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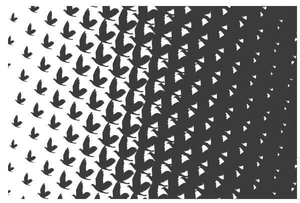

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PERSPECTIVE

The Beautiful Possibility

It's time we put aside debates that pit anarchists against minarchists—that is, unless we're enjoying ourselves talking by the fireside. Instead, we should just fix our minds on the ideal: the beautiful possibility of a stateless world. If we move toward a stateless world but never quite get there, we are still making progress. That means asking more of ourselves than simply trying to win esoteric arguments.

The beautiful possibility can become an infectious, transformative meme. Currently, the word "anarchy" conjures up images of Molotov cocktails, rioters, and looters. It should conjure up images of peaceful cooperation, community, and emergence happening all around us every day. It is a rare and wonderful ideal, but it's held back by the enduring rationale of Hobbes, and by the tendency of people to project paternal feelings and utopian designs onto the apparatus of the State. These habits of mind aren't easily overcome.

Some in the classical liberal tradition—Spencer, Spooner, Rothbard, and Nock—argue not only that the world can do without the State, but that the State is not justifiable. But here's a different question: Could it be that human emergence is an unfolding process—a flowing toward something like true self-government?

No one can say for sure. Change in the right direction could happen in fits and starts, if it happens at all. But there are some positive signs.

Indeed, there are some identifiable stages to our development as a species that suggest more liberty and less violence may be in our future. Many of our readers will disagree with Steven Pinker's somewhat Hobbesian "better angels" thesis, in which he argues the world has gotten more peaceful thanks largely to the rise of the nation-state. It's certainly possible that the nation-state was a necessary steppingstone in an emergent order that points toward increased liberty. But if the State was such a steppingstone, it has since become something of a stumbling block.

Science writer John Horgan, writing in *Slate* about the better angels idea, points out that "democracies rarely if ever fight against each other." But maybe it's also that democracies trade with each other more.

In the late twentieth century we saw the global rise of what one might call the "commercial age." It wasn't just that democracies didn't fight because they were more alike; it was also because they traded. Our economic interdependence meant we were less and less likely to go to war. Old enmities were broken down due to the gains from trade. Whatever one thinks of the U.S. government's playing world constable, peace through commerce has been a major factor in global stability.

Now we're rapidly making our way into the "connected age." As we connect and cross borders, we're seeing less "like a State" and more like individual human beings of infinite variation with distinct hopes, aspirations, and communities. And yet we're growing closer together. This isn't just some cultural cosmopolitan fancy.

The age of connectivity is being built atop the commercial age like a layer of virtue. Things could go horribly awry, of course, like they did in 1914. But outbreaks of peace might continue as we spend more face time with each other.

So what's next? Could it be that yet another layer is built atop the commercial and connected ages? An age of peace, liberty, and complexity? We sure hope so. An intermediate stage may look something more like panarchy—a stage in which our governance technologies operate more like our online technologies.

But even if we enjoy a phase of decentralization we might want to keep hold of the beautiful possibility—not because we are committed to any dogmas or abstractions nor because we're terribly sanguine about the human capacity to overcome urges of violence and domination. Rather, it may simply be possible to abandon the need for social organization based on monopoly force. We can then welcome an age of social order that arises from people engaged in voluntary cooperation, community, and pluralism.

Here at FEE, we argue about these esoteric questions among ourselves, but we are committed to remaining fixed on our mission. We believe that mission involves exploring strands from across the classical liberal tradition. This issue is devoted to exploring one such strand.

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When it comes to the State, the relevant debate isn't whether the State is always needful or always hurtful. It's whether statelessness is preferable to any realistic alternative in a given place and time, says **Ben Powell**.

Anarchism is the understanding that human society flourishes all around us despite the State's constant interference, says **Jeffrey Tucker**.

In this month's interview, **Paul Green, Jr.**, of the Morning Star Self-Management Institute discusses how a workplace without bosses works.

Markets have been generating rules and enforcement mechanisms for centuries, without the State. **Edward Stringham** says PayPal's fraud division is a case in point.

Rahm's Rule helps us understand how opportunistic politicians can ensure that pork gets delivered to favored constituents while everyone else is distracted by the looming crisis, says **Bruce Yandle**.

Henry Ford's Brazilian disaster illustrates the perils of trying to duplicate something that normally happens organically. **Tom Bell** has the story.

Wendy McElroy asks why the government is trying to make more people dependent on it for their food.

Dorm room construction is booming even as people are realizing that college is overpriced. **Douglas French** sees another bubble.

Perhaps as much as any songwriter or artist, three judges appointed by the Librarian of Congress determine the future of your music. **Melissa Daniels** has been listening closely.

Algae might hold the key to replacing fossil fuels, but as **Jacob Borden** explains, the market's discovery process—not the government—should figure that out.

Our columnists have plenty for you. **Sandy Ikeda** says getting the U.S. on the Swedish model might require it to become Greece first; **Sarah Skwire** reviews a great literary mind at work in the business world; and **Michael Nolan** says your choice in movies can affect more than just how you kill a couple of hours.

Robert Batemarco reviews a book on the gold standard with a map for how to get there.

—*The Editors* FEE

You Are an Anarchist. The Question Is: How Often?

BENJAMIN POWELL

Classical liberals have long debated whether they should support a minimal state or no state at all. Unfortunately that debate is usually framed as an all-or-nothing proposition. Either you believe that "a minimal state is everywhere and always necessary" or that a "state everywhere and always does more harm than good." This polarization is a mistake. Everyone, at least sometimes, is an anarchist.

Consider Cambodia in the late 1970s. The Khmer Rouge government intentionally killed more than two million of its own citizens. That's an average of 8 percent of the population killed each year while government simultaneously inflicted countless other horrors. Do you think the Cambodian people, faced with that government, would have been better off with no government at all? Congratulations. You are, sometimes, an anarchist.

The anarchist-minarchist debate usually revolves around how well an ordered anarchy could work. How well could law and order be provided without State provision? That is an important question—one that Murray Rothbard, David Friedman, and James Buchanan made important theoretical contributions to in the 1970s. Bruce Benson and others started making historical contributions in the 1980s. And, starting in the late 1990s, scholarship on the question virtually exploded.

