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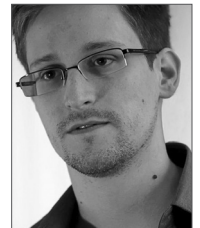
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**Hacking Leviathan**

“Libertarian Populism” is all the rage in the Beltway blogosphere. The idea, more or less, is that something of a political platform is emerging. Everybody hates cronyism and the rigged game that sustains it. The game keeps good people back and diverts money into the coffers of the wealthy. People would hate the system if they knew more about it. All the center-right has to do is explain everything and promise to dismantle the infrastructure of cronyism. This will usher in a new-age love fest for libertarian messages among the laity.

That's a sketch, anyway.

All well and good. We're not particularly sanguine about the idea of dismantling the corporate state through old-fashioned democratic political means. But we're happy to let the Beltway types have their conversation and hope the voters get wise to the game. Who knows? Maybe it will become a platform. Maybe people who care more about what's on TV right now will finally start to care about public choice economics. We're just not going to sit around and wait for that fire to catch.

We'd prefer to get behind what we call “hacking Leviathan.”

If you're worried because “hacking” has a negative connotation, please know we're not suggesting people do anything illegal. That's between you and your risk-benefit analysis. What we're suggesting is that “hacking” has positive connotations and tremendous potential to liberate people.

Consider so-called “life hacking”: Wikipedians refer to it as “any productivity trick, shortcut, skill, or novelty method to increase productivity and efficiency, in all walks of life; in other words, anything that solves an everyday problem in a clever or non-obvious way.” Sounds good. What about a form of hacking that uses shortcuts, novelty methods and innovation in general to circumvent or shake up the status quo?

Hacking Leviathan taps more into this spirit than into the notion of becoming a virtual safe-cracker.

Government is slow, not very innovative, and its rules are becoming increasingly obsolete. This State sclerosis is due largely to special interests that accrete and harden around old ways, old laws, and old public troughs. They're going to protect the gravy train, and they're pretty good at it, usually. But if enough people are developing creative workarounds and new good things, the State and its functionaries will simply be bewildered by it all. That's the hope, anyway. By the time the technocrats (and their cronies) catch up to the action, it will hopefully be too late. Large constituencies will have formed around, say, Bitcoin (peer-to-peer private payment), Bitmessage (p2p private messaging), Airbnb (p2p temporary apartment rentals) or Uber (p2p cab services).

And a Leviathan-hacker needn't be a techie, even if a lot of the jargon—to say nothing of the general attitudes—comes from that world. There are doctors who charge small sums and are developing “conciierge” models to ditch the Obamacare-industrial complex. Hondurans have amended their constitution so as to upgrade their social operating systems, making room for startup cities (officially known by the acronym ZEDE). Someone might reject a bad system simply by opting out—for example, simply by choosing a diet that isn't based on the government food pyramid.

Our own distinguished fellow Jeffrey Tucker has made a cottage industry out of telling people how they can seize their showerheads back from the State, or raise glasses of bourbon to Michael Bloomberg at 8:30 a.m.

Whatever people do, we are excited by the prospects of creative collaboration in an age of rapid social and technological evolution. And that leads us back to this question of libertarian populism.

James Poulos, writing for Forbes Online ([tinyurl.com/ml4ybsh](http://tinyurl.com/ml4ybsh)), suggests a form that dovetails nicely with liberty hacking, particularly when we move from the merely political to the anthropological. He writes:

The anthropology I'm proposing [is all about] unforeseeable transformations, at the personal level and the human level. That's the essence of a game that's anything but zero-sum: inherently creative, open-source, universal, and unable to be captured by planners and forecasters.

Such an anthropology is consonant with what we have called “networked libertarianism.” And it is certainly a libertarian populism suitable for a small-but-inspired army of Leviathan hackers. **FEE**

# Are National Hierarchies Becoming Obsolete?

## *An Interview with John Robb*

Today we're talking with John Robb, blogger at Global Guerillas and founder of Resilient Communities. Robb is a polymath whose career has taken him from military theory through software innovation to consulting on the development of resilient communities. Robb currently helps people by "providing the support, knowledge, insight, and encouragement needed to help you and your community thrive, despite adversity." He's known for taking the insights of complexity science and decentralization and applying those insights both to predicting macro trends and to adapting locally.



John Robb

**The Freeman:** Welcome, John.

**Robb:** My pleasure, Max.

**The Freeman:** We've seen another round of massive demonstrations in Egypt, protests against corruption in Brazil, demonstrations in Turkey, and much, much more. What factors do you believe are leading to these spontaneous uprisings?

**Robb:** First off, people don't believe they are getting the quality of opportunity they expect. What are they getting? Corruption and misallocation, from the prevailing methods of societal organization.

**The Freeman:** The paradox of peer-to-peer interconnection is that we're simultaneously becoming hyperlocalized and hyperglobalized. It's simpler than ever to pull new communities together. What do these phenomena tell us about the status quo with respect to large nation-states?

**Robb:** Yes. The technology is changing and so will the methods of organizing life. Until recently, we've relied on "bureaucracy" and "markets" to manage and allocate resources (more or less depending on the ideology employed). Those organizational forms aren't well suited for a globally interconnected world. Technology makes it possible to build systems that are much more fluid and innovative.

One of the "new" organizational methods we see will likely be based on P2P (think in terms of BitTorrent and Bitcoin). Our inability to go beyond markets and bureaucracy is stopping us from actually entering an information/creative economy that is as qualitatively better as democratic capitalism was an improvement over feudal agrarianism.

**The Freeman:** What do you think it will take for people to see that P2P integration can do much, much more than getting people to organize so as to staff old government systems with the "right" people?

**Robb:** Governments are a legacy system for managing physical space, and they will be around in some form well past our lifetimes. However, as new systems emerge that deliver more, we'll likely see people use these systems to opt out of the current failures. In fact, most of the wealthy, connected people today won't really understand why they

are left behind, any more than that nobility of Europe did when feudalism was eclipsed.

**The Freeman:** Do you see this preparedness as part of the larger process of self-organization?

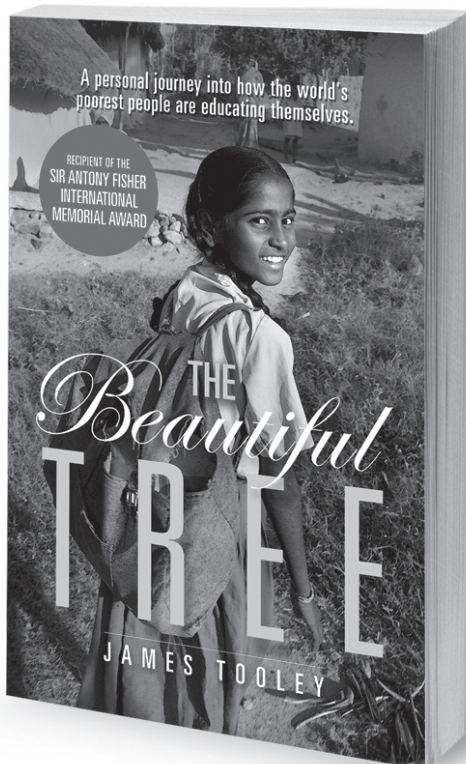
**Robb:** Yes. Indeed. It's more than surviving shocks, though. It's part of a reorg of social structures that's underway. Technology is making it possible to build a home that can actually produce a surprisingly large amount of what you need to live well. Combine that with inexpensive information connectivity, and you have the re-emergence of a household that can take care of itself and network with others that can do the same. In fact, these technologies actually reverse the thinking on the

value of the suburbs. If you have some space (sun, rain, and land), you have access to true independence.

**The Freeman:** At *The Freeman*, we're very interested in the idea of changing social technologies (laws and governance) so that people can thrive. But it's hard to dislodge entrenched interests. Do you see the way forward in peer-to-peer networks for dislodging rent-seekers?

**Robb:** Actually, it's better to avoid approaching the problem head-on. Instead, set up ways of getting things done that cut out the middlemen—from finance to government to retail. Early example: Kickstarter.

**The Freeman:** Thank you very much for your time. **FEE**



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# Startup City Redux

## *Honduras: from RED to ZEDE to ... Freedom?*

TOM W. BELL



A small country in Central America may just have created the freest cities in the world.\*

This column reported in November 2012 ([tinyurl.com/lksjpk3](http://tinyurl.com/lksjpk3)) on an effort in Honduras to establish a unique kind of special development region. These regions, called RED

after their Spanish acronym, would have created new cities with unprecedented independence from the central government. The RED had many supporters in the Honduran government's executive and legislative branches, who aimed to bring low taxes, free trade, and the rule of law to their fellow citizens. The judicial branch did not share their enthusiasm, however.

The Supreme Court, worried that the RED statute would allow foreign sovereigns to rule Honduran territory, struck it down as unconstitutional. The first effort to establish in Honduras what have been called "startup cities" thus died. But Honduran reformers did not give up.

### **Honduras Tries Again**

In January 2013, to safeguard its renewed effort to create startup cities, the Honduran Congress amended Articles 294, 303, and 329 of its Constitution. The changes addressed the objections that the Supreme Court had raised against the RED and set the stage for another attempt.

Soon the Honduran National Congress was considering legislation that would create Zonas de Empleo y Desarrollo Económico (Zones for Employment and Development of the Economy), called ZEDE for short. The legislation triggered fierce opposition by municipalities, which feared competition from the new entities. Those objections were answered in floor debate by the observation that municipalities could themselves convert to ZEDE, winning all the same advantages. On June 12, 2013, the ZEDE

legislation passed by a vote of 102 to 26.

In broad terms, the ZEDE legislation authorizes the creation of startup cities that will operate under the supervision, but not direct control, of the central government. So described, the ZEDE might not sound much different from China's special economic zones or Dubai's International Financial Centre. The details reveal, however, that the Hondurans have authored a daring new approach to governance.

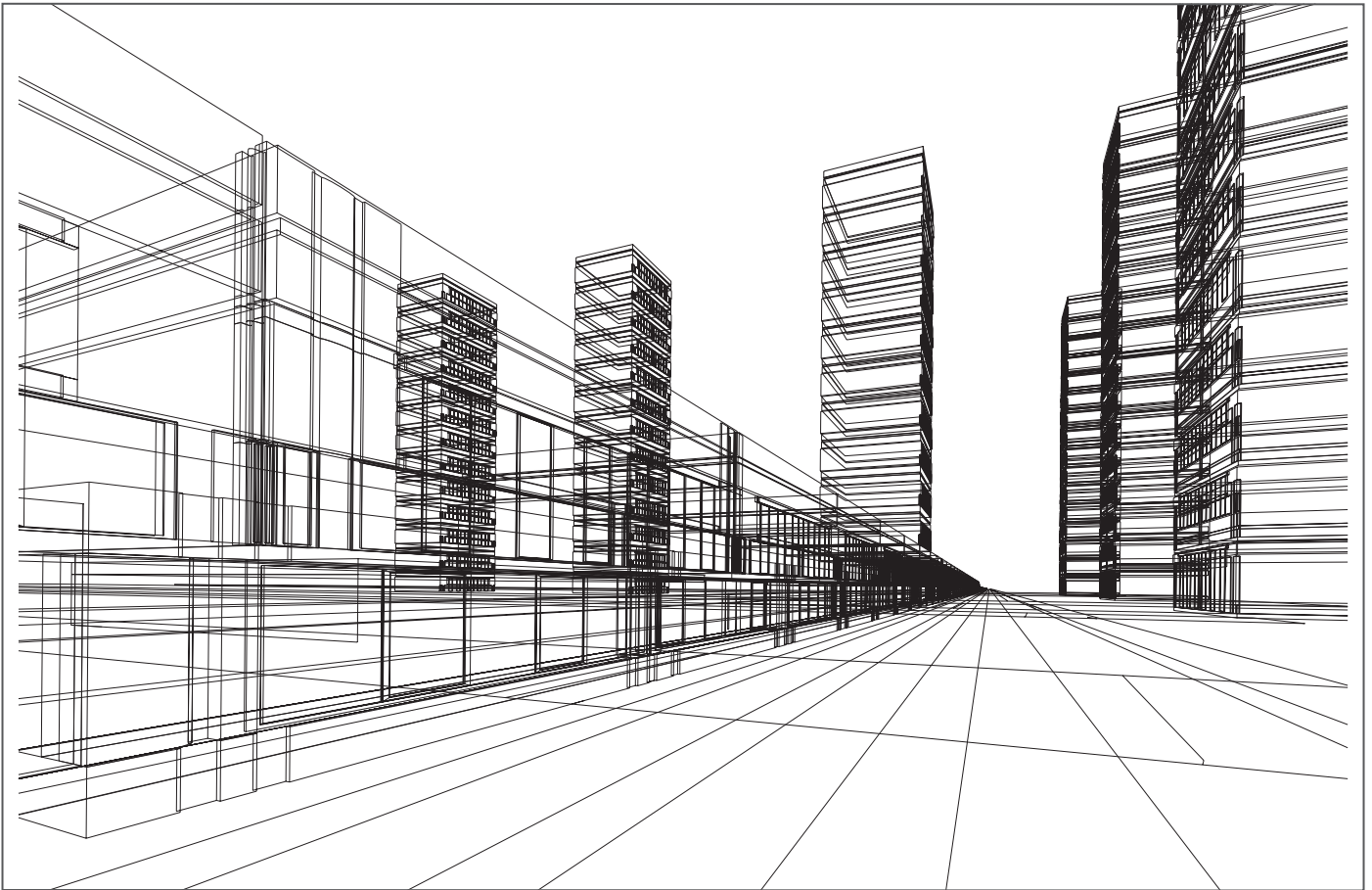
Before launching a tour of the ZEDE legislation, however, I feel compelled to offer some caveats. Although I serve as legal advisor to Elevator City Development, Inc., a company that has been active in Honduras, I here speak solely for myself. Because the ZEDE legislation had not yet, at the time of writing, appeared in *La Gaceta*, the official publication of the Honduran National Congress, it had not yet come into force. The English translations used here come from native Hondurans, Google Translate, and me—not from legislators themselves.

