, again and again, Washington attempts to transcend history, culture, ethnicity, geography, religion, ideology, nationality, and more to fix other societies. It turns out that war is the biggest big government program around.

Americans across the political spectrum agree that something is wrong, that the status quo is no good. But they disagree on the remedy.

However, the answer shouldn't be that hard to discern. The definition of insanity, runs the old adage, is to keep doing the same thing while expecting different results. Today, government attempts to solve problems by doing ever more of whatever it is already doing. Thus, those who support such policies, whether on the left or right, and expect things to improve in the future should head off to see their psychiatrists. For they are exhibiting disturbing symptoms of insanity.

The economy is slowing, people are falling behind economically, freedoms are being lost, and security fears are rising? No problem. Roll out the usual failed nostrums.

More spending on old programs. Lots of spending on new programs. New and more restrictive regulations. Paternalistic crusades. Criminal penalties for violating commercial and environmental rules. Restrictions on civil liberties. Wars in new places and new wars in old places. We know what the impact of these policies will be. All we have to do is look around the world and see what has happened.

It is this reality, not new personalities, organizations, generations, or something else, that is creating a libertarian moment. Statism and collectivism have been tried and found wanting in all of their variants.

The twentieth century killed off communism and fascism as serious alternatives. They resulted in totalitarian death states capable of killing on a mass scale, but little else. Lives were squandered, liberties were extinguished, the human spirit was suppressed, and people were impoverished.

The chief competitor was not laissez-faire capitalism, as some suggested, but highly regulated and monumentally expensive welfare states. They were freer and more prosperous than their geopolitical antagonists—even a little capitalism goes a long way—but the erosion of liberty and prosperity was constant. Perhaps more debilitating was the corrosive impact on the foundational principles of a free society, such as independence, self-reliance, responsibility, accountability, and more. This assault in America continues with, for instance, the federal government recently turning health care into another massive entitlement, highlighted by pervasive regulation and income redistribution.

The obvious, and only, alternative to more government, which has failed so badly, is less government. Why blame individuals and companies for fleeing the tax mess created in Washington? Lower tax rates and rationalize complex tax systems. Why threaten America's future by running budget-busting deficits into the future forever? Cut the wasteful looting and pillaging that is a hallmark of today's transfer society.

Why concoct expensive development and stimulus programs? Kill unnecessary and relax unnecessarily stringent regulations, while making legitimate rules more market-friendly. Why attempt to micromanage the world with strategies that have failed at home? Model liberty, prosperity, tolerance, and peace for others, allowing individual Americans going abroad to be America's best ambassadors.

Has the libertarian moment arrived? The bankruptcy of statism and collectivism and all their variants is evident. So is the desperate need for liberty-minded solutions.

However, the tyranny of the status quo, as Milton Friedman termed it, remains omnipresent and powerful. Those who benefit from the politics of plunder will not yield voluntarily. As a result, the libertarian moment will not "arrive." It will have to be brought forward, seized by those committed to a better and freer America. FEE

Doug Bandow (dbandow@cato.org) is a senior fellow at the Cato Institute and the author of a number of books on economics and politics. He writes regularly on military noninterventionism.

The Sisters

William Wright

Friend, have you ever looked into the fire's radiance?
Have you witnessed the element up close?

What I've seen is buried deeper than the shards
that severed the floor with the flames' ranting shadows,

deeper than the first flush of the land's juvenescence,
(for it was shallow and frost-killed) the only scents

those of ice and ash, no musky clover or apples—
deeper than summer roots or creek-wracked stones.

There in the night-delirious escape down the stairs,
hearing my old man call for us, the roof roaring to splinters—

I saw the confused yawns of my dying sisters,
the flames so loud their yells fell through the beams,

blazing; their screams turned to rattle and rictus,
teeth and the spindle-wraiths, charred to spinsters

for the mud to take and worms to harness:
Tell me, brother, have you stood high in the mountains

and watched the stars spin over meadows, dead farms
where old airs sear and douse the tongue with silence?

William Wright (vercimber@hotmail.com) is the Series Editor of the multivolume Southern Poetry Anthology *(Texas Review Press) and the Assistant Editor of* Shenandoah. *His newest collection of poems,* Tree Heresies, *is forthcoming from Mercer University Press.*

Making Hamburger from Sacred Cows

A Guardian *writer frets about anti-statism in young adult fiction*

SARAH SKWIRE

The leaves are changing, and apparently it's time to line up and kick young adult fiction again. At the beginning of the summer, *Slate* chastised adults who like to read young adult fiction, telling us we should be embarrassed for ourselves and our jejune tastes. That criticism was fairly easy for me to ignore, because I was so busy reading *The Mysterious Benedict Society*.