Reasonable classical liberals can digest this scholarship and disagree about how well an "ordered anarchy" might work. But whether you cling to Hobbesian notions of a nasty, brutish, and short life in anarchy, or believe anarchy would be libertarian paradise, you have answered only half of the question about anarchy's desirability. The other half of the question is, "Compared to what government"?

> THE RELEVANT comparison is between an imperfect State and an imperfect anarchy.

The usual debate involves contrasting a set of beliefs about what anarchy would be like with some version of a minimal State. But nowhere in the world do we observe a pure classical-liberal minimal State. So comparing a belief about anarchy to an unrealized ideal leaves us in the land of irrelevance.

Compared to What?

The real issue is found in an area economists call "comparative institutions." That is, in a specific time and place, how well would anarchy work and how does that compare to how well an actual obtainable state would work? Here the relevant comparison is between an imperfect State and an imperfect anarchy.

This question is not altered by whether one grounds his classical liberalism in utilitarian or natural rights premises. It only changes what measures you compare and what you mean by "works." If you're a classical liberal for utilitarian reasons you should prefer whatever system of governance would maximize utility—or, more likely, wealth—in a given situation.

If you're a classical liberal for natural rights reasons you should prefer whichever system minimizes rights violations (however you might quantify this). Natural rights anarchists don't avoid this question by asserting that a State necessarily and systematically violates rights. No system will perfect human morality. And, because it is costly to monitor and prevent deviant behavior, some such behavior will exist under any governance system. So even a well-functioning anarchy would still have rights violations. The question remains one of comparative institutions.

Cases like Pol Pot's Cambodia are easy calls for most of us. It would take extraordinary Hobbesian assumptions about life without a State to think that Cambodians were better off with his government than they would have been without a State at all. The Chinese under Mao, Russians under Stalin, Germans under Hitler—they all fall in the same category.

The real question is how far to move the line. Somalia had a fairly predatory State until its collapse in 1991, but it wasn't nearly as murderous as those above. It's been in a state of anarchy since then. To the extent we can measure them, living standards seem to have improved since the State collapsed. In fact, they've improved faster than the sub-Saharan African average.

> WHEN CLASSICAL liberals talk about Somalia it is not because it represents some ideal libertarian anarchy. It doesn't. We talk about Somalia because its imperfect anarchy seems to be doing better than the state that preceded it.

When classical liberals talk about Somalia it is not because it represents some ideal libertarian anarchy. It doesn't. We talk about Somalia because it passes the comparative institutions test. Its imperfect anarchy seems to be doing better than the very imperfect State that preceded it and many of those States it shares a continent with.

This does not prove that a limited minimal government wouldn't work better in Somalia. But that is not the relevant question. As I argued in response to a bunch of nation-builders at a conference on Somalia a couple of years ago: Whatever version of a government you think is ideal, it is probably not achievable in Somalia.

Consider other African governments today. Most brutally suppress the freedom of their subjects and have horrible standards of living. Check out their Polity IV scores on how liberal/democratic they are, or their economic freedom scores. How many of them, like Somalia, would be better off stateless?

Policy Relevance

Some classical liberals, particularly those living around DC's beltway, shun discussions of anarchism because they believe such discussions are not "policy relevant." They seem to think that because no one is going to abolish the U.S. government tomorrow, discussions of anarchy are purely academic. Once we appreciate that the anarchism/miniarchism question is not simply an all-or-nothing proposition, anarchism becomes policy relevant.

Exporting better systems of government to poorer, more totalitarian countries has a horrible success rate. But U.S. aid is often all that props up these "failing" States in poorer parts of the world. If you believe that the citizens of some of these failing States would be better off in anarchy than with their current governments, then cutting aid and letting their States fail is a more realistic policy option than improving their governments.

Although we have historical cases and modern, less-developed countries as examples of how anarchism has worked compared to the relevant alternatives, we lack a modern, wealthy, stateless society to which to compare governments like that of the United States. Instead, scholarly debates about these situations are theoretical or involve extrapolating from "slices of anarchism" that occur within the shadow of the State today, such as international trade without State enforcement. In these situations we are less certain of how desirable any anarchy would be compared to the current state of affairs.

Classical liberals who typically label themselves anarchists believe that modern societies would function better without the State, while those who label themselves minarchists believe the opposite. That debate falls outside the scope of this essay.

Instead, it is my hope that classical-liberal minarchists will drop the label and realize that in many current situations, in other parts of the globe, they may prefer anarchy to any obtainable state. Furthermore, as classical liberals who are interested in a free and prosperous society, we should recognize that further study of anarchism is a valuable endeavor because it can inform where each of us believes we should draw the line in preferring no State at all to ones we live under. In short, all classical liberals should be interested in the study of the "A word." FEE

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To Free One's Mind

JEFFREY A. TUCKER

People often ask me, "When did you become an anarchist?" It's not an easy question to answer. Deep changes in one's intellectual outlook do not happen overnight. You first entertain the idea. Then you assess its plausibility. You might even embrace the idea fully, but only in the abstract. Real intellectual change comes when you can see how the idea works in the real world—even in your daily life. That's when confidence in an idea comes.

For this reason, it always mystifies me that anyone could become a socialist. It is the least plausible idea imaginable. Scarce goods cannot be literally owned on a socialist basis. Try socializing your laptop or your shoes or any capital or consumer good. Two people cannot be simultaneous and full owners of the same thing. Socialism always ends in State ownership and control, which leads to disaster every time it's fully implemented. Real-life socialists either don't understand the idea or they just decide to live in an illusion.

> WE SHAPE OUR own world. Through the exercise of human volition, we all work to make the world around us orderly.

The first time I heard of anarchism of the private property sort was when I saw Murray Rothbard's book *Man, Economy, and State* on a professor's bookshelf. The title alone dealt directly with problems I was thinking about at the time. I asked the professor about it and he was alarmed, as if I had seen something I was not supposed to see. He quickly warned me against reading the book. "Rothbard is an anarchist," he said ominously. I immediately wanted to read it (but I couldn't because it was not in the school library and I couldn't figure out a way to actually poach the professor's book from his shelf).