Strapped in? OK. Let's go.

### **A Quick Tour of the ZEDE Legislation**

Article 1 of the ZEDE legislation makes clear that Honduras will go only so far in granting sovereignty to startup cities. They must remain "an inalienable part of the State of Honduras." The article immediately follows up, however, by calling the ZEDEs "autonomous entities" and granting them the power to set their own immigration regulations and to control transportation systems within their jurisdictions.

In Article 3, the Hondurans show they want only the best for the ZEDE legal system: "They will have autonomous and independent courts with exclusive jurisdiction, which will be able to adopt judicial systems and traditions from other parts of the world," subject to obligations to guarantee respect for basic human rights. The legislation imposes similar requirements on the ZEDE, including



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substantive and procedural rights, at many other points.

You cannot understand how a government functions without following the money. Article 5 of the ZEDE legislation makes it clear: “The special fiscal regime of the ZEDE authorizes them to create their own budget, the right to collect and administrate taxes, to determine the rates charged for services provided, [and] to enter into all types of agreements,” even those lasting over many years.

The legislation also provides that the ZEDE must keep their budgets balanced (Article 24), that taxes are optional and cannot exceed specified levels (Article 29), that the ZEDE cannot impose currency exchange controls or other restraints on capital flows into and out of their jurisdictions (Article 30), and that imports into the ZEDE shall be free of taxes, tariffs, fees, or other charges (Article 32). The ZEDE will help pay their way by allocating 12 percent of all

tax revenues collected to trusts established for the benefit of various branches of the Honduran government.

What about the structure of the ZEDE government?

Article 11 defines the Committee on the Adoption of Best Practices (CABP), made up of 21 “people of known integrity, leadership, executive capacity, and international reputation,” and empowered to approve internal laws, appoint and remove the Technical Secretary (about which more anon), and exercise other oversight functions. The president of Honduras can unilaterally appoint CABP members but the National Congress must approve them (Article 11).

The technical secretary, described in Article 12, plays a more hands-on role in ZEDE governance. As the highest executive officer and legal representative, the technical secretary runs the ZEDE both directly—by implementing

policies set by the CABP and issuing administrative orders—and indirectly, through trusts the technical secretary establishes for the provision of services, control of revenue, and property management within the ZEDE.

Who provides judicial functions in a ZEDE? Articles 14–15 of the legislation authorize the creation of courts having special and exclusive jurisdiction, operated “under the Anglo-Saxon (common law) legal tradition,” and staffed by judges appointed by the Judicial Counsel of the Honduran judiciary from a list of candidates provided by the CABP. It also affirms, however, that parties under ZEDE law “may contractually agree to submit [their dispute] to arbitration or a jurisdiction different from the ZEDE.”

The ZEDes enforce their laws with their own security services, which have exclusive authority over all police, prosecutions, and prisons within the ZEDE (Article 23). The ZEDes must implement a variety of programs designed to ensure that their people will enjoy adequate education, health care, social services, labor rights, and environmental protections (Articles 33–37). The ZEDE will be bound by Honduran criminal law, which includes bans on drug trafficking, money laundering, human trafficking, and child exploitation, unless and until the Congress approves substitute laws (Article 40[6]).

How are ZEDes created? Basically, through one of two

processes. In densely populated areas, voters must approve the creation of their local ZEDE through a referendum (Article 37). Low-population areas near the coasts are “hereby declared subject to the present regime,” though property owners must take special measures to opt into ZEDE jurisdiction (Article 38).

**What Comes Next?**

Honduran reformers have won a great victory in passing the ZEDE legislation. Many hurdles remain before they cut the ribbon on their first startup city, however. As noted above, the statute itself requires a number

of developmental steps. Litigation may break out again, leaving the ZEDE subject to delays and uncertainties. Nobody has done this before; it might not even be possible.

Honduran reformers have already won many victories in their fight for startup cities, though. Twice they have amended their constitution; twice they have passed comprehensive enabling legislation. They have given a bold and uniquely Honduran answer to one of the world’s oldest and hardest questions: How can we live together in peace and prosperity? They have dealt a mortal blow to stasis, the enemy of all progress, and cleared the way toward newer, freer cities. **FEE**

*\*Editors’ note: This article has been updated to reflect the most recent version of the statute.*

*Tom Bell (tbell@chapman.edu) is a professor at Chapman University School of Law.*

**H O N D U R A N**  
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# Agorism's Tech Triumvirate

## *Anything Peaceful in the Counter-Economy*

TOMASZ KAYE

In Turkey, a large, spontaneous uprising this summer was met with brutality by government forces. Sometimes such brutality occurs when those who participate in these uprisings cannot communicate or interact effectively—whether to organize or to subvert the State's power. What are people looking to shed themselves of an illiberal State—or any State—to do?

They could consciously embrace the counter-economy of agorism. Agorists believe that libertarian philosophy manifests itself in the real world through “the study and/or practice of all peaceful human action which is forbidden by the State.” Practicing counter-economics means, as far as you're able, circumventing the restrictions the State places on your peaceful activities. In finding ways to do so, you're helping to create the framework for a new society within the shell of the old.

The protestors in Istanbul are already practicing agorism when they organize to help one another defy the commands of the police. And this impulse needn't diminish when the energy on the street has dissipated and the tear gas has been washed from their eyes.

Perhaps the most important foundations for successful agorism are tools and techniques for conducting communication and commerce outside the reach of the State. Recently the Cypherpunks have created technologies that bring the ideal of crypto-anarchism closer than it's ever been before.



### Bitcoin

You might have heard about Bitcoin, which is currently the most mature and popular cryptocurrency. Bitcoin is decentralized, it cannot be inflated, it's very difficult to seize, and it can be transferred anywhere in the world at next to no cost. And although Bitcoin is pseudonymous by default, with

the proper precautions (or if the Zerocoin extension is adopted) it can be used anonymously.

Governments, banks, and credit card companies ought to be worrying about Bitcoin. It has the potential to obviate the restrictions on peaceful commerce created by the State and its cronies. Thus, Bitcoin has the potential to dramatically increase freedom in trade. But what about communication?



### Bitmessage

“The protests in Turkey are the perfect test for Bitmessage,” writes a user in the nascent Bitmessage subreddit. ([tinyurl.com/msqoeyl](http://tinyurl.com/msqoeyl))

One of the problems with most email providers is that they centralize data. All the emails of Gmail users are stored on Google's servers, for example. This might not look like a problem if we trust that Google will live up to its “Don't be evil” slogan. But even if Google were exclusively staffed by incorruptible angels, we should be concerned. Right now the FBI is trying to force Google to hand over confidential user data to be used in warrantless investigations.

While I was writing this article, the PRISM scandal broke, which appears to confirm the worst fears about the extent of the surveillance state was unfolding. In general, the state can probably find a way to read your emails. Technologies like GPG exist that allow people to encrypt their email messages, but this approach still doesn't anonymize the sender and receiver of messages. This information can be made harder to uncover by using chained remailers, but from a privacy standpoint, email seems broken in a way that probably can't be fixed.

Bitmessage is designed to solve these issues. Bitmessage is an encrypted, peer-to-peer, trustless, decentralized, open-source messaging system that can be used the same

way one uses email. Message delivery doesn't depend on any central server, however, and all message data—including sender and receiver information—is encrypted automatically.

Currently an installable Bitmessage package exists for Windows only. An OSX version is in the works, as well as an Android implementation, which should be of particular interest to protesters who need to stay mobile.

Interestingly, Bitmessage is based on Bitcoin's underlying technology. While Bitcoin is relatively young, Bitmessage is even younger. It still requires a thorough security audit, so it remains to be seen whether its promise is real. But if so, it complements Bitcoin beautifully, the pair allowing people to carry out commerce and communication on their own terms.



### Meshnet

Both Bitcoin and Bitmessage rely on Internet access to function, and despite valiant

efforts by supporters to create ad hoc networks for protesters, it's still often within the State's power to prevent reliable access to many. The third emerging technology relevant here is Meshnet. Meshnet is a free and open-source project that aims to provide robust network access in the face of deliberate attempts by "authorities" to restrict Internet access and censor online speech.

Meshnet works by dynamically creating networks of wireless routers. Each router becomes a node in the network, relaying connectivity to other routers in its physical vicinity. Such networks often include connections to the Internet through at least one node, effectively allowing all participating nodes Internet access.

The key difference between a wireless access point and a meshnet is that data can be requested from a PC that is too far from the source PC to have a direct wireless connection. The mesh application allows the request from one computer to hop from meshnet node to

meshnet node until it reaches the computer with data. The computer with data then sends the data back to the original computer that requested the data by hopping from meshnet node to meshnet node. In this case a meshnet node can be either a PC or a wireless router with meshnet software.

If reform of the State is not a viable option in

the long run, we should take heart from the way emerging technology is helping people practice agorism by routing around restrictions the government attempts to impose.

**PRACTICING**  
counter-economics means, as far as you're able, circumventing the restrictions the State places on your peaceful activities. In finding ways to do so, you're helping to create the framework for a new society within the shell of the old.

- The use of Bitcoin removes control of the money supply from the State and the banks and makes it very difficult for the State to monitor transaction activity.
- The use of Bitmessage removes the State's ability both to eavesdrop and to pressure third parties into giving up the details of our communications.
- Meshnet makes it very difficult for the State to disrupt Internet access or monitor online activity.

In the words of Satoshi Nakamoto, the pseudonymous creator of Bitcoin: "[We may not find a solution to political problems in cryptography,] but we can win a major battle in the arms race and gain a new territory of freedom for several years."

Who knows what we could achieve in those years? **FEE**

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*Tomasz Kaye (tomaz.brain@gmail.com) is an animator and creative at Redshift Media. He is also the creator of George Ought To Help.*

# Hacking Law and Governance with Startup Cities

## *How Innovation Can Fix Our Social Tech*

ZACHARY CACERES

Outside of Stockholm, vandals and vines have taken over Eastman Kodak's massive factories. The buildings are cold metal husks, slowly falling down and surrendering to nature. The walls are covered in colorful (and sometimes vulgar) spray paint. In the words of one graffiti artist: It's "a Kodak moment."

After its founding in 1888, Eastman Kodak became the uncontested champion of photography for almost a century. But in early 2012, the once \$30 billion company with over 140,000 employees filed for bankruptcy.

Kodak was the victim of innovation—a process that economist Joseph Schumpeter called "the gales of creative destruction." Kodak could dominate the market only so long as a better, stable alternative to its services didn't exist. Once that alternative—digital photography—had been created, Kodak's fate was sealed. The camera giant slowly lost market share to upstarts like Sony and Nikon until suddenly "everyone" needed a digital camera and Kodaks were headed to antique shows.

How does this happen? Christian Sandström, a technologist from the Ratio Institute in Sweden, argues that most major innovation follows a common path.

### **From Fringe Markets to the Mainstream**

Disruptive technologies start in "fringe markets," and they're usually worse in almost every way. Early digital cameras were bulky, expensive, heavy, and made low-quality pictures. But an innovation has some advantage over the dominant technology: For digital cameras it was the convenience of avoiding film. This advantage allows the innovation to serve a niche market. A tiny group of early adopters is mostly ignored by an established

firm like Kodak because the dominant technology controls the mass market.

But the new technology doesn't remain on the fringe forever. Eventually its performance improves and suddenly it rivals the leading technology. Digital cameras already dispensed with the need to hassle with film; in time, they became capable of higher resolution than film cameras, easier to use, and cheaper. Kodak pivoted and tried to enter the digital market, but it was too late. The innovation sweeps through the market and the dominant firm drowns beneath the waves of technological change.

Disruptive innovation makes the world better by challenging monopolies like Kodak. It churns through nearly every market except for one: law and governance.

### **Social Technology**

British common law, parliamentary democracy, the gold standard: It may seem strange to call these "technologies." But W. Brian Arthur, a Santa Fe Institute economist and author of *The Nature of Technology*, suggests that they are.



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“Business organizations, legal systems, monetary systems, and contracts...,” he writes, “...all share the properties of technology.”

Technologies harness some phenomenon toward a purpose. Although we may feel that technologies should harness something physical, like electrons or radio waves, law and governance systems harness behavioral and social phenomena instead. So one might call British common law or Parliamentary democracy “social technologies.”

Innovation in “social tech” might still seem like a stretch. But people also once took Kodak’s near-total control of photography for granted (in some countries, the word for “camera” is “Kodak”). But after disruptive innovation occurs, it seems obvious that Kodak was inferior and that the change was good. Our legal and political systems, as technologies, are just as open to disruptive innovation. It’s easy to take our social techs for granted because the market for law and governance is so rarely disrupted by innovations.

To understand how we might create disruptive innovation in law and governance, we first need to find an area where the dominant technologies can be improved.

### **Where Today’s Social Techs Fail**

Around the world, law and governance systems fail to provide their markets with countless services. In many developing countries, most of the population lives outside the law.

Their businesses cannot be registered. Their contracts can’t be taken to court. They cannot get permission to build a house. Many live in constant fear and danger since their governance systems cannot even provide basic security. The ability to start a legal business, to build a home, to go to school, to live in a safe community—all of these “functions” of social technologies are missing for billions of people.