But now over at *The Guardian*, Ewan Morrison is complaining that the current rage for young adult dystopian fiction is nothing but right-wing free-market propaganda that teaches children that "the bad guys are not the corporations but the state and those well-meaning liberal leftists who want to make the world a better place."

Regular readers of this column might well be inclined to jump up and down, cheer, and say "That's why we like it!" but I think Morrison's assertion deserves a good kicking of its own.

Let's leave aside the issue that Morrison doesn't seem particularly respectful of young people and their literature. He claims that stories like *The Hunger Games* and *The Giver* are versions of "our neoliberal society dreaming its last nightmares about the threat from communism, socialism and the planned society" that have been simplified into stories we can tell our children. The unvoiced assumption here—that these stories are simple because they are for children, who are also simple—should probably annoy anyone who is, has been, or has met a child. I'll also leave aside Morrison's clear and unsurprising contempt for the

Photo courtesy Murray Close

voice of people in the market. While he notes that "the quantity of books consumed here is staggering," he doesn't take that sign of approval and demand seriously. It's just evidence that lots of people are "impressionable" and think the wrong things.

I am even going to leave aside Morrison's plea for adults to "exercise some of that oppressive parental control" and prevent their children from reading such dangerous, anti-government literature. Parents are certainly entitled to make their own decisions about how much or how little to interfere with their children's literary choices.

What I cannot leave alone, however, is Morrison's apparent misunderstanding of what YA literature is for. He writes, "Yes there is a critique of statism at the heart of these books, but you might say, big deal: every teenager is a rampant individualist, a libertarian. However, the right wing root runs quite a bit deeper into the narrative structures." He then criticizes today's crop of dystopian fiction for attacking "the foundational projects and aims of the left: big government, the welfare state, progress, social planning and equality." In other words, the problem with today's dystopian fiction is that it attacks the pieties of Morrison and his generation rather than the pieties of his parents' or grandparents' generations.

This, to put it bluntly, is what children's fiction—especially young adult fiction—is for. That's why kids and iconoclastic adults like it. It pokes holes—with humor, or horror, or magic, or dystopian visions of violence and war—in the pieties of the most important authority figures in the lives of young people. No parental ideal is safe.

This is why Roald Dahl famously said, "The first thing you have to do when you're writing a kids' book is kill off the parents." Or, this is why, as Bruno Bettelheim much less succinctly notes, fairy tales require the death of parents or the casting out of children as the first step toward developing the child's sense of autonomy. Every kid can tell you that nothing interesting happens when parents are around. And as Bettelheim observes, the child in a story like that not only "survives the parents but surpasses them."

The dystopian story doesn't require that parents be eaten by an escaped rhinoceros (as are the parents in the delightfully efficient second paragraph of Dahl's *James and the Giant Peach*). Parents are allowed to linger in the background, as does Katniss's clinically depressed mother in *The Hunger Games*. Or their power can be defanged by the social structures of the new society, as Shannon Chamberlain recently pointed out in *The Atlantic*. But the young adult appetite for rebellion and independence and autonomy still needs satisfying.

And so the sacred cows of the previous generation must be turned into hamburger.

This is what Lewis Carroll did when he parodied the didactic children's literature of the Victorians in *Alice's Adventures in Wonderland*. This is the raison d'être of *Uncle Shelby's ABZ Book*. This is why children's books get banned and taken off of school reading lists and purged from library shelves. Adults don't like it when children point out that they might be wrong. We have a tendency to say, as does one of Dahl's great villains, "I'm right and you're wrong, I'm big and you're small, and there's nothing you can do about it."

If Morrison is unhappy to see young adult literature exploding the pieties of his generation and pointing to the flaws in their plans, he is supposed to be. He's not the audience. He's the guy at the head of the classroom lecturing about what's good for you, and young adult literature is the wisecracking kid who just stole his audience. Perhaps if Morrison were not so unthinkingly certain that he is right and young adult fiction is wrong, that he is big and they are small, there might be something he could learn from these novels. Maybe there are some lessons in these books about the fears and the hopes of the generation that is growing up while we watch. Maybe there are even some things we can do to help.

Morrison won't find any of that out if he spends his time huffing and puffing in outrage at the way those damn kids are playing on his pristinely planned lawn. FEE

Sarah Skwire (sskwire@libertyfund.org) is a fellow at Liberty Fund, Inc. She is a poet and author of the writing textbook Writing with a Thesis.