Instead, I put the idea on hold and plunged more deeply into the free-market tradition. The more I read, the more I was impressed. Milton Friedman was right. Henry Hazlitt was right. Ludwig von Mises was right. F. A. Hayek was right. Leonard Read was right. This whole tradition dating back to Adam Smith was really onto something spectacular. The world was trying to manage economies through State edicts and yet getting it all wrong. Only freedom and private property are truly productive, creative, progressive, and empowering of everyone in society.

And yet, each of these other thinkers stops short of saying that we don't really need a State. They all seem to agree that the State is necessary to keep the peace. It is really all that stands between us and total chaos. Without the State, we couldn't even get to that first step in the social order. There would be no path to the security we take for granted. Essential goods and services couldn't be provided. There would be no courts, no military, and maybe not even roads. The State provides things that the market can't provide—or so the thinking goes.

Shattering Illusions

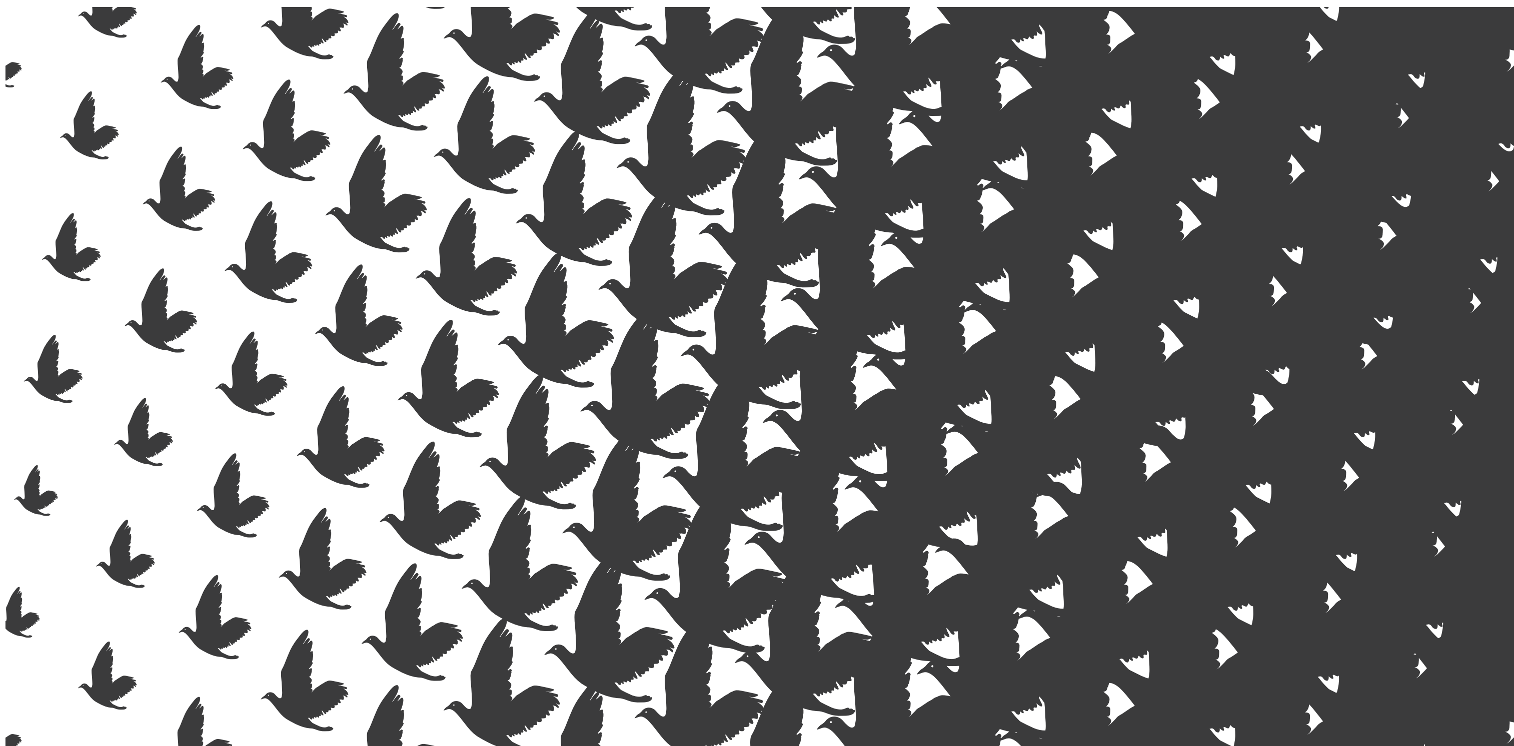
Over the course of time, these illusions were shattered one by one for me. Roads, mail, communications, and even legendary public goods like lighthouses—from a purely historical perspective—have all been provided by the free market. Then the government took these over. Courts? In the 1980s, the government courts were already full and so inefficient that businesses and individuals didn't want to use them. Private arbitration was a much better option. Even in regular business affairs, contracts were being written so that disputes had to be solved in private courts. To my mind that meant that even these services were not something exclusive to government; they could be provided exclusively in the free market. It was the same with household and personal security. It's not the State that keeps us safe day to day but our own precautions and preventive measures such as private locks, guns, and security services.

And yet all this was happening for me in the waning years of the Cold War. A nuclear holocaust threatened us every day. Foreign enemies surrounded us. The communists wanted our way of life. It seems a bit nutty even to talk about this today, given how incredibly poor and pathetic all countries in the Soviet bloc were revealed to be after 1989. But back then it was scary. We couldn't disarm as a nation because that would risk our way of life.

While reading into the history, I began to find interesting things. The Red Scare, it turns out, was something that ebbed and flowed in U.S. history. People were terrified of the commies in the 1920s, just as in the 1980s. In between there was this weird period when the American and Soviet leaders were considered close allies in the struggle against the Japanese and the Germans. In fact, the United States did many things to keep the Soviet regime in charge, and after World War II, the United States itself helped turn Eastern Europe over to Soviet control. After that, the Soviets suddenly became the enemy again. It was to draw attention to that absurdity that George Orwell wrote *Nineteen Eighty-Four*. (The title is a spin on 1948. The book was published in 1949.)