These failures of social technology create widespread poverty and violence. Businesses that succeed do so because they’re run by cronies of the powerful and are protected from competition by the legal system. The networks of cooperation necessary for economic growth cannot form in such restrictive environments. The poor cannot become

entrepreneurs without legal tools. Innovations never reach the market. Dominant firms and technologies go unchallenged by upstarts.

Here’s our niche market.

If we could find a better way to provide one or some of these services (even if we couldn’t provide everything better than the dominant political system), we might find ourselves in the position of Nikon before Kodak’s collapse. We could leverage our niche market into something much bigger.

### **Hacking Law and Governance with Startup Cities**

A growing movement around the world to build new communities offers ways to hack our current social tech. A host nation creates multiple, small jurisdictions with new, independent law and governance. Citizens are free to emigrate to any jurisdiction of their choosing. Like any new technology, these startup cities compete to provide new and better functions—in this case, to provide citizens with services they want and need.

One new zone hosting a startup city might pioneer different environmental law or tax policy. Another may offer a customized regulatory environment for finance or universities. Still another may try a new model for funding social services.

Startup cities are a powerful alternative to risky, difficult, and politically improbable national reform. Startup cities are like low-cost prototypes for new social techs. Good social techs pioneered by startup cities can be brought into the national system.

But if bad social techs lead a zone to fail, we don’t gamble the entire nation’s livelihood. People can easily exit a startup city—effectively putting the project “out of business.” If a nation chooses to use private capital for infrastructure or other services, taxpayers can be protected from getting stuck with the bill for someone’s bad idea. Startup cities also enhance the democratic voice of citizens by giving them the power of exit.

Looking at our niche market, a startup city in a developing nation could offer streamlined incorporation laws and credible courts for poor citizens who want to become entrepreneurs. Another project could focus on building safe places for commerce and homes by piloting

police and security reform. In reality, many of these functions could (and should) be combined into a single startup city project.

Like any good tech startup, startup cities will be small and agile at first. They will not be able to rival many things that dominant law and governance systems provide. But as long as people are free to enter and exit, startup cities will grow and improve over time. What began as a small, unimpressive idea to serve a niche market can blossom into a paradigm shift in social technologies.

Several countries have already begun developing startup city projects, and many others are considering them. The early stages of this movement will almost certainly be as unimpressive as the bulky, toy-like early digital cameras. Farsighted nations will invest wisely in developing their own disruptive social techs, pioneered in startup cities. Other nations—probably rich and established ones—will ignore these “niche market reforms” around the developing world. And they just might end up like Kodak—outcompeted by new social techs developed in poor and desperate nations.

The hacker finds vulnerabilities in dominant technology and uses them to create something new. In this sense, all disruptive innovation is hacking, since it relies on a niche—a crack in the armor—of the reigning tech. Our law and governance systems are no different. Startup cities are disruptive innovation in social tech. Their future is just beginning, but one need only remember the fate of Kodak—that monolithic, unstoppable monopolist—to see a world of possibility. **FEE**

*Those interested in learning more about the growing startup cities movement should visit [startupcities.org](http://startupcities.org) or contact [startupcities@ufm.edu](mailto:startupcities@ufm.edu).*

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## VICTORIA WOODHULL LEARNS TO SPEAK

*Malaika King Albrecht*

How odd that you prefer  
Spirits talking  
over a woman alone on a stage.  
So be it. I will tell you  
I am a flute  
the wind whispers through.  
Listen how softly I speak:  
the white rose pinned to my dress  
barely trembles its petals.

My sister Tennie C. dressed as a man  
seems to have forgotten what lambs wear.  
I’ve made room in my dark skirt  
for the voice that says,  
*A woman’s legs don’t  
part at your command.*  
Do not, however, receive this  
as coming from me.

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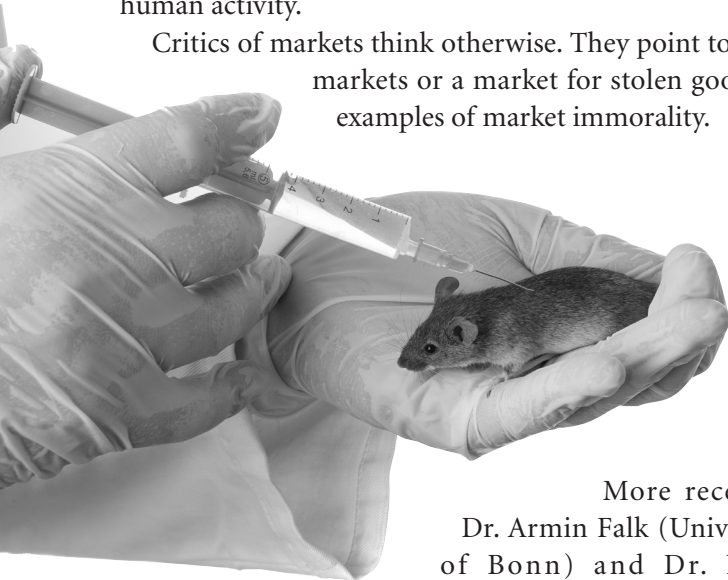


# Do Markets Promote Immoral Behavior?

FRED E. FOLDVARY

**P**ure markets enhance good behavior, because in such arrangements, voluntary acts are rewarded and involuntary acts are punished. A pure market, as we define it, consists only of voluntary human action. That's because a truly free market includes governance structures that penalize coercive harm, and such pure markets do not impose any restrictions or costs on honest and peaceful human activity.

Critics of markets think otherwise. They point to slave markets or a market for stolen goods as examples of market immorality.



More recently, Dr. Armin Falk (University of Bonn) and Dr. Nora Szech (University of Bamberg)

conducted experiments in which people were offered a choice between receiving 10 euros versus letting a laboratory mouse get killed. If a subject decided to save a mouse, the experimenters bought the animal, according to the study authors writing in the journal *Science*.

But in the experimental market with buyers and sellers, more people were willing to accept the killing of a mouse than when they were simply offered an isolated choice. Therefore, the researchers concluded, markets erode moral values. Guilt is shared with other traders who are also involved in transactions that kill mice. If a person refused a transaction to save a mouse, somebody else would step in, so the mouse would be killed anyway.

Do Falk and Szech's analysis prove that markets erode morals?

## Pure Markets or Coercion-Infected Bazaars

The term "market" can refer to any bazaar or system of transactions, and also to pure free markets in which action is voluntary. Thus the buying and selling of slaves falls outside a voluntary market, but it is a bazaar or trade "market" in the sense that it includes buying and selling. When discussing the morality or failures of "markets," we need to distinguish between voluntary transactions and those that involve coercive harm. Hence I will use the term "bazaar" to refer to trade that may involve coercion, while using "market" to mean a nexus of trade free of coercion.

In his paper "Is Economics Independent of Ethics?" economist Jack High examined the term "market economy," in contrast to "government activity." The market, writes High, "is defined as a system of voluntary exchange." A deep understanding of the concept of the pure market requires an analysis of the meaning of the term "voluntary." It will not do to simply state that "voluntary" means "not coercive," since "coercive" is equivalent to the term "not voluntary."

"Voluntary" action implies an ethical rule by which some acts are morally permitted and other acts, the involuntary ones, are prohibited. To have a universal meaning of voluntary action, and thus of the market, this moral standard must itself be universally applicable to humanity. This universal ethic is the expression of natural moral law, based on human nature rather than any cultural practice or personal viewpoint.

## The Universal Ethic

John Locke (1690) described the moral "law of nature" or natural moral law as being derived from two premises: biological independence and human equality. Independence is the biological fact that human beings think and feel as individuals. Equality is the proposition that there is nothing in human biology that entitles one set of human beings to be masters over another set which consists of slaves.

A unique universal ethic can be derived from these Lockean premises. The universal ethic has three basic rules:

1. Acts that have welcomed benefits are good.
2. Acts that coercively harm others, by initiating an invasion, are evil.
3. All other acts are neutral.

The term “harm” is distinguished from a mere offense. In an offense, the distress is due solely to the beliefs and values of the person affected. In contrast, coercive harm involves an invasion, an unwelcome penetration into the legitimate domain of the victim. So if a person is offended by what someone says, this is due to his beliefs and values; this act is not coercively harmful, and is designated as morally neutral by the universal ethic.

The universal ethic also provides a meaning for moral rights and liberty. A moral right to X means that the negation of X is morally evil. For example, a person has a moral right to possess a car because the negation of that possession, i.e. theft, is morally evil. Since the universal ethic is the expression of natural moral law, the moral rights based on that ethic can be called “natural rights.” Society has complete liberty when its laws are based solely on the universal ethic, with legal rights congruent with natural rights.

The pure market is inherently ethical because the same universal ethic that provides the meaning of “market” is also the natural-law ethic used to judge policy and human action. Involuntary action is both evil and outside the market. There are slave bazaars, but there cannot be a free market in buying and selling slaves, because slavery is involuntary and, thus, evil.

Although the pure market is ethical in excluding evil acts, it is a separate issue whether a free market *enhances* or *hinders* ethical behavior by minimizing evil action. Since the governance of a pure market penalizes acts that coercively harm others, the ideal governance of a free society will have optimal penalties for wrongful acts.

By deterring coercive acts, rehabilitating criminals, and

providing restitution for victims, the free society steers human action toward those acts that are good or neutral. Adam Smith, who popularized the concept of the invisible hand of the market, also wrote in his book, *The Theory of Moral Sentiments*, that people have a natural fellow-feeling or sympathy for others. Social entrepreneurs can promote sympathy for communities and benevolent causes, which promotes morally good behavior.

Relative to today’s interventionist economies, the free market promotes good behavior by avoiding the imposition of costs and restrictions. In today’s world, even when good acts are not prohibited, they are impeded with costs such as taxes, licenses, and permit requirements. Even when an organization is tax-exempt, it must today fill out forms and

report on its activities. The free market promotes good behavior more than today’s interventionist economy by avoiding barriers that make goodness more costly.

Critics of markets claim that when people search for the cheapest goods, moral concern takes a back seat. But in a truly free market,

the products offered are produced by moral means, by a process that does not involve coercive harm. Therefore searching for the lowest-cost goods is not evil. Only when goods are produced by immoral means, such as with slave labor, is the product morally tainted, but that, by definition, could not occur within a voluntary market.

### Of Mice and Men

Unfortunately, some behavioral economists—those who conduct experiments on human behavior—leap to incorrect conclusions about markets because they use the term “market” for any system of transactions, even those involving non-voluntary aspects.

Recall that in the Falk and Szech experiments cited earlier, subjects were offered a choice between receiving money versus letting a laboratory mouse get killed. If a subject decided to save a mouse, the experimenters bought the animal and allowed it to live.

The first trouble is that no conclusion about markets and morals can be derived without first analyzing the

ALTHOUGH THE pure market is ethical in excluding evil acts, it is a separate issue whether a free market *enhances* or *hinders* ethical behavior by minimizing evil action.

morality of the particular act, *killing a mouse*. There is no consensus among ethicists on the issue of mouse (animal) rights, but with respect to the issue of how markets affect moral behavior, we can analyze two possibilities: First, if killing a mouse is not evil, then accepting a choice that kills a mouse is not promoting evil behavior. Second, if the non-utilitarian killing of a mouse (killing for reasons other than for food, useful materials, or self-defense) is indeed evil, then it is prohibited by the laws of the market and is thus penalized, which minimizes such acts and avoids eroding moral values.

Another problem with the Falk and Szech approach is that the study turns on the condition that people violate their own “individual moral standards,” which to some individuals may, indeed, include mouse killing. I have tried above to show

that, in order for an ethic to be universal, it must satisfy certain criteria. Individual moral standards are not morals *per se*, but rather personal values. Violation of these would be offenses. It may be interesting to some that markets—even pure ones—tend to make people overlook offenses, due to the distance the transactional nature of the arrangement creates between the actor and the original evil, or due to the perceived amorality of fellow actors in the bazaar. For example, “If I don’t buy or sell, someone else will” can creep into a market actor’s rationale. But this rationale has no bearing on a universal moral ethic, which would proscribe harmful actions *ex ante*—that is, before they infect the market.

In other words, concern about the tendency of market forces to reinforce perceived evils confuses the body and its symptoms with the pathology. The bloodstream can carry a pathogen around to various part of one’s body, for example, hastening disease. That doesn’t mean that the bloodstream is somehow evil or undesirable by extension. It’s simply that the pathogen must be eliminated.

### Evils of Intervention

Another (perhaps more familiar) approach is to blame markets for outcomes that are actually the result of State

intervention rather than voluntary action. Even economists have made a cottage industry out of blaming the market for problems such as recessions and unemployment. These critics fail to distinguish between today’s mixed economies (bazaars replete with governmental interventions) and an arrangement that is much closer to a pure market. Any outcome, however, such as an economic crisis or depression, has to be analyzed sufficiently to determine whether the causes are the interventions or the markets.

Failure to appreciate the concept of a pure market is on display in the article “Markets Erode Morals, Let People Do

Horrible Things: Study” by Mark Gongloff in the *Huffington Post*. The author states, “The devastating collapses of the dot-com and housing bubbles in recent years have finally led us to start questioning the value of unfettered markets.”

CRITICS OF THE market often fail to distinguish between today’s mixed economies (replete with government interventions) and pure markets.

If markets are unfettered, the Federal Reserve does not exist, and there are no income and sales taxes; no asset forfeitures; no government subsidies; no federal regulatory agencies such as the SEC, FDA, FHA, and Fannie Mae; and no state and local interventions. The author presumes, with no analysis, that the housing bubble was caused by the market. There is good reason to conclude that massive monetary and fiscal subsidies to real estate—intervention—were primary causes of the crash of 2008, and that the cheap credit provided by money expansions skewed interest rates away from their natural rates, promoting previous bubbles. In these cases, the evils of those impure markets were the consequences of interventions whose intentions may arguably have been good.

The purpose of economic theory is to enable people to understand the implicit economic reality beneath superficial appearances. Critics of free markets observe the superficial appearances of the bazaar without delving into the ethical foundations of the free market and the economic causes of outcomes such as the boom-bust cycle. The ethical and economic reality is that markets are inherently ethical, and they promote ethical behavior. **FEE**

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# The Character of Edward Snowden

JEFFREY A. TUCKER



Edward Snowden, 29 and now temporarily living in Russia, is the overnight sensation who leaked details about the National Security Administration's (NSA's) practice of massive and sweeping surveillance of Americans' browsing habits. He has also provided a model of what it means to live a principled life, even when it comes at personal expense.

What his leak revealed is truly chilling and even infuriating. He demonstrated that websites and cell phone companies are sharing their databases with the U.S. government in real time—without so much as court orders—and thereby making every one of us a victim of snooping and possibly vulnerable to blackmail for so long as we shall live.

Much more important for any lover of freedom, however, is the manner in which he went about his defiance. He acted peacefully, openly, with total dedication to principle. He took responsibility for speaking the truth. He did it with a clean conscience. He has been willing to face the consequences for his actions.

It will take millions more like him to give freedom a fighting chance in an age of Leviathan State control.

In his life, he had seen enough to make him crippled with fear. But he rejected fear and took a different route. He used the very technologies that he knew to be compromised by government invasion and surveillance in order to speak truth to power. His actions reveal a path forward for the whole cause of human freedom—using every opportunity to act on the courage of our convictions.

**EDWARD SNOWDEN**  
has provided a model of what it means to live a principled life, even when it comes at personal expense.

By now, everyone knows the story of Edward's life, just as millions have already seen his interview following his disclosures. Edward was born in 1983 and raised in North Carolina. His enrollment in a community college made up for his poor high school education and allowed him to earn a general education degree.

He signed up with the Army—he hoped to liberate people in Iraq, but was shocked to find that this wasn't really the goal—and was discharged following leg injuries. He went to work as a security guard for an NSA security facility in Maryland, where he must have revealed his competence in information technology and code. (In some ways, he is an archetype of today's self-taught but indispensable code "geeks.")

Soon after that he was snapped up by the talent-hungry CIA. By 2007 he found himself in Geneva, maintaining computer security for the agency. Two years later he was working for the NSA in Japan—the very definition of upward mobility.

Then earlier this year, he landed the dream job. He began working for Booz Allen Hamilton in Hawaii. This is a private company that collects, analyzes, and disseminates data for the NSA, enjoying billions in contracts from the government. Edward himself was only 29 years old, but he was pulling in \$200,000 in a cushy job in a dreamland, living with his girlfriend. In Hawaii!

To appreciate what he has done, you have to put yourself in his position. Would you give that up? Would you be willing to walk away? He was surrounded by people who just took it for granted that every American deserves to be spied on, that government has the full rights to everyone's information.



This was the culture of his firm. The people paying him to manage computer networks all accepted the premise that all this stuff about freedom and democracy, court orders and the Bill of Rights, was just a veneer—just the silly doctrines of the civic religion that we tell our children but don't really believe. Their real job at Booz was to collect as much information as possible and let the government use it as it sees fit.

Most people in that position would say nothing. Maybe they would even feel a sense of power at being able to wiretap anyone or dig through the email archives of anyone. The financial incentive alone would be enough to keep him quiet. Why risk such a happy life as this? He could have stayed there forever. Most everyone would have done exactly this.

Instead, his well-formed conscience intervened. One day, he and his girlfriend gathered up their things and left. He told his superiors that he was going to get treated for epilepsy. Instead, he flew to Hong Kong and lived in a hotel room. He called up journalist Glenn Greenwald (a man he knew he could trust) and gave him the documents that are rocking the world today.

That's when the witch hunt for the leaker began. Official Washington swore vengeance.

But Edward wasn't finished. Rather than remain in hiding, he took the opposite path. He granted an on-camera interview in which he revealed everything there was to know about him. He put himself on the line, with confidence and grace.

He said:

I'm no different from anybody else. I don't have special skills. I'm just another guy who sits there day to day in the office, watches what's happening and goes, "This is something that's not our place to decide, the public needs to decide whether these programs and policies are right or wrong."

After the leaks, his former employer denounced him

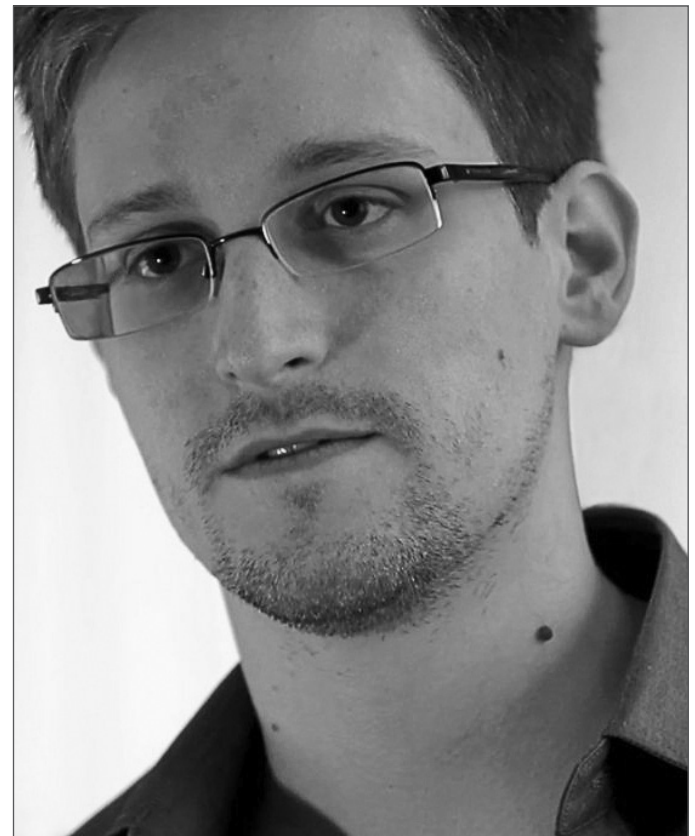
and his "shocking" actions, saying that his revelations are "a grave violation of the code of conduct and core values of our firm." The partisans of the national security State called him evil and members of Congress called for his extradition and prosecution.

**S N O W D E N**  
put himself on the line, with confidence and grace.

He had already anticipated this. He knew the risks. He figures he will never go home again. He is now seeking permanent asylum somewhere as the American government

works to prevent it. That fact should give every American pause.

Here is the statement I find so incredible, so compelling, so absolutely on point. He explains why he chose to be a whistleblower rather than continue to live a comfortable but morally compromised life:





You can't come forward against the world's most powerful intelligence agencies and be completely free from risk because they're such powerful adversaries. No one can meaningfully oppose them. If they want to get you, they'll get you in time. But at the same time you have to make a determination about what it is that's important to you.

*And if living unfreely but comfortably is something you're willing to accept—and I think many of us are, it's the human nature—you can get up every day, you can go to work, you can collect your large paycheck for relatively little work, against the public interest, and go to sleep at night after watching your shows. (emphasis added)*

Millions of people do just this. They choose to live unfreely—but comfortably. It is the habit of nearly everyone—especially in times when the Leviathan State is so imposing and threatening—to put up with the immorality and evil around them, to look the other way in the face of fraud and wickedness, to help cover up the unethical deceptions and lies, to pretend like the plunder and surveillance and invasions are just no big deal, rather than come forward.

To choose the security of the known evil—no matter how pressing that evil is, so long as that evil is your personal benefactor—rather than take the risk that comes with improving the world is the pattern and habit of our day. Millions do it. Millions in government. Millions in the private sector. And that is precisely why so much of the world is on its present course.

To break away from that requires something special, something spectacular, something singular in our times. So why take this extraordinary step? As Edward told Greenwald in his interview, it's because someone has

to act in his generation or it will be worse in the next one. The “architecture of oppression” must be exposed now as a way of making the world a better place in the future.

**A S S N O W D E N**  
told Greenwald, someone has to act in his generation or it will be worse in the next one. The “architecture of oppression” must be exposed now as a way of making the world a better place in the future.

And so he acted. He used technology to speak directly to the whole human family. He bypassed the gatekeepers completely and put to use the technological marvels of our time to make a difference.

He could have done otherwise. He could have sat by, just as tens of thousands, hundreds of thousands, do every day.

After all, his company employs 25,000 people, most of whom were in a position to do the same thing. But they did not. He did.

What makes the difference? What made him act? He decided not to be part of the system. He decided that he would not live an unprincipled life. He would not be unfree. He would choose truth, and this truth would set him free.

Too often we think of our freedom as something that is either granted or taken away from us by government. This is partially but not completely true. There are ways in our lives that we can choose—right where we are—to embrace or reject freedom. All of us, but especially those who work for government or government contractors, are often faced with the choice of accepting a comfortable lie or taking the risk to live the more difficult truth.

As Snowden seems intuitively to understand, the “architecture of oppression” relies most fundamentally on our own cooperation and complacency. Withdrawing our consent, and doing so with integrity and openness, is probably the single most powerful blow any of us can ever strike for the cause of human freedom and the well-being of future generations. **FEE**

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# Worshipping the Wrong Goddess

## *Democracy and Liberty Don't Necessarily Go Together*

B.K. MARCUS



The crowds in Tiananmen Square were losing hope. Their mass protest had drawn throngs of students at first, but as the summer of 1989 approached, their numbers were dwindling, their leaders were resigning, and the square itself, according to one historian of China's democracy movement, "had degenerated into a shantytown, strewn with litter and permeated by the stench of garbage and overflowing portable toilets."

The democracy movement seemed to be dying, not with a bang, but with a whimper.

This was before most of us in the West had ever heard of Tiananmen Square. What turned the protest around? Why did hundreds of thousands of supporters pack the square in the final days of May? What made the government, which had been ignoring the protest and refusing to offer any reforms, suddenly sit up and take notice—and send in tanks?

A lady with a torch.

To American eyes, she looked like a Chinese version of the Statue of Liberty, her torch of freedom held aloft over Tiananmen's huddled masses. The art students who had quickly assembled the foam statue over a bamboo scaffolding had deliberately avoided creating something that seemed "too openly pro-American"—even basing the style on the Cold War art of the Soviet socialist realists—but even with her Chinese features and a two-handed grip on the torch, the comparison with Lady Liberty was unavoidable.

But while the statue in New York Harbor represents Libertas, the Roman goddess of freedom, the protestors in Tiananmen Square were worshipping a different deity. They called their statue the Goddess of Democracy.

The tanks rolled in and crushed the goddess beneath their treads, but her symbolic power remains, and her

likeness now appears in the form of commemorative statues throughout the world.

The authoritarian State may have won the battle, but the war for freedom lasts longer than our history textbooks would have us believe. In England and America, we had more than a century of struggles between liberty and power before anything like a victory could be declared for our cause. It took more than a piece of paper—more than the Declaration of Independence or the Treaty of Paris. And the words and symbols of liberty and independence inspired generations of freedom fighters, not just the ones we call the Founding Fathers.

But did the symbols ever unite us? Americans may look at the unifying force of the Goddess of Democracy and long for a time when our own symbols had the power to inspire our passion and our courage, but colonial America was never united on the cause of independence. About a fifth of the white population was loyal to the British Crown, with twice as many keeping their heads down and avoiding any openly held position on the question of independence. That puts the American revolutionaries in the minority. And even among those who actively supported America's secession from the empire, there was a deep philosophical divide about the goals of such a fight.

We call the American Revolution the War of Independence, but whose independence are we referring to? For the rank and file of the resistance, independence would mean freedom from coercive government— independence for themselves, individually. For the elite, it meant putting themselves in charge in place of their former imperial masters: an American government independent of the British Empire.

A similar equivocation was at work in China's democracy movement. Another name for Tiananmen's Goddess of Democracy, one that wasn't used as widely, was the Goddess of Liberty. But democracy and liberty are hardly the same thing. The words are too often used interchangeably in the modern West, too, but we know that a democratic majority can impose horrendous violations on the outvoted minority. It was, after all, the democratic process that first brought Hitler to power in Germany.

Some try to avoid the problem with a qualifier: They advocate "liberal democracy," by which they mean a system with the constitutional protection of certain rights. But

what virtues are captured by the term *liberal democracy* that aren't more clearly given in the single word "liberty"?

Did the Chinese want what we have here in the United States? Our political process produced the USA PATRIOT Act. The recent PRISM scandal may have uncovered illiberal, illegal, and perhaps even anti-democratic activities on the part of the NSA, but it was the legal political process of the world's leading liberal democracy that created the NSA, gave it a huge clandestine budget, and put it beyond the reach of public oversight.

Even if democracy worked according to the ideals we were taught in middle school civics—even if the qualifying modifier in "liberal democracy" were accurate (according to the older, now less-well-understood meaning of the word "liberal")—I find it hard to believe that the passions and courage on display 24 summers ago in Tiananmen Square were about the mechanics of voting. Those people wanted freedom.

And yet I also recall American news coverage after the government tanks rolled in. In their postmortem of the movement, analysts explained that the Chinese students had no real experience of democracy and didn't understand what they were fighting for. Many within the movement, for example, conflated democracy with consensus, paralyzing all decision-making until they could achieve unanimity on everything.