These facts began to complicate the picture. I don't need to go through the whole of historical revisionism here, but suffice it to say the picture of the United States at war in the twentieth century turned out to be much less clear than it appeared in the ideologically polarized news weeklies. The Cold War was not a story of devils and angels, despite the nationalist impulse to cheer on one's own State. It was a struggle between States, both of which were inclined toward lying to their people, exploiting their populations, and favoring conflict over peace. It was also impossible not to notice that the more the United States ramped up its war machine against communism, the more the government at home became a menace to American liberty. War, as it turns out, was never a friend of liberty.

Meanwhile, I began to realize that if the United States were ever really invaded by a foreign enemy, governments might help but also might hurt by imposing martial law, nationalizing industry, and taking guns—as governments tend to do in any emergency. In practice, it will be private citizens and markets that will be decisive in overcoming invaders through private means: our own guns, security apparatus, friendship networks, and individual and community efforts. As I thought about it, it was an absolutely laughable idea that we could depend on government for all our protection. Based on experience, government could cause even more harm simply because governments tend to use emergencies to their advantage—and to the advantage of those who empower them



(special interests). Even worse, people with power tend to encourage or even create emergencies when they have the power to do so.

This was the course of my development over a period of probably five years. Finally one day I stopped in my tracks and asked myself the following question: Is there anything that the government does that needs to be done that cannot be better and more efficiently accomplished by free association?

I kept turning over the question in my mind. I could think of no answer except that there is nothing the government does that is worth doing that could not be better accomplished through free association. It was a scary thought. Was I becoming an anarchist? Was this thought going to change my life? If I went in this direction, would I be doing something terribly irresponsible? I found solace in the possibility that I had not gone all the way, that perhaps there was something about the way that I formulated the question that overlooked some one tiny aspect of government that I could embrace so that I would not have to regard myself as crazy.

It was in the lobby of a hotel where Murray Rothbard was staying that I finally just asked him this question. I put it to him straight. If I answer no to the question above as formulated, does that mean I am an anarchist? Murray said yes. I clarified further: If I have concluded that the State contributes nothing of value to the social order and can make no real improvements to what we create on our own, am I an anarchist? He said yes again. I responded: Well, I guess I am then. He burst into a smile, shook my hand vigorously, and exuberantly congratulated me, all with his well-known sense of joy. Wow. I guessed the deed had been done.

Beyond the Intellectual

And yet, I was wrong. The intellectual deed had been done, but it was still too easy to keep the idea as an abstraction, not anything that affected my daily work or life. It is one thing to have some far-flung vision of the light but another thing to see that light all around us. This step took many more years of thinking about particulars such as human rights, market services, the workings of freedom, the way the State functioned in history, and the way it works today. The final stages of this thought process were many years in the making.

What I gradually discovered in the course of my daily life is that anarchism is all around us. The State does not wake us up in the mornings, make our beds, weave our sheets, build our houses, make our cars work, cook our food, cause us to work hard, produce the books we read, manage our houses of worship, give us clothes, keep the time, choose our friends and loved ones, play the music we love, produce the movies we watch, care for our kids, tend to our parents, choose where we vacation, dictate our conversations, make our holidays beautiful, or much of anything else.

These are all things we do ourselves. We shape our own world. Through the exercise of human volition, we all work to make the world around us orderly. This is what the whole of the world population does. We all work from our rightly understood self-interest to find ways to have a good life and work with others on a mutually beneficial basis to see that our good lives do not come at the expense of other people's rights and liberties. Freedom is where the beautiful things in our own lives come from. And this is true the world over. It has always been true. A beautiful anarchy is the great source of civilization itself.

What role does the State play? It interferes. It takes property from us, reducing our individual wealth one by one. It blocks opportunities through regulations and the creation of cartels. It does worse than that: It looks for ways to start wars, it intrudes into our families, it punishes peaceful behavior that harms no one, it slows down development in myriad ways. The State is the great external. It is exogenous to society itself. Most of the world functions as it does, and civilization flourishes nonetheless, because people struggle to ignore the State as much as possible. What if it went away? I can see no real downside and plenty of upside.

Apocalypse Not

And yet there was still the problem of those who warn of the apocalypse if the State goes away. Most people who believe in limited government ("minarchists") conjure up this idea. Even great thinkers like Ludwig von Mises and Henry Hazlitt believed this. They all accepted some version of the nightmare conjured up by Thomas Hobbes: In the absence of the State, life would be nasty, solitary, brutish, and short. Well, he wrote during a time of political upheaval, a time when religious tribes were struggling to control the State. Life without the State would have been exactly this way—but precisely because of the presence of the State, not because of its absence.

I SEE THE orderliness of human volition and action all around me. I find it inspiring. It frees my mind to understand what is truly important in life.

I won't go into every permutation of this notion, nor try to refute every justification for the State in this space. But I will mention a very common intuition that many people have. People say that there is not much point to eliminating the State because people will just create another in its place. I don't doubt that this statement is true. People have the illusion that the State contributes something important to society. They want leaders who rule from the top, even if they know the downside.

Think of Samuel from the Hebrew Scriptures. People came to him wanting a king. He warned that a king would take their property, put their children in servitude, start terrible wars, and eventually enslave everyone. No matter: They wanted a king anyway.

Such is the way people are. They sometimes ask for their own enslavement. That's why the State keeps being reinvented. All credit goes to those who at least understand that it must be limited if it is to exist. But such limits have never really worked. That's why it's better just to let society flourish without one. The great project of liberty is to enlighten people against going for the illusion that any State can be a friend and benefactor of human liberty. This is what the liberal revolution of the late Middle Ages through the Enlightenment was all about. We need to understand the beauty of freedom if we are to achieve it.

Since the opening of the digital age, we've been allowed to observe the stunning creative power of human volition firsthand. Every nanosecond, individuals the world over are working to create new kinds of associations, institutions, capital, and means of prosperity. We are seeing things unfold before our eyes that we never imagined possible even a decade ago. It has only just begun. We are on the ground floor of institutions like 3-D printing, alternative currencies, and cloud-based civilizations capable of giving us more movies, books, art, and wisdom than any human being in past ages could have acquired in several lifetimes. This newly emerged world is transforming our lives. Take notice: No State did this, no State approved this, and no State is guiding this.