I don't think the movement would have succeeded with a different name for the unifying symbol constructed in the square. Tank treads would have pulverized a Goddess of Liberty as effectively as they turned the Goddess of Democracy to rubble. But I do wonder about the effects that unifying symbol has on the hearts of the Chinese masses, still yearning to be free.

Under the nominal Communists, the Chinese people are now discovering the blessings of markets and widespread wealth. Do they understand the relevance of the Goddess of Liberty? When they finally throw off the yoke of the totalitarian State, will they vote themselves into submission? I almost hope they maintain their confusion about democracy and consensus. A paralyzed government might allow liberty to flourish a while longer. **FEE**

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# We Should Abandon the Term “Capitalism”



GARY CHARTIER

Advocating liberty means opposing the use of force to restrain peaceful, voluntary exchange. But it doesn't have to mean calling a system of peaceful, voluntary exchange “capitalism.”

Some people, of course, think this is obviously what “capitalism” means. And I can't prove they're wrong, because the word means different things to different people. I'm confident, though, that even if advocates of liberty intend to communicate the message that they're supporting free exchange by saying they embrace “capitalism,” it might make sense for them just to pick another word.

That's because “capitalism” carries a lot of baggage—much of it negative. It is unclear when the English word “capitalism” was first employed. It was being used in a critical sense by the radical free-market writer Thomas Hodgskin as early as 1825. In his 1827 book *Popular Political Economy*, he even speaks, in surprisingly modern tones, about “greedy capitalists”!

I've mentioned Hodgskin to point out that these words have been used pejoratively for a long time, and not only by opponents of free markets. Today, I think it's pretty clear that many people who talk about “capitalism” or “capitalists” aren't thinking about freedom at all.

For instance: Mainstream print and electronic media regularly use “capitalism” to refer to “the economic system we have now.” And it's relatively common to hear “capitalism” employed as a synonym for *dominance of workplaces and society by the owners of substantial capital assets*. Advocates of liberty don't need to be identified as supporters of capitalism in either of these senses.

As libertarian philosopher Roderick Long points out, a particularly mischievous use of “capitalism” occurs when people use the term to mean, in effect, *both* “free exchange” and either “the status quo,” “rule by capitalists,” or both. In this sense, “capitalism” is a “package-deal” concept that links two independent ideas and treats them as if they necessarily belonged together. Advocates of liberty have every reason not to support this use of “capitalism,” unless they want to endorse the dubious notion that free markets involve privilege and lead to hierarchy, abuse, and poverty.

To a very significant degree, the economic system we have now is one from which many peaceful, voluntary exchanges are absent. The military-industrial complex funnels unbelievable amounts of money—at gunpoint—from ordinary people's pockets and into the bank accounts of government contractors and their cronies.

Subsidies of all kinds feed a network of privileged businesses and nonprofits.

No, the economies of the United States, Canada, Western Europe, Japan, and Australia, at least, aren't centrally planned. The State doesn't assert formal ownership of (most of) the means of production. But the State's involvement at multiple levels in guaranteeing and bolstering economic privilege makes it hard to describe the economic system we have now as “free.” So if “capitalism” names the system we have now, anyone who favors freedom has good reason to be skeptical about capitalism.

The privileges that mark the existing economic order, whatever we call it, disproportionately benefit those with the most political influence and the greatest wealth. As regards the workplace, State-secured privilege reduces the possibility of self-employment (by raising capital requirements and otherwise increasing costs of entry, while simultaneously reducing the resources people might be able to use to start and maintain their own businesses). It also imposes legal restraints on union activity that reduce workers' capacity to bargain effectively with employers. By reducing alternatives to paid work and reducing workers' collective bargaining opportunities, the State substantially increases employers' leverage. In short, dominance of workplaces and of society by “capitalists” as it occurs today depends on government mischief. Again, if this is “capitalism,” proponents of freedom have no reason to embrace it.

The word is tainted. And when people in the streets of countries throughout the developing world chant out their opposition to “capitalism”—meaning, in reality, not genuine freedom but rather unjust dominance by Western powers and their privileged corporate cronies—I think it's vital for advocates of liberty to be able to make clear that the system of statist oppression the protestors are naming isn't the system we favor.

Contributors to *The Wall Street Journal's* editorial pages, commentators on Faux News, and other spokespersons for the political and economic elite may continue to use “capitalism” for whatever it is they say they favor. They're not libertarianism's natural allies, and there's no reason for libertarians to emulate them. Support for free markets is quite consistent with saying good-bye to “capitalism.” **FEE**

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# We Should Stand By the Term “Capitalism”

TIBOR R. MACHAN



While back I got caught up in a fracas about using the term “capitalism” to mean the free market, a fully voluntary system of economic relations. It didn’t surprise me since I am aware that complicated matters often need to be discussed, well, at length, and in complicated ways. So when one just refers to some system as “capitalist” or “democratic” or “socialist” or “libertarian,” one is likely to start a dispute as to just what the term is to mean in the language in which such issues are to be discussed. Now I find myself in another such debate.

For most of my life and career, much of it entangled in writing about political economy, I have taken “capitalism” to mean just that, the free market—a fully voluntary system of economic relations.

No such system has ever existed, of course, and yet the term is often used to refer to certain extant economies, such as those of England, the United States, Australia, Hong Kong (prior to its return to China), and so forth. Some even call today’s version of “communist” China a capitalist country. And with a bit of generosity this is no big problem. Such uses of “capitalist” or “capitalism” amount to indicating some of the most basic and distinctive features of a country’s economic order without at all implying that the country is adhering thoroughly to the principles of capitalism as a fully developed, consistently implemented economic order conceived by those who champion it without compromise.

I like to compare this to using the term “marriage,” since most marriages do not at all conform to the version of that institution that one has in mind in one’s most romantic imaginings. Yet, we use “marriage” or “married” without constantly having to qualify it with such terms as “more or less,” “troubled,” “half-baked,” or the like. We just say, “Harry and Susie are married,” realizing that what that amounts to in their case may not be the pure thing of romance novels.

There is a problem, however, since unlike most uses of “marriage” or “married” (other than in the gay marriage debate), “capitalism” or “capitalist” rarely occurs in nonpartisan contexts. Those using the terms are usually either critics or champions. The critics will mostly zero in on what they regard as the liabilities of

capitalism; the champions laud only the assets, not bothering to make very clear what the central or core aspect of the system is. Even when one spells it out, however, there will be those who will look for a chance to besmirch capitalism and those who will admit to no possible problems with it at all.

I am not going to clear all this up here, but I would recommend, strongly, that when such terms are used, a bit of time and space be reserved for offering some details, some qualifiers, such as, “I do not have in mind State- or crony- or a similar version of capitalism, but the unsullied sort we find in such advocates as Ludwig von Mises or Ayn Rand.” Sure, this may not pacify the determined critic, and such a person is likely to associate capitalism with all kinds of features that no one who is honest would claim are a part of it. Thus, in a recent letter to me, in response to a column I wrote, someone insisted that capitalism must involve massive theft by the rich! And this zero-sum idea about capitalism is evident in many discussions, even though it is wrong.

Of course, one can do a similar thing with all systems one does not favor, such as socialism or communism, and focus only on, say, the Soviet or North Korean version, not admitting that some forms may be rather mild and peaceful, such as the kind that we find in many a kibbutz or commune or Scandinavia. It’s not that these will have escaped all the liabilities of a system in which the means of production are publicly owned, but they may have managed to deal with them less harshly than the Soviets did when they collectivized Russia’s farms.

Most of us do not have the time to discuss even the most important issues in full so that we take care to cover all crucial elements and avert most honest misunderstandings. But it may be worth giving it a try if it is likely to secure a civilized discussion instead of what turns out to amount to a mere slinging of political *ad hominem*, which pretty much accounts for the enormous number of books published on controversial topics. **FEE**

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# Unionizing Nanny

## *What's Wrong with Domestic Workers' "Bill(s) of Rights"*

WENDY MCELROY

California is debating a nanny state law—literally. A.B. 889, or The Domestic Workers' Bill of Rights, extends labor "protections" to those who work in the home of others to whom they are not related. They include nannies and health- or home-care providers.

Estimates of how many domestic workers are in America vary widely, but they run well into the millions. Because minorities, immigrants, and poor women constitute the majority of domestic workers, A.B. 889 purports to defend the most vulnerable within society.

But the opposite is true: The bill would harm the people it claims to defend as well as harm the elderly and disabled. The beneficiaries would be government bureaucrats, labor unions, and large healthcare institutions.

### **The Birth of a Legislative Trend**

Domestic workers are in a legal gray area.

The National Labor Relations Act of 1935 cemented the power of unions by guaranteeing that private-sector employees could unionize and enjoy legal privileges such as collective bargaining. Domestic workers were excluded, but unionizing them would have been problematic in any case. Victor Narro of the UCLA Labor Center explained, "We can't unionize these people because there is no big employer to organize against."

In 1938, The Fair Labor Standards Act established a minimum wage and other labor standards but excluded domestic workers until a 1974 revision. But, again, implementing a minimum wage is problematic. Many in-home workers are illegal immigrants or unable to speak English well enough to file complaints; others work under the table or on the basis of flexible verbal contracts. Moreover, the application of regulations depends on various factors such as whether the worker lives in.

In 2007, the United States Supreme Court ruled that a full-time home-care aide was not entitled to overtime pay based on existing regulations. Under President Obama, there has been a federal push to have the Labor Department revise those rules. The push is a vote-winner

for Obama, of course: His base includes labor unions that wish to extend their influence to domestic workers, as well as immigrants and women who gravitate toward that kind of work. A statement from the AFL-CIO captures the overlap: "As Women's History Month continues, it's important to highlight the often unsung heroes doing great work that continues to push the union movement forward, like domestic workers and groups advocating on their behalf." On March 18, 2013, Obama nominated Thomas Perez as Secretary of Labor. Significantly, Perez sponsored a Domestic Workers' Bill of Rights in Maryland while holding office there.

Meanwhile, a number of bills are moving forward on the state level. In November 2010, New York became the first to enact a Domestic Workers' Bill of Rights, which has become the model for other states. It spells out labor basics, such as an eight-hour workday as well as more detailed requirements. For example, an employer cannot deduct money from paychecks without written permission from the worker, and the employer must maintain a payroll record, presumably for tax purposes.

In Hawaii, a bill awaits an expected signature by the governor. In California, a bill passed the Assembly and is headed to the Senate, where it should pass; similar legislation was vetoed by the governor last year, however. Illinois, Massachusetts, Oregon, Texas, and Ohio are in various stages of drafting and debate. Meanwhile, organizations like the National Domestic Workers Alliance (NDWA) have spread in the last few years. The NDWA now has 35 affiliates in 11 states and claims a membership of over 10,000.

### **Harms in the Proposed Bills**

Economist Milton Friedman called the minimum wage "the most anti-black law on the books." The reason: It raised the unemployment rate for blacks, especially black youth. The same dynamic would be in play for the minorities, immigrants, and poor women these "Bills of Rights" address.

A domestic worker competes for limited jobs with others who are willing to accept \$5 per hour, for example. If wages are forced to \$6, then she also competes with anyone willing to accept that amount. Especially with high unemployment, employers become more selective and less likely to hire those without experience, with poor language skills, or with other disadvantages.

In his article “Minimum Wage Causes Maximum Pain,” Burton W. Folsom noted the impact of the minimum wage on disadvantaged minorities. “The bias of minimum wage laws...has been conspicuous ever since 1956, when the minimum wage shot up from 75 cents to \$1.00 an hour. During the next two years, nonwhite teenage unemployment spiraled from 14 to 24 percent. The recent 1996 hike in the minimum wage to \$5.15 an hour had a similar effect: Unemployment among black male teenagers jumped from 37 to 41 percent.”

A minimum wage also shrinks the job market because employers who can pay \$5 may not be able to afford \$6. Others may not hire due to the inconvenience of paperwork or the legal risk of workplace violations. For example, the New York bill provides redress under the state’s Human Rights Law to workers who are harassed because of gender, race, sex, religion, or national origin. Through harassment laws, the government becomes a third party in what should be a private employment arrangement; it becomes a *de facto* watchdog of an employer’s behavior in his or her own home. The risks of a lawsuit for an ill-spoken word or for choosing a white nannie over a minority one would be especially high for people who have deep pockets. This is a disincentive to hire anyone.

New regulations would also inflict harm on the elderly and disabled who rely upon a home-care worker to stay at home rather than moving into an institution. Baby boomers are aging; the number who require such services is growing quickly. They and their families already confront far higher healthcare bills due to Obamacare requirements. In his article “Rate Shock: In California, Obamacare to Increase Individual Health Insurance Premiums By 64–146%,” Avik Roy of *Forbes* used a 25-year-old male nonsmoker as a baseline for the increase because such a person would probably qualify for a low rate.

The result? The five least-expensive plans currently available came in at a median cost of \$92 a month, whereas “the cheapest plan on Obamacare’s exchanges ... costs an average of \$184 a month.... Obamacare will drive [his]

premiums up by between 100 and 123 percent.”

Cash-strapped families confront difficult choices. One of them may be to place an elderly or disabled relative in one of many state-run institutions notorious for poor care. Even those who can afford home care are likely to experience reduced quality. The California bill includes a “right” to eight hours of uninterrupted sleep, meals, and rest breaks. But the elderly, the disabled, and children often require attention that may not be particularly convenient. Advocates of the bill dismiss such concerns as panic-mongering, but no one knows how the law will be applied.

### Who Benefits?

Government benefits. Domestic workers constitute a large black-market category of employment that would become more closely regulated and taxed. Moreover, full-time domestic workers would be entitled to workers’ compensation insurance and disability benefits. California is already estimating the hundreds of thousands of tax dollars required to hire a staff to handle the increase in claims.

Unions benefit. With declining membership, unions look longingly at immigrant labor and domestic workers, whom they wish to woo.

Large healthcare institutions—state-run and private—would benefit from a sharp increase in demand.

Who pays the price? Disadvantaged workers, the elderly, the disabled, children, and taxpayers.

These “bills of rights” are anti-worker because they remove this freedom from vulnerable workers and give control to the State. If California cared for the dignity and autonomy of domestic workers, it would seek private remedies for whatever wrongs exist.

One example: A new form of mediation is being tested in Massachusetts by a domestic worker who wants to avoid going to court. “A worker brings a complaint” to her center, “for example, a wage dispute. The center contacts the employer to see if they’d like to meet with trained mediators to find a solution—instead of taking legal action.” California will not pursue alternatives because they offer no advantage to government, unions, or corporate interests.

All the alternatives do is help people, and where is the political advantage in that? **FEE**

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# Micro over Macro

## *Unemployment Benefits Are Prolonging the Pain*

D.W. MACKENZIE

Five years after the economy tanked, unemployment remains high. There are numerous culprits, but one deserves special attention: unemployment benefits. In 2010, I examined these, on a theoretical level, in “The Consequences of Extending Unemployment Benefits” ([tinyurl.com/lslkg3r](http://tinyurl.com/lslkg3r)), arguing that unemployment benefits weaken the incentives for unemployed persons to find and accept work. Three years on, experience has provided evidence to support standard economic theory.

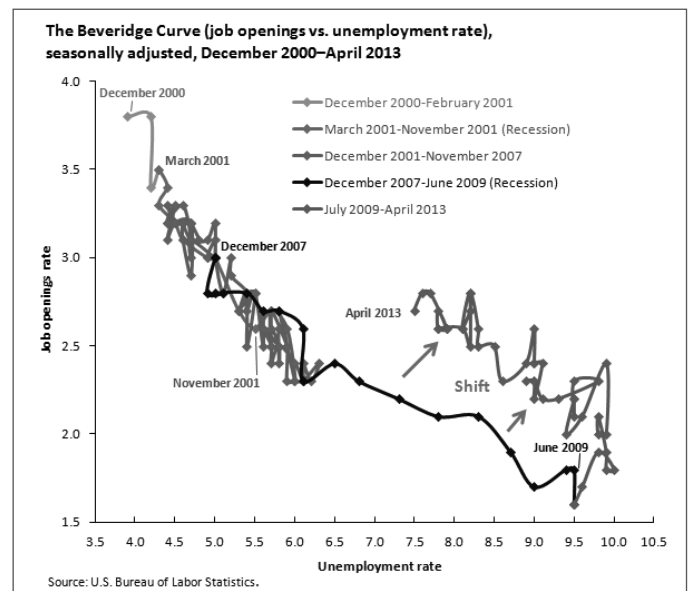
The evidence centers on the Beveridge curve, a little-known measure of the relation between job-vacancy and unemployment rates. It’s named after the English social democrat and eugenicist Sir William Beveridge, who published a series of influential reports on employment and social insurance in the United Kingdom. Most of Beveridge’s work was done before and during the Second World War. After the Second World War, economists L. A. Dicks-Mireaux and J. C. Dow formalized the vacancy-unemployment relation as the Beveridge curve.

The Beveridge curve has been fairly stable as an empirical matter. But of late, there has been a fundamental shift: Job-vacancy rates have been relatively high in the past several years, given the level of unemployment. According to one recent study, the rate of unfilled jobs is at a level that would normally imply 4.9 percent unemployment. So the Beveridge curve appears to have shifted by 2.9 percent.

Empirically, increases in unemployment are associated with decreases in the rate of job vacancies. The logic behind the Beveridge curve is that relatively large numbers of unemployed people will fill new job openings rapidly. Some jobs will remain unfilled even with high unemployment rates because of mismatches between the types of jobs and the skills of available workers, and because of imperfect information about jobs. However, the number of simple mismatches is limited in a nation with a labor force of over 150 million: Large nations offer a great variety of employment. Besides, people can search, retrain, and even move to find work over time. Some workers (and some employers) are also “fussy” or otherwise hesitant

about agreeing to labor contracts, and such hesitation will raise job-vacancy rates relative to unemployment rates. Conversely, as the job market tightens and the labor market reaches bottlenecks, employers will have difficulty filling new positions, and the unfilled job rate will rise relative to the unemployment rate.

A version of the following chart of the Beveridge curve was recently published in *The New York Times*.



### **New Beveridge Curve?**

Empirically, there has been an abnormally high level of job vacancies for several years. In fact, there appears to be a new Beveridge curve, parallel to the older one. How can we explain this fact?

One explanation is that the generosity of unemployment benefits during the Obama administration has allowed workers to wait for “the right jobs” or even to abuse the unemployment insurance system. It is important to note that unemployment rates are highest among younger and less-educated Americans. Younger and less-educated workers normally fit into unavailable jobs most easily. In other words, the labor market “mismatch problem” is less

problematic for younger and less-educated people, since such people are, to a large extent, looking for entry-level jobs and are more open to different careers.

Another explanation for the high job-vacancy rate is that employers have been cautious about hiring in recent years. The Affordable Care Act (Obamacare) and the Dodd-Frank Consumer Protection Act have raised expected regulatory costs. They've also helped increase uncertainty about the future costs of regulations and taxes. With regulatory and tax costs going up along with uncertainty about their future levels, entrepreneurs have to be more cautious in their hiring practices. They want to be more confident in the productivity of new employees before agreeing to new labor contracts. This caution systematically raises job-vacancy rates.

*The New York Times* published a dissenting opinion not too long ago, however. Paul Krugman wrote:

As I see it, the whole structural/classical/Austrian/supply-side/whatever side of this debate basically believes that the problem lies in the labor market.... Some of them accept the notion that it's because of downward nominal wage rigidity; more, I think, believe that workers are being encouraged to hold out for unsustainable wages by moocher-friendly programs like food stamps, unemployment benefits, disability insurance, and whatever. As regular readers know, I find this *prima facie* absurd—it's essentially the claim that soup kitchens caused the Great Depression.

In other words, Krugman suggests that economists on my side of this debate are misguided and hard-hearted. Supposedly, we want to reduce worker incomes with wage reductions and benefit cuts, and this will backfire by “reducing aggregate demand.” Krugman thinks the Federal Reserve Bank should “increase expected inflation” to reduce real interest rates and stimulate private investment.

But it's Krugman's position that is *prima facie* absurd.

If inflation reduces interest rates, this action should also reduce real wages and incomes. Furthermore, any action that shifted the Beveridge curve back to its 2007 position would increase employment in existing unfilled jobs, and such an employment gain would increase earned incomes and production without a decline in wages. If Krugman

was correct about weak aggregate demand causing unemployment, recent record-setting deficits and bank-reserve increases would have produced a stronger recovery. Unless one believes his “we should have spent more” line of defense, Krugman's macroeconomic explanation is wrong. What about microeconomic explanations of elevated job-vacancy rates?

There are two subtle truths behind the Beveridge curve.

First, most people will react to money incentives rationally. Increased unemployment benefits weaken incentives to find work. Harsh rules and taxes will cause entrepreneurs to hesitate in hiring new employees.

Second, modern economies are complex systems. Krugman poses a false choice between demand-side and supply-side explanations of the recent shift in the Beveridge curve. There are some industries where demand for new employees is weak. There are some industries where the supply of potential laborers is restrained. Some industries may have weak labor supply and restrained demand simultaneously. The Obama administration isn't helping, as its policies have left the American economy riddled with distorted and inefficient markets.

The evidence on major economic problems of the past decade supports the case for *laissez-faire*. Government policy drove the boom-bust cycle over the past decade. Government policy stunted economic recovery in recent years. The solution to the above-mentioned problems is also clear. A *laissez-faire* approach will initiate a stronger recovery, while also minimizing the severity of economic cycles.

The main obstacles to realizing better economic conditions are the false beliefs in activist government policy as the catch-all solution to all economic problems. It turns out government policy is the primary cause of economic woes. Popular economists like Paul Krugman have considerable influence on public opinion, but logic and evidence work against their worldview.

The events of recent years are distressing. However, there are also opportunities in these events to discredit false prophets of activist government. Evidence against the demand-side economics espoused by Paul Krugman is mounting, and this theory has been discredited before. Rational analysis will discredit it again. **FEE**

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# The Limits of the Non-Aggression Principle

SANDY IKEDA

One of the mainstays of libertarianism is the non-aggression principle, or NAP for short. One version of the NAP states that while it is legitimate to use physical violence in defense of one's rights, initiating violence against another person is wrong and can be met with proportional violence in self-defense.

In this formulation, aggression means “initiating physical violence” in violation of another person's rights to person and property. If Jack hits Jill, Jack aggresses against Jill and Jill is the victim. But if Jack hits Jill because Jill is coming at him with a knife, then Jack may simply be acting in self-defense—that is, in defense of his rights. Jill is the aggressor. (The classical-liberal legal theorist Richard Epstein addresses scenarios like this in this important essay on strict liability: [tinyurl.com/mab8s8h](http://tinyurl.com/mab8s8h).)

Now, some libertarians argue that any kind of taxation by the State constitutes wrongful aggression because it threatens violence (e.g., arresting and imprisoning) against a person if she merely tries to protect her rights to her property by refusing to pay. Others argue the State does not aggress when it uses or threatens physical violence in the course of its legitimate duties (taxing to finance national defense), but does violate the NAP when it goes beyond those duties (taxing to finance a war of aggression). But people often strongly disagree about what those duties are or how they are defined: What exactly constitutes national defense?

Determining what constitutes aggression can get very complicated even if you grant that the State has a right to tax or take private property. (Epstein provides some clarity on this issue as well.) Here are a couple more complications.

## Property as a Bundle of Rights

Richard Pipes offers a useful definition of property:

*Property* refers to the right of the owner or owners, formally acknowledged by public authority, both to exploit assets to the exclusion of everyone else and to dispose of them by sale or otherwise.

In this sense, property offers a person a “sphere of autonomy” that no one else may enter without permission.

But a right to property is not monolithic. Some characterize a property right as a “bundle of rights” over a range of uses, which can increase or decrease.

Let's say that Fred owns an apartment and he agrees to let Wilma occupy the apartment for one year. There may be many complicating factors, but let's put those to one side to keep the situation as simple as possible. So that means Fred has given up the right to use the apartment for that year, even as he retains overall ownership of the property. He has agreed to give up some of his usage rights in exchange for some sort of compensation. If Fred enters the apartment during that period without Wilma's permission, he is in the wrong, and she has some limited right to use force against him if he refuses to leave. In this case, because Fred doesn't have Wilma's permission, he is the aggressor.

If, however, Fred enters the apartment because Wilma has stayed beyond the period they agreed to and still refuses to leave, he is not the aggressor, Wilma is. He may legitimately use limited violence to force her to leave.

Thus, the same behavior—Fred entering the apartment—may be either an act of aggression or

DETERMINING what constitutes aggression can get very complicated even if you grant that the State has a right to tax or take private property.



justified self-defense, depending on who has the legitimate claim under a particular regime of property rights.

### It All Depends on the Property Rights

What I just said pertains to a particular regime of property rights that specifies more or less clearly who has rights to what, and when and where they apply. What I would like to emphasize here, however, is that it can get really hard even to identify aggression—and therefore really hard to usefully apply the NAP—when people disagree fundamentally about what the prevailing property-rights regime is.

Again, for simplicity, suppose there is a regime of maximal private-property rights, as under free markets in a free society, versus a regime of maximal State ownership of property rights, as under collectivist central planning.

Suppose Fred thinks he has a right to enter an apartment on a given day under property-rights regime X, which entitles him to Richard-Pipes-like exclusive use and disposal of the apartment. Wilma also thinks she has a claim to the apartment under property-rights regime Y, which says when she has the right to use the apartment as shelter against dangerous elements as long as she causes no damage. (See the “doctrine of private necessity.”) Here there is a conflict between property-rights regimes, not just a disagreement over who has a claim to use the apartment under a given property-rights regime.

If Fred forcibly removes Wilma under regime X, he is acting to defend his property as he understands it. If he does that under regime Y, he is the aggressor, not Wilma.

To take an extreme example, the communist dictator of North Korea, Kim Jong-un, could truthfully say he believes in the non-aggression principle, within the framework of collectivist central planning. So if one of his subjects refuses to work in a labor camp, which is that person’s obligation under the law, to Kim that is an act of

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## TREMOLANDO

*Claire Bateman*

Everyone’s raving about it: the new music  
performed only by virtuosos with palsied hands.

Others have studied to simulate that tremor  
as an actor might counterfeit a limp or stutter,

but it can’t be contrived, so they must merely listen,  
then offer their unimpeded ovation.

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aggression. If Kim uses force here, as objectionable as that would be to a libertarian, he would only be defending his property right (to that person’s labor).

### Not as Simple as It May Seem

There are complications and subtleties in these cases that I won’t even try to analyze here. But my point is precisely that such complications and subtleties do exist. Unfortunately, I often hear libertarians wielding the non-aggression principle as if it were a shut-up argument, not realizing that without first establishing a common understanding of what the underlying (legitimate) property-rights regime is, the NAP won’t sway anyone. The NAP alone is not enough. **FEE**

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# Wonk Licensing

## *Time for Washington to Create a Policy Support Program*

DOUG BANDOW



For years I've been working within the Beltway, attempting to promote limited government and individual liberty. I believe that we all would benefit from shrinking the State—its regulatory reach, budgetary demands, and various other controls, impositions, and exactions.