Finally, let me admit that my anarchism is probably more practical than ideological—which is the reverse of what it is for the most well-known anarchist thinkers in history. I see the orderliness of human volition and action all around me. I find it inspiring. It frees my mind to understand what is truly important in life. I can see reality for what it is. It is not some far-flung ideology that makes me long for a world without the State but rather the practical realities of the human struggle to make something of this world though our own efforts. Only human beings can overcome the great curse of scarcity the world has imposed on us. So far as I can tell, the State is, at best, the great annoyance that slows down the mighty project of building civilization. FEE

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Enterprise Without Bosses: An Interview with Paul Green, Jr.

Paul Green, Jr., is a "colleague" at the Morning Star Self-Management Institute, a Sacramento-based division of The Morning Star Company, a California-based food processor and agribusiness company.

Of Morning Star, management guru Gary Hamel said, "They have control, and discipline, and focus, and accountability. But they do it on a peer-to-peer basis without having this kind of a bureaucratic class of overseers." In short, they have no bosses.

—The Editors

The Freeman: No bosses?

Green: That's right; no bosses.

The Freeman: What's that all about?

Green: In a nutshell, self-management means that each colleague is principally responsible for each of the functions of management with respect to his mission. They plan and organize their work with respect to their mission and their fellow colleagues. It's their responsibility—and success, or failure, rests with them.

The Freeman: Readers may notice that in our description above, you're referred to as a "colleague," just as an entry-level truck driver is referred to as a "colleague." And yet you're an award-winning expert who probably receives executive-level compensation. How do you explain this?

Green: At Morning Star, there are no titles; there's no structural hierarchy. Each colleague comes into the enterprise with the same set of rights as any other colleague. Each colleague commits to a Personal Commercial Mission when they come aboard and, further, commits to what we call "Total Responsibility"—essentially, they agree that they are totally responsible for the success of the entire enterprise.

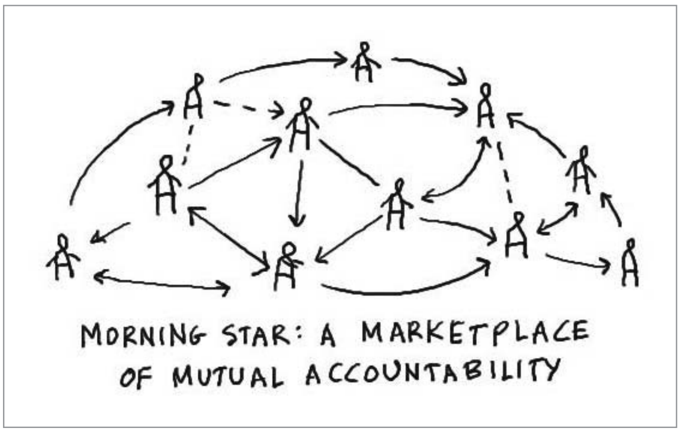
The Freeman: That sounds pretty heavy.

Green: We've always felt that if people embrace this idea that they are personally responsible for the entire enterprise, they're more likely to perform at a higher level (and, quite honestly, are most likely to find fulfillment in their career). The thing is, you can't really expect people to truly embrace "Total Responsibility" unless they have the freedom to act—which means that everyone has the same authority in the enterprise with regards to acquiring resources (spending money), acquiring talent, and causing change. If the authority level is the same, then there's no real meaning to titles and artificial hierarchy.

The Freeman: Some might call self-management "intra-organizational anarchy." Is it? And how did self-management come to be implemented at Morning Star?

Green: I guess it depends on the way you use the word "anarchy." I guess it is anarchy in the sense that there's no structural chain of command or hierarchy—no "government" of sorts. But it would be a mistake to assume that it's disordered or without structure. On the contrary, it's very ordered, and there is structure. The difference is in how we arrive at order and structure. It's not through some sort of centralized command-and-control hierarchy; it's a group of individuals developing order through a social network of sorts—perhaps you could call it "spontaneous order"—based on circumstances and needs.

Chris Rufer, our founder and owner, envisioned self-management early on in his career, and when he built his first processing facility, laid out his organizational vision to the first small group of colleagues he hired. Many of



Courtesy Morning Star Institute

the systems that we use to enable self-management at Morning Star we've developed as we've grown, but our way of doing things is, and always has been, Chris's vision. In fact, on our website we have a vision statement that, at least in part, speaks directly to self-management as central to what we are trying to do as an enterprise.

The Freeman: Our readers will be interested to hear about the two Colleague Principles of self-management. What are they?

Green: Our Colleague Principles are heavily influenced by a principle that basically states: To the degree people do all that they agree to do, and don't initiate force against others or their property, happiness and prosperity will emerge.

The Freeman: Sounds familiar.

Green: This really influences our organizational philosophy: we have a stated philosophy that says that people perform best when they're happy, and they're happiest when they have control over what's important to them. We believe that most people find circumstances surrounding their job important, and that they should have control over those things. That goes for both the resources they need to achieve their mission, to the way they choose to go about achieving that mission, all the way to their personal development—their career. We believe people should control those things, and shouldn't be subjected to some random other person—a boss—controlling those things on their behalf.

Another example is our Colleague Letter of Understanding, our CLOU. It's a contract of sorts that each colleague makes, where they craft their own role in the form of commitments to their fellow colleagues. It's a subtle distinction, perhaps, but at Morning Star you make commitments, you aren't assigned a job.

The Freeman: For most people, self-management may seem impossible. Even for libertarians, the idea of no management hierarchy within a firm might seem insane. But it not only works, it's allowed you to do well. How well?

Green: We're a private company, so we're a little stingy with details, but we've grown from just an idea to become the largest processor of tomatoes in the world. We're vertically integrated, with a large trucking company, farming company, harvesting and transplanting operations, and a pretty extensive distribution operation. Our revenues have grown to over $700 million, and our production has grown at a consistent clip, year-over-year, since we've been in business. And we've supported our growth with our own returns—our founder and owner has never sold off equity to finance our growth.


Courtesy E2 Conference

The Freeman: If you're doing so well and others begin to adopt self-management and become successful, we may start to see a chain reaction of sorts. Do you think this could have not only a transformational effect on business, but on society? (And if so, what would that transformation look like?)

Green: There's no question in my mind that self-management would have a transformational effect on society. Our organization, at its core, is about individual freedom and personal responsibility. People recognize immediately that success will come only as a result of what you do: You are generally unimpeded by bureaucracy or stifling regulation that might keep you from whatever measure of success that you want to achieve, but neither is there a “paint-by-numbers” map that shows you the way to success. It all flows out of your drive, commitment, hard work, and ingenuity.

And—surprise—we’ve found that that kind of success, the kind that is unquestionably the result of your blood, sweat and tears, is incredibly invigorating. Our colleagues fall in love with it, and embrace it almost universally. And, anecdotally, I see that it affects the way they live their daily lives outside of work—their relationships with others in the community, friends, families, and other businesses. But it also affects the way they vote. Think about it: Once you’ve had a taste of the thrill that comes with building something yourself, it’s hard to get excited about someone who tells you they are going to “grant you prosperity” by giving you something; those promises don’t excite you very much. Our folks tend to become incredibly responsible as individuals, they covet their freedoms and have proven, over and over again, that once they have a taste of the benefits of our way of doing things, they are stubbornly unwilling to trade freedom for any sort of safety net or benefit that purports to make their lives better.

The Freeman: People might be confused about the idea that at your company there are no bosses, but there are “authorities.” Can you unpack this distinction?

Green: There are authorities in every facet of our lives—and that’s a good thing. When I need my appendix removed, I want the world’s foremost authority doing it, if possible. The question is, how does one gain authority? It can either come from a title—that is, handed down as some sort of structural set of rights—or it can come from one’s peers as a result of performance. We believe that true authority is the accumulated esteem of your individual colleagues. We believe that we’re stronger if the only way to gain authority within the organization is by providing excellent service to your colleagues, and for them to individually acknowledge you as an authority.

It’s definitely more efficient to issue a decree (in the form of a job title) that anoints me an authority, but can you imagine how frustrating it would be if that were the way the world worked outside of our jobs? Imagine if your choice of doctors when it came time to have your appendix removed was made based upon some sort of formal “hierarchy” of appendix doctors that was appointed by the government?

So there is authority—but it’s what we call informal and dynamic. It’s given to a person by his colleagues as a matter of individual choice. And those colleagues can take that authority away as quickly as they gave it if the authority fails to live up to the expectations of their colleagues—just as you have a choice, in a free market, to seek out an alternative supplier if your current supplier fails you.

The Freeman: If self-management involves tying an employee’s personal commercial missions to the performance of themselves and the profit centers within the firm, what can nonprofits do by analogy?

Green: Interestingly enough, while we are a for-profit enterprise, and while we measure profitability as a key high-level measure of the degree to which we achieve our mission, we don’t obsess about profitability. We do have these micro business units that we’re working to build robust profit-and-loss statements (P&Ls) for, but even those P&Ls are simply one of a handful of indicators of performance.

I think the critical thing for any enterprise—for-profit or not-for-profit—is to develop a robust mission for the enterprise, and personal commercial missions for each colleague within the enterprise. Those personal commercial missions—essentially mission statements specific to individual colleagues—should, collectively, roll up to the overall mission of the enterprise. From there, you can develop what we call Steppingstones—measures of process performance. Most of our Steppingstones are not profit-related; they are measures of the individual processes that each colleague has committed to.

Any organization, with a little work, can be defined in terms of missions and processes measurable in terms of Steppingstones—irrespective of the legal structure of the enterprise. In fact, our thought has always been that profit, as a measurement of performance, is not really actionable, and as a guide for action, isn’t really the most critical measurement. Profit will result from excellence in performance if we perfect our processes as measured by Steppingstones—but you can’t directly affect that profit.

The Freeman: Paul, it’s been a pleasure.

Green: Thank you. FEE

PayPal's Private Governance

EDWARD STRINGHAM

The nine most terrifying words in the English language are, "I'm from the government and I'm here to help."
—*Ronald Reagan*

Markets have a long history of generating rules and enforcement mechanisms from within (endogenously) rather than requiring market participants to wait for the State. Instead of attributing the success of markets to government bureaucrats and elected officials, we should instead thank PayPal founders like Peter Thiel, Max Levchin, and other providers of private governance who help make markets work.

PayPal was founded in 1999 to facilitate payments between any two parties with email addresses. No costly credit card accounts or merchant terminals were needed. What PayPal did not foresee was the degree of fraud to which it would be subjected. Fraudsters from all over the world would hack into accounts and transfer small amounts of money out of each one. By 2001 PayPal had gross revenues of $14 million per year, but was losing $10 million per month to fraudsters. At first the company went to the government to stop the fraud and recover the money. But in short order PayPal realized that relying on the government to solve its problems was hopeless.

> WHEREVER WE see government uninterested or incapable of protecting contracts, we see private parties taking steps to deal with the problems of fraud or the protection of property rights.

PayPal gave the FBI evidence, but noticed that the government was not exactly up to date on the latest technology and would ask the company questions like, "What's a banner ad?" according to one PayPal executive who spoke with me. The government had little ability to identify the anonymous fraudsters, and when PayPal identified them there was a "dispute between the FBI offices in San Jose and San Francisco over which of them had jurisdiction over Kazakhstan." The government simply lacked the expertise to do anything to protect this new kind of market. And one can only wonder what perverse incentives led the FBI to quibble about jurisdictions before actually solving the case.

Yet, miraculously, chaos did not ensue. Rather than sitting around and hoping that government would solve its problems, PayPal took matters into its own hands. It developed a fraud monitoring system that used artificial intelligence to detect potentially fraudulent transactions. If 100 separate accounts were transferring $1,000 to one account and that recipient was suddenly attempting to withdraw $100,000, alarm bells would ring to have PayPal employees, not government, check up on the situation.

PayPal named its fraud monitoring system Igor, after one of the hackers defrauding it. It developed algorithms that could learn over time and became quite good at approving legitimate transactions and preventing bad ones. PayPal had to weigh the risk of letting bad transactions go through against the cost of turning down good ones. Rather than treating the problem of fraud as a legal problem, the company treated it as a risk management one.