However, I have noticed one problem that requires government attention. It's time for a determined national effort to improve the policy process. Over the (many) years I've been at work, I've seen the quality of policy arguments decline. Perhaps that's why the laws enacted are getting so much worse. Heck, Uncle Sam, of IRS and USPS fame, is taking over America's healthcare system. Something has evidently gone very wrong.

I think the basic problem is the surplus of would-be policy advisers. Almost anyone believes himself or herself to be qualified to write an op-ed piece or concoct a policy study. The result is a flood of material, most of which is not worth the spot of cyberspace it occupies. At the same time—not that this would influence my thinking, of course—compensation for writing and thinking has dropped. Most websites want you to write for free, while newspapers increasingly seem to think of themselves as websites in this regard.

The first step is to limit the supply by licensing policy practitioners. If we shouldn't have incompetent lawyers and hairdressers, then obviously we shouldn't have incompetent policy analysts. The government should set minimum educational standards. A Ph.D. or equivalent

should be required. No more half-baked proposals from people with just a master's!

Putative policy mavens also should have to pass a test, the political equivalent of the lawyer's bar exam. They should have to answer questions on the Constitution—heck, most members of Congress would fail such an exam today. There also should be questions on economics, history, and geopolitics. Policy people should know that restricting the price lowers the supply and that sort of thing.

Finally, the government should require membership in a public policy association to regulate the profession.

Should anyone be found to make persistently unsound proposals, he or she should be disbarred, as it were. A lawyer stealing a client's money is bad. A certified policy expert misleading the public is far worse. Repeat offenders would earn a ban for life, forbidden from ever again entering the field.

**IF WE SHOULDN'T have incompetent lawyers and hairdressers, then obviously we shouldn't have incompetent policy analysts. The government should set minimum educational standards.**

### **Certified Wonks**

Of course, those of us already in practice should be grandfathered in. It doesn't make sense for existing policy analysts to have to interrupt their careers to go through the approval process. However, certification could become a normal part of the job for anyone entering the field. Then they could decide whether they wanted to proceed, making certification voluntary after a fashion.

Still, sanctions are not enough to ensure good policy advice. Once the licensing system is established, thereby culling out misfits and fools, the government should ensure an adequate income for those who remain. That seems only fair, given the importance of the work that we

do. Uncle Sam should establish a policy support system along the lines of agricultural price supports.

Washington should look back to when it was possible to actually make a living from writing. Then it should establish “parity” fees for articles, policy studies, books, and television appearances. When current pay falls short—which is almost always—the government should make up the difference.

Of course, the result might be a surplus of articles, just like Uncle Sam manages to pile up milk and cheese in government warehouses. In this case, however, nothing would go to waste. The government could simply publish anything that didn’t make it into an established journal or newspaper. With the Internet, the cost of doing so would be minimal. Then the ideas would all be available to anyone who was interested, while licensed policy analysts would finally make the kind of money they deserve.

Congress could creatively address other potential problems. For instance, a certain “pack mentality” sometimes grips the policy community. One issue or another wins public attention, so all of the foreign policy analysts want to write about Syria or all of the domestic policy people decide to hold forth on the budget. In such times the government should pay analysts not to write on

a particular topic. While it is important to encourage good policy analysis, it is equally important not to provide too much material, even if it’s good. Why? Because that drives down compensation, and John Q. Public can’t get through it all anyway.

This solution would have the ancillary benefit of encouraging people who tend to live and die by the news cycle to take some time off. Analysts could relax when they were being paid not to produce. They would feel no pressure to keep churning out duplicative material on issues already more than adequately covered by others.

None of this should be thought of as an attempt to win special privileges for those laboring in the policy field. Rather, both regulation and subsidies would each be a means to improve the practice of policy for the benefit of the general public. Only the truly selfless, like yours truly, are willing to devote their lives to filling this pressing need.

Yes, the campaign to shrink government must continue. But it’s important not to be unnecessarily rigid in this regard. Only Washington can improve the quality of the policy analysis upon which we all rely. **FEE**

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# The Eyes Watching You

## *1984 and the Surveillance State*

SARAH SKWIRE

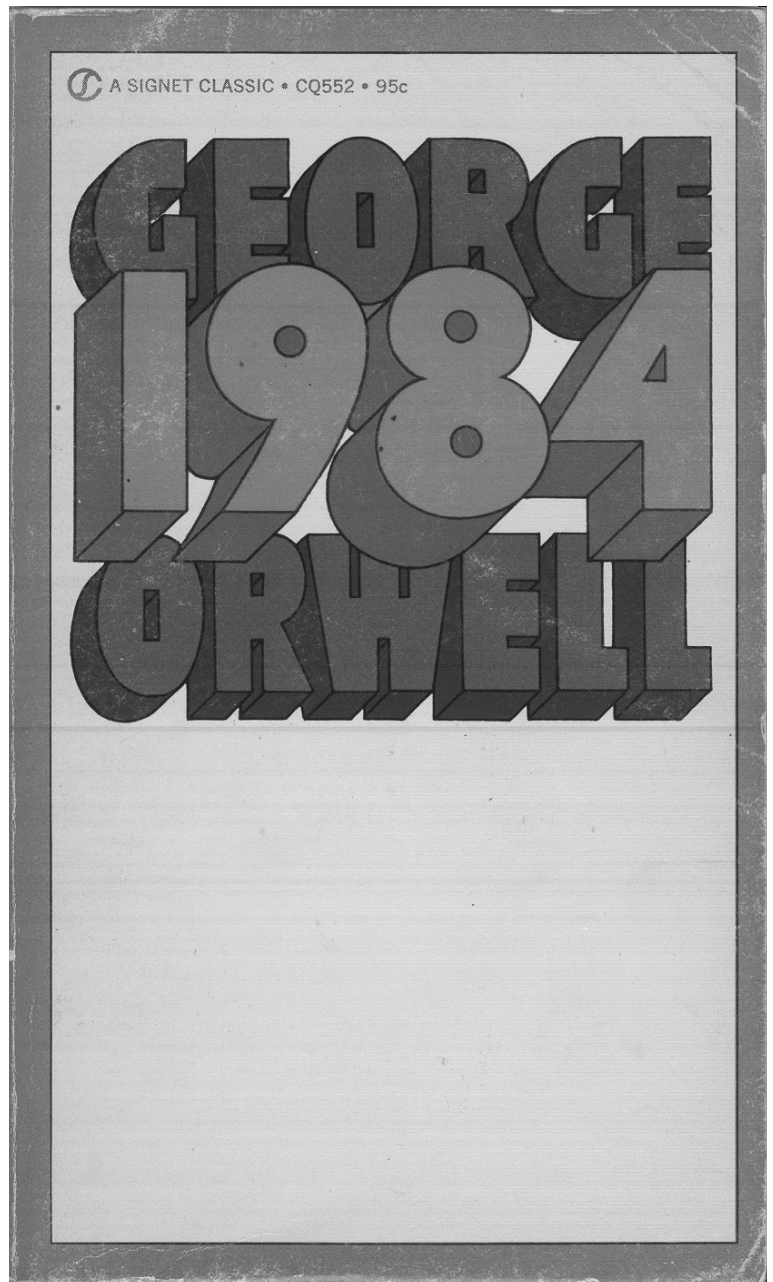
George Orwell • 1984 • New York: Plume • [1949] 2003 • 323 pages

In the kind of horrifying coincidence that surely would have prompted one of his more acerbic essays, the news that various U.S. government surveillance agencies have been gathering data from millions of citizens' phones, email accounts, and web searches broke during the week of the 64th publication anniversary of George Orwell's *1984*. As the news reports poured in, and as sales of *1984* surged by an astonishing 6,884 percent, a friend asked me whether the PRISM story strikes me as more Orwellian or more Kafkaesque.

My response? We'd better hope it's Kafkaesque.

No one wants to inhabit a Franz Kafka novel. But the surveillance states he describes do have one thing going for them—incompetence. In Kafka's stories, important forms get lost, permits are unattainable, and bureaucrats fail to do their jobs. Like the main character in Kafka's unfinished story, "The Castle," if you were trapped in Kafka's world you could live your whole life doing nothing but waiting for a permit. But at least you could live. Incompetence creates a little space.

What is terrifying about Orwell's *1984* is the complete competence of the surveillance state. Winston Smith begins the novel by believing he is in an awful but Kafkaesque world where there is still some slippage in the State's absolute control, and still some room for private action. Winston says that Oceania's world of telescreens and Thought Police means that there are "always the eyes watching you and the voice enveloping you. Asleep or awake, working or eating, indoors or out of doors, in the bath or in bed—no escape." But he follows that by saying, "Nothing was your own except the few cubic centimeters inside your skull." He also believes that





while the diary he keeps will inevitably be discovered, the small alcove in his apartment where he writes his diary puts him “out of the range of the telescreen.”

The feeling that some tiny space for private thought and action can be found leads Winston into his relationship with Julia. Though they know they will inevitably be discovered, Winston and Julia believe that, for a time, their relationship and their meeting place will remain secret. They could not be more wrong.

One day after making love to Julia in their clandestine room, Winston, prompted by a singing thrush and a singing prole woman who is doing laundry, has a vision of a future that “belongs to the proles.”

The birds sang, the proles sang. The Party did not sing. All round the world, in London and New York, in Africa and Brazil, and in the mysterious, forbidden lands beyond the frontiers, in the streets of Paris and Berlin, in the villages of the endless Russian plain, in the bazaars of China and Japan—everywhere stood the same solid unconquerable figure, made monstrous by work and childbearing, toiling from birth to death and still singing. Out of those mighty loins a race of conscious beings must one day come. You were the dead; theirs was the future. But you could share in that future if you kept alive the mind as they kept alive the body.

In this very moment, just as Winston comes alive to what feels like hope and possibility and the dream of some kind of a future for humankind, the telescreen that has been hidden in the room all along speaks to Winston and Julia. The Thought Police break down the door. The couple is taken off to be imprisoned, tortured, and broken.

There has never been any private space for Winston or Julia—not in their “secret” meeting places, not in their

sexual rebellion, not even in the few cubic centimeters inside their skulls. “For seven years the Thought Police had watched him like a beetle under a magnifying glass. There was no physical act, no word spoken aloud, that they had not noticed, no train of thought that they had not been able to infer.” Winston should have taken more seriously the description of Oceania he read in the forbidden book *The Theory and Practice of Oligarchical Collectivism*, by Emmanuel Goldstein:

A Party member lives from birth to death under the eye of the Thought Police. Even when he is alone he can never be sure that he is alone. Wherever he may be, asleep or awake, working or resting, in his bath or in bed, he can be inspected without warning and without knowing that he is being inspected. Nothing that he does is indifferent. His friendships, his relaxations, his behaviour towards his wife and children, the expression of his face when he is alone, the words he mutters in sleep, even the characteristic movements of his body, are all jealously scrutinized. Not only any actual misdemeanour, but any eccentricity, however small, any change of habits, any nervous mannerism that could possibly be the symptom of an inner struggle, is certain to be detected.

The Orwellian surveillance State is terrifying not because—as in Kafka—you might be arrested because of a rumor or a mistake, or because despite your innocence you might be caught in the State’s unnavigable maze. It is terrifying because it never makes mistakes. It does not need to listen to rumors. And it knows that no one is ever innocent. **FEE**

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# FEE

## INSPIRE

FEE has been and will always be the source for introductory, optimistic, youth-focused free-market education with an emphasis on the Austrian School's perspective in economics. We also hope to inspire our students. We aim for the "aha!" moment, when the education and fellowship offered by FEE connects the newcomer to the freedom philosophy and its community. This connection will touch off a lifetime of engagement as each student becomes a leader for liberty, inspiring the next generation in turn.

## EDUCATE

Each year, FEE hosts a variety of programs, webinars, publications and internships that are designed to teach students about the economic, legal and ethical underpinnings of a free society. One of the most widely known programs we host is our summer seminar series bringing students from across the globe to FEE for in-depth discussions of Austrian Economics, Current Events, History and other topics. An exciting introduction to the world of classical liberal traditions and free-market education is what turns FEE's students into life-long lovers of liberty and future leaders for a freer world.

## CONNECT

When FEE was established in 1946, it was the only free-market institution in America. It did everything to keep the flame of liberty alight through some very dark times. The freedom movement is now diverse, strong and numerous with institutions and think-tanks in every state and across the globe. In light of this change, FEE works with other organizations, leveraging our capabilities and providing a pathway for our alumni to grow and find their niche in the liberty movement. Community is important to FEE and to our students.

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# The New War Between the States

## *Fate of the States: The New Geography of American Prosperity*

DOUGLAS FRENCH

Prices in a capitalist system provide signals to the marketplace. For instance, the price to rent a U-Haul truck in Los Angeles to drop off in Dallas is double the price of renting in Dallas and dropping off in L.A. The signal here is pretty clear: People are lining up to get out of California, but Texans are happy right where they are.

This U-Haul price-shopping exercise echoes the prognostications of bank analyst Meredith Whitney in her new book *Fate of the States: The New Geography of American Prosperity*. For those who don't obsessively watch financial TV, Whitney came to fame in 2007 when, while working at Oppenheimer & Co., she downgraded Citigroup and said the megabank would have to raise capital, cut its dividend, and sell assets. Days later it all happened as Whitney called it.

Three years later, Whitney appeared on "60 Minutes" claiming there would be a rash of municipal bond defaults. There have been a handful of government bankruptcy filings, but it is far from what Whitney predicted—so far.

The author's overarching theme in *Fate of the States* is that America's economic power is shifting from its coasts to its middle. Whitney describes how power has shifted before, but the current trends are different: External factors aren't driving economic fortunes anymore, but instead, "communities [are] being gutted by government ineptitude," writes Whitney.