The fact that PayPal could not go to government courts to have its contracts enforced *ex post* became irrelevant when PayPal successfully dealt with problems *ex ante*. In order to stay solvent, PayPal had to drop the Nirvana fallacy of government protection and devise its own security measures. PayPal basically assumed the risk of fraud on behalf of customers and profited immensely by reducing it. PayPal now processes $100 billion worth of transactions per year and has an industry-leading loss rate of only 0.5 percent. It prices the cost of fraud into each transaction, and that gives the company incentives to minimize it.

Payment processors associated with American Express, MasterCard, and Visa followed suit and now rely on scoring systems to estimate the probability that any transaction is fraudulent. You don't have to worry too much about being defrauded by an online merchant when you know that your credit card company takes steps to protect you.

Private solutions like these are quite common today, as they have been throughout history. Wherever we see government uninterested or incapable of protecting contracts, we see private parties taking steps to deal with the problems of fraud or the protection of property rights. I like to refer to these solutions as "private governance."

Government bureaucracy has fewer incentives to be responsive to the needs of market participants. Although we could assume that government will solve our problems, as Reagan's words imply—and as PayPal observed firsthand—such an assumption is often imprudent.

Rather than waiting for nonexistent government solutions, private parties can profit by coming up with private solutions. From reputation and dispute resolution mechanisms on eBay, to arbitration agreements that underpin most all markets, markets depend a lot less on government than most people think. Rather than viewing markets as a creation of government, or as something that must be constantly nurtured and protected—and kept under tight control—by government, we should recognize how robust markets really are. **FEE**

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Rahm's Rule of Crisis Management: A Footnote to the Theory of Regulation

BRUCE YANDLE

Rahm Emanuel, the mayor of Chicago and former White House chief of staff, is famous for a lot of things. But perhaps his most celebrated claim to fame has to do with the politics of crises.

"You never want a serious crisis to go to waste," he said. Why? Because "it's an opportunity to do things you could not do before."

Rahm's Rule gives a whole new meaning to the term "crisis management." It also helps us understand how opportunistic politicians can both establish and respond to crisis-based circumstances—ensuring that pork gets delivered to favored constituents while everyone else is distracted by the looming crisis. The rule forms a footnote to theories that help us understand the regulatory State.

The situation is akin to a fire-stoking arsonist who is also a firefighter. But there's more to the matter than this. A few examples of crisis-enabled pork production will illustrate just how complicated things can become.

The Price of Avoiding the Fiscal Cliff

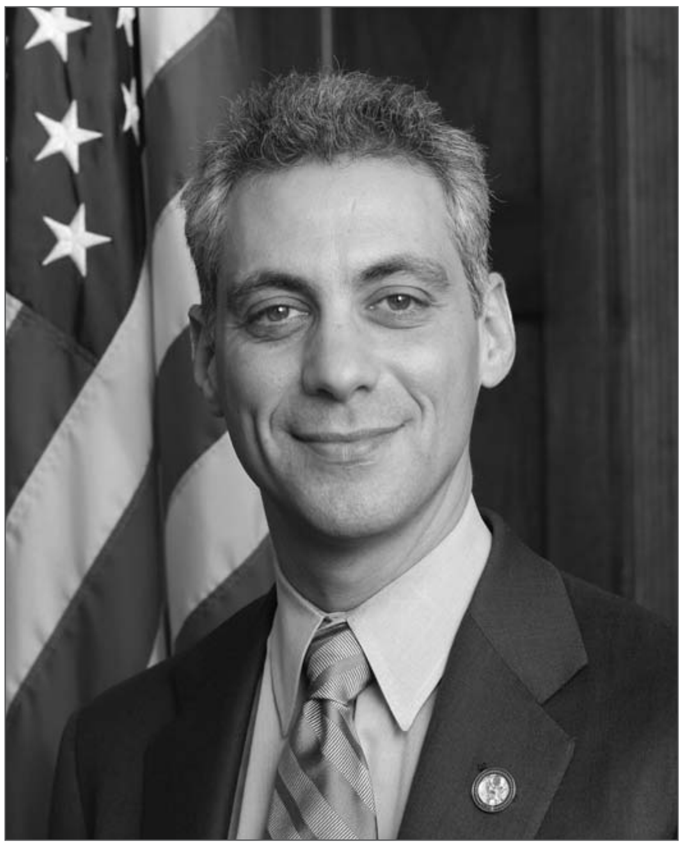
The recent political deal to avoid the "fiscal cliff" is a case in point. To appreciate the full impact of Rahm's Rule in this case, we must return to July 2011—to the heated-but-unsuccessful budget negotiations that took place between House Speaker John Boehner and President Barack Obama.

Boehner's efforts to get a deficit deal—one that would cut spending dollar-for-dollar with every increase in revenues—went nowhere, though the two protagonists did agree on a final package that contained more revenue and cuts than the later fiscal cliff agreement. But the deal the two reached then was not acceptable to those who held power on either side of the aisle.

According to writer Bob Woodward's account of the July negotiations in *The Price of Politics*—which is based on personal interviews with the key players—when things finally collapsed and the deficit summer soldiers were returning home, the White House put forward the idea of "sequestration." This would be a spending freeze on previously appropriated funds of $1.2 trillion if it turned out that the next Congress was unable to put forward a deficit reduction package acceptable to Obama.

The sequestration was to be triggered on January 1, 2013, with equal cuts to come from defense and discretionary spending. To the surprise of many, the sequestration poison pill was a part of the 2011 budget resolution signed by the President in August 2011. Therein were planted the seeds of the major budget crisis that bloomed forth in all its glory at the end of 2012.

But as Emanuel so wisely stated: "You never want a serious crisis to go to waste." How might the canny politicians make the most of a crisis they themselves concocted?



With uncertainty assumed away for a moment, politicians on both sides knew that a crisis was brewing, since they helped form it, and that ultimately some kind of last-minute legislation would be passed. They also knew they'd be able to pack pork into it as it passed through, without the mourners or cheerleaders noticing.

Making Pork Sausage into the Night

Of course, no one knew for sure whether Congress would fail to come forward with a deficit deal that Obama would sign. And even the President admitted during his reelection campaign that sequestration would never happen. But as 2012's calendar pages fell to the floor and December beckoned, there were many lobbyists in Washington hoping that the sequestration crisis would indeed become real. With the debate between Congress and the White House growing more heated by the day, the possibilities of converting crisis to pork became better by the hour.