At the top of this list are New Jersey, California, and Illinois, where high debt and economic dysfunction have persisted. These basket cases insist on trying to tax their way out of problems. The Golden State is pushing its high earners to other states by raising its top income tax rate to over 10.5 percent. Illinois hiked its rate by two-thirds in 2011.

Comparing New Jersey with neighboring Pennsylvania is instructive. Jersey has the highest property taxes in the nation and a top state income tax rate of nearly 9 percent.

Pennsylvania's income tax rate is 3.07 percent and its property taxes are half those of the Garden State. You could move right next door and escape New Jersey's predations.

Today wealthy taxpayers are voting with their feet and taking their wallets with them—leaving local and state governments high and dry. When the rich leave, so do many jobs; working stiffs then hit the road to find employment. Business relocations away from California, for example, increased fivefold between 2008 and 2011.

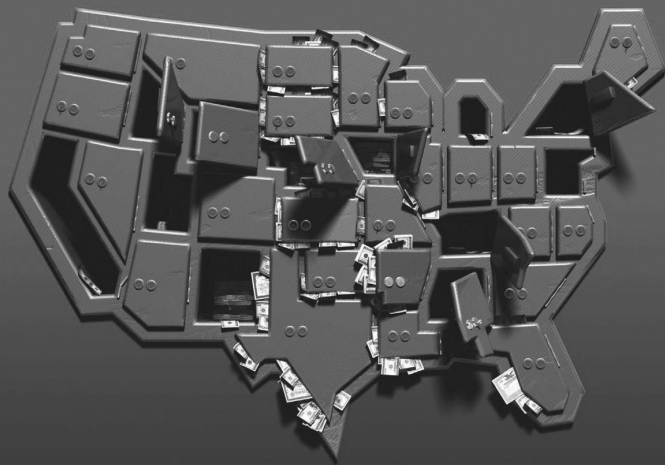
Whitney reminds us that economic power has shifted from one location to another several times in the recent past. The Industrial Revolution led to a migration from the United Kingdom to New England and to the mid-Atlantic states. What she calls the Power Revolution followed, which drove population to the southeast and southwest. Next was the Manufacturing Revolution, which drew workers to Detroit and Cleveland.

The Leverage/Housing Revolution sent people to the coasts, but it—along with the bust it set up—was a different type of animal. In the West, Arizona, Nevada, and California boomed. In the East, it was Florida, Georgia, and North Carolina. But they boomed because of ceaseless and, it turns out, misguided government intervention.

Whitney's story features the housing crisis prominently. She makes a point that was lost at the time: Why were homebuyers increasingly using adjustable-rate loan products in 2004, when rates were increasing? They should have been doing the opposite. And what were lenders thinking when they were underwriting loans that borrowers could only temporarily afford?

The short answer to both questions comes down to government's role in pushing homeownership. Bill Clinton believed homeownership was "the realization of the American dream." Fannie Mae did its part to push these initiatives, lowering down-payment requirements. George W. Bush's administrations doubled down on housing,

# FATE OF THE STATES



THE NEW GEOGRAPHY OF  
AMERICAN PROSPERITY

MEREDITH WHITNEY

particularly in the wake of the dot-com bust and the 9/11 attacks, pushing the “Ownership Society.”

The housing boom looked like it was a win-win for everyone. Between 2002 and 2005, 1.2 million real estate-related jobs were created. These jobs couldn’t be sent offshore. The unemployment rate sank to its lowest level on record. This was especially apparent in the warm-weather states where the boom echoed the loudest.

Home prices rose nearly 500 percent in California and Florida from 1994 to 2006. Homeownership rose by 12 percent in the Sun Belt states at the same time. Thinking the party would never end, consumers piled on debt. In booming states like Nevada and California, debt per capita, the vast majority of which was tied to real estate, more than doubled in a decade.

“Sand state” governments also bet on real estate prices increasing forever and went on spending sprees of their own.

The real estate crash has led to a government bust in addition to generating the worst unemployment rates in the nation. States “have cut over a quarter of a trillion dollars out of their budgets” over the past five years, according to the author. They didn’t shrink by choice; tax receipts plunged. This fiscal problem rolls downhill. States receive a third of their funding from the federal government,

while more than 40 percent of local government money comes from the respective states. Property taxes (now assessed on properties with lower values) make up the rest of local government spending.

Meanwhile, governments are stuck with pension obligations that seemed reasonable in the boom years, forcing them to cut back elsewhere. For instance, Whitney discusses Contra Costa County, California, where the county is paying 665 retired firefighters pensions of \$100,000 per year, while it can only afford 261 active firefighters to put out fires. This story leads off an entire chapter on the government-pension time bomb.

If that story doesn't make your head spin, the assumptions employed by state pension plans will. Bernanke's zero interest-rate policy (ZIRP) is well known. However, state pension funds are still assuming 8 percent annual returns. In the simplest terms using Whitney's example, the gap for a \$30 billion pension fund between an 8 percent assumption and a zero-rate one is \$2.4 billion. That \$2.4 billion is the number taxpayers are on the hook for. "No wonder that inside of just one decade," writes Whitney, "government pension funds went from being fully funded to being underfunded by nearly \$1 trillion."

Almost every state is playing accounting games with its pension plans while hoping for a big score in the market. States make the minimum (or no) contribution, "hoping to outrun the debt being accumulated." As the author explains, this is the equivalent of taking out a margin loan to buy stocks. Outlandish return assumptions lower the amount states must contribute to the funds. As the gap between the return assumptions and real-life conditions widens, state contributions become less sufficient.

So is there any prosperity to be had in the U.S.A.? Those red states in the middle of the country are America's

emerging market, says the author. People and businesses are fleeing high taxes and shrunken services for right-to-work states like Texas, Oklahoma, and North Dakota.

Right-to-work states ban compulsory union membership and provide a much friendlier environment for employers. The result, writes Whitney, is that "since 2008 right-to-work states have grown their economies over three times as fast as non-right-to-work states."

To illustrate how government ineptitude pushes while these growth rates pull, we should remember that California sits on top of oil just waiting to be extracted. The state's Monterey shale deposit alone is said to hold 15 billion gallons. Nobody is going to be allowed near it. Despite its fiscal troubles, California politicians have no interest in a resource that could be exploited to help solve the state's fiscal woes. Governor Jerry Brown told former Royal Dutch Shell president John Hofmeister, "This is not logic, it's California. This is simply not going to happen here." Municipal bankruptcy, however, is already happening there: In Whitney's chapter on the pension time bomb, all but one of the cases she outlines are based in California.

Whitney's *Fate of the States* is the playbook of the modern war among the states: an economic war where less government wins. While the federal government and a few states continue to spiral out of control, the nation's Heartland has found fiscal religion and wants the jobs and economic prosperity that go with it. Young people take note: The Midwest may not be glamorous, but that's where the jobs will be.

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# On the Road Again

## *Customize Your Life with Location Independence*

MICHAEL NOLAN

As Leviathan hacks go, location-independent work isn't exactly the stuff of legend. It's not going to get you a statue, nor is it going to amount to as much as, say, making a dent in the highest incarceration rate in the world. You'd have to bring some measure of sanity to the drug war, at the very least, to do that.

Heck, independence itself has an unsavory connotation—at least for people who figure that any skepticism toward the State means your idea of the good life is some hybrid of Johnny Appleseed, John Wayne, and the Unabomber.

But some forms of independence, like financial independence, remain as evergreen as Chuck Taylors and as far out of reach as a pair of Louboutins—at least for most of us. And I'd bet my friendly but stupid cat that, somewhere on everyone's lists of what makes financial independence appealing, both freedom *from* work and freedom *to* travel make an appearance.

### Telecommuting with Visas

Location-independent work is the entrepreneurial response to these reality-constrained desires. If you don't buy that, check out [locationindependent.com](http://locationindependent.com), which sells bundles of services basically aimed at showing you how to do this if the idea grabs you.

Then there's Life Remotely, which got me thinking about the topic. Basically, that site's done by three people who

have found gigs they could do on the road and then spent a decade doing them, mostly on the road. In the process, they've also developed a suite of skills and information that can make this kind of life that much more attainable to other people.

Theirs is also an entrepreneurial response in that it fits together needs, desires, and resources in a novel way

that helps people assemble their own happiness. Their response relies on the alertness to spot what can be made from things like mechanized transport and the Internet that haven't been combined quite this way before. It also involves spotting inefficiencies in your own pursuit of happiness and turning a profit on them.

W H E N E V E R  
I see people shaping new kinds of lives for themselves—lives uniquely suited to them—it reminds me that the political world, with all its aridity and farce, isn't the final word in making us happier.

### You Load 16 Tons ...

I happened across Life Remotely while trying to find out how far south a person can drive without hitting a penguin (it was a slow night and my iPad was feeling neglected). While I started out in message boards and travel forums, they quickly proved full of fragmented and frequently outdated or irrelevant information. If I'd been serious about the trip and not just killing a couple of hours until Ambien time, it would have been very frustrating. In fact, when I used to put a lot of work into stretching my travel time and dollar, it was.

But the Life Remotely folks have gone and filled in giant gaps (especially about the details that can make or break



## Just another day at the office

Photo courtesy LiveRemotely.com

travel, like Wi-Fi connectivity and visa stuff), and that's a valuable service. A lot of the information they give out is probably out there already anyway, but they've compiled it a lot more efficiently than even expatriate blogs, however fun those might be to read.

They aren't the only ones supplying this kind of content, of course. Migrationology, to choose almost at random, focuses on trying to live in Thailand without being rich. The list goes on and on.

But what they all have in common is a fundamentally social orientation—particularly in generating mountains of consumer surplus. Since almost nobody travels in any form without being aware of the costs, it's easy to get people focused on cost-cutting and swapping ideas about it. So even if you don't want to live and work on the road, or if you just don't want to drive a Toyota 4Runner from Seattle to Tierra del Fuego, you're sure to find a cheaper way to do what you actually do want to.

## The "So What?" Test

All of this matters for passing the "so what?" test: It's interesting that some folks do this stuff, but so what? Everyone in every political ghetto can come up with some idea of a greater good that can keep you in place, working for their ideas. Isn't location independence just one more type of modern selfishness, counting luxuries (connectivity everywhere, long-distance travel) as necessities? How are you helping humanity get freer and more prosperous if you're not sticking around to collect signatures or work the phone banks? Aren't you sacrificing community for a selfish and childish lust for adventure?

None of these questions actually seems relevant to me, and they all have at least the whiff of self-righteousness about them. They all push to the side the question of what good freedom and prosperity are if they only ever function as remote ideals. They also seem to ignore the possibility that individuals can figure out

their own happiness without waiting for it to be granted to them.

And that's where community comes in. Even on less-specialized sites like TripAdvisor and VirtualTourist, you see a mind-boggling avalanche of freely given advice. When your interests are more specific—diving, golf, ecotourism, you name it—you actually open up new communities for yourself, this time focused on shared passions rather than simple proximity. That's not the kind of community that's necessarily useful to social engineers or politicians, but that doesn't pass the “so what” test.

Looked at another way, location-independent work, and the stories of people who do it, increases everyone's freedom by dividing what we owe our employers (productivity) from what so many employers demand (close monitoring, meeting after meeting, physical presence in dreary offices, a hierarchy down which to pass mainly the metaphorical buck). After all, tyrants don't show up only in the State. I'd be surprised if anyone's working life has reached even six months without teaching them this lesson. Mine lasted maybe 15 minutes; I still shudder when I drive by that ice cream stand.

### **I'm Not a Businessman; I'm a Business, Man**

Returning to the idea of entrepreneurialism, it helps to take a look at yourself and come up with new, creative ways to recombine your skills. It's looking at yourself as, among other things, a business. But it's tough to do this and scary to make a big change. Fortunately, other people have been down all these paths, and they're willing to help.

I see people shaping new kinds of lives for themselves—lives uniquely suited to them—it reminds me that the political world, with all its aridity and farce, isn't the final word in making us happier.

Of course, visa and tax regimes remain even bigger obstacles than fear of change or understanding what you're wagering if you take a step as big as going location independent. It will take the State a good long while to catch up, if it ever does. You can see this in visa regimes, which presuppose that the State gets to say who's permitted

to work where, doing what. The handful of countries that have anything like a self-employment visa usually require hefty investments so you count as an entrepreneur. Fortunately, idiotic visa and employment regulations are generally easy to dodge if your place of business slides easily into the bag over your shoulder.

Taxes are a different story. U.S. citizens, with our exquisitely misanthropic tax regime, owe our rulers their due no matter where we are. The only break involves something approaching exile. That adds to the cost of going location-independent. I'm kind of assuming that location-independence means going abroad because I've got a hankering to get overseas again. But even if that's not your bag, having to give the IRS and state governments their cuts gives you that much less margin for error.

I'd like to see location independence as part of a wider trend toward greater openness—in this case, of both borders and culture. There's nothing much to be done about people who answer “I want to visit X country,” with, “What's wrong with 'Murica”? But what I hope is that location independence aids the process of mixing people around enough that, eventually, the nasty edge of the immigration debate becomes a demographic anomaly.

After all, location independence is hard and risky, and has costs we each have to work out for ourselves (distance from family, language barriers, weird food, etc.). If this is true for people starting off with the skills and money that go along with jobs you can do online, how much harder is it for people willing to, say, cross an increasingly militarized desert to watch suburban kids, mow lawns, pick fruit, and do other low-paid, low-skill jobs? And why wouldn't you want people that incentivized to make good, and that willing to take their happiness into their own hands?

That might be too much to ask, but it's not too much to hope. Meanwhile, I'm looking for someone to sublet my place for a while. Did I mention the cat? **FEE**

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