But this was destined to be no ordinary crisis. It unfolded against a backdrop of U.S. debt rating cuts, new turmoil in Europe, serious Middle East disruptions that heightened defense budget concerns, and an economy that just couldn't seem to gain traction. Serious tinkering with taxes and spending at times like these raised almost vital questions about the nation's current and future well-being. At least, this was the way the situation was described by wise and seasoned political spokesmen who frowned as they stared into the TV cameras.

The more serious the crisis, the greater the media outcry; and the tighter the calendar for resolving it, the better the chances that members of Congress could attach special interest promises to a final bill that would be passed at the very last minute. In fact, forcing any resolution to the last minute made it possible to hang even more meat on the hooks, since few critics would have the time or interest to look for it, much less take it out. Remember: At the zero hour, all eyes are focused elsewhere.

FORCING ANY resolution to the last minute made it possible to hang even more meat on the hooks, since few critics would have the time or interest to look for it, much less take it out. Remember: At the zero hour, all eyes are focused elsewhere.

Free Riders, Dead Weight, and a Goodie

So when the fiscal fix train left the station, how much pork stood packed in the last car? According to a *Wall Street Journal* analysis, there were $12 billion in benefits for producers of windmill energy, $222 million in tax rebates for liquor makers, some $78 million in writeoffs for NASCAR track owners, a special $62 million tax credit that will keep StarKist operating the only meaningful industrial plant in American Samoa, and—best of all—a $410 million special tax treatment gift to Hollywood movie studios. But even as these porcine free riders sat front and center in the fiscal train's caboose, there was an even bigger political goodie hidden among the bill's baggage.

According to *The New York Times*, drug maker Amgen may have won the blue ribbon for rent-seeking. The fiscal cliff legislation contained language that delayed limits on drug prices that had been a part of previous legislation intended to bring down Medicare costs. When politicians regulate prices, all kinds of things can happen. That goodie is worth $500 million over the next 10 years, we are told. Without mentioning the word "Amgen," the last-minute legislation exempted one of the firm's major products from previously mandated price controls. It is reported that Amgen had 74 lobbyists working on the deal. You read that right. That's 74 people working the halls of Congress while the fiscal cliff battle was being fought. So, do the math: 74 people produced $500 million in future net revenues. That's $6.75 million per worker. With gains that big, the Amgen government affairs office must surely be counted as a major profit center along with other Amgen divisions.

Amgen was not the only Medicare price manipulation winner. According to *The Wall Street Journal*, Senate Majority Leader Harry Reid adjusted some prices to accommodate California-based Varian Medical Systems, Inc. Varian, a maker of radiation tools for battling brain tumors, received a bonus when its archrival, Swedish firm Electa AB, found its Medicare reimbursement rate was cut by 58 percent—all at the very last minute—while Varian's rate held firm. Electa's U.S. chief said that he was shocked when he heard the news.

Rahm's Rule, TARP, and Dodd-Frank

Of course, the fiscal cliff is not the first recent crisis that enabled politicians to pack pork into last-minute legislation. Consider the Troubled Asset Relief Program (TARP), the emergency program that funded bailouts for banks, insurance companies, automobile companies, and a host of other enterprises following the 2008 financial crisis. With the sky falling, Wall Street financial institutions failing, and national leaders suggesting that another Great Depression was in the offing, Treasury Secretary Henry Paulson on September 19, 2008, delivered to Congress a three-page piece of legislation that would authorize him to purchase $700 billion in sharply depreciated mortgage-related assets from troubled banks and financial institutions, thereby pumping new money into trembling credit markets and financial institutions.

Even with the crisis becoming more serious by the hour, Paulson's bill went nowhere. But on October 3, 2008, Congress passed the Emergency Economic Stabilization Act of 2008, which contained the TARP program. Included in the rear car was an exemption from excise taxes for wooden arrows produced in the United States for use by children, a special seven-year cost recovery period for a racetrack operator, duty suspensions on wool products, special depreciation rules that favored ethanol producers, and new incentives for movies produced in the United States. Mr. Paulson's three-page bill became a 451-page statute, which was signed into law by President George W. Bush a few hours after it was passed. After all, the nation was facing a serious crisis.

More recently, Rahm's Rule ran rampant in the Dodd-Frank Wall Street Reform and Consumer Protection Act,

Bootleggers, Baptists, and Crises

Freeman readers may be familiar with Professor Yandle's famous bootleggers and Baptists thesis. In a tidy explanation for Cato's *Regulation*, he writes:

> Durable social regulation evolves when it is demanded by both of two distinctly different groups. 'Baptists' point to the moral high ground and give vital and vocal endorsement of laudable public benefits promised by a desired regulation. Baptists flourish when their moral message forms a visible foundation for political action. 'Bootleggers' are much less visible but no less vital. Bootleggers, who expect to profit from the very regulatory restrictions desired by the Baptists, grease the political machinery with some of their expected proceeds. They are simply in it for the money.

When it comes to crises, bootleggers-and-Baptists coalitions are at their most effective. Consider that the justification for any emergency legislation always has a moralistic veneer. But we should think like Deep Throat advises and "follow the money." When the outcries from the "Baptists" are strongest, we should be the most suspicious, because that's when bootleggers are likely to gain. Even when special favors are bound up with unrelated legislation, the rent-seekers are able to pounce. The nation, after all, is distracted. FEE passed in 2010. Yet another crisis-generated product, Dodd-Frank's main legislative thrust was to establish a host of far-reaching rules affecting financial institutions. Many of these regulations are still being written. But while the legislation's main theme addressed such things as banks that are too big to fail and related regulatory schemes, there in the bill's more remote corners rest major pieces of special interest pork that have little or nothing to do with financial institution reform. The Durbin Amendment to the bill is an example: It requires the Federal Reserve Board to cap the debit card fees banks can charge retailers. The mandate shifted costs from retailers to bank consumers, who pay the higher service fees that banks charge to offset their debit card losses. Retailers appear to have won concentrated benefits paid for by rationally ignorant bank customers who have no idea why the fees they pay went up at about the same time.

Probing deeper into Dodd-Frank, one finds a package of special interest benefits that, even with a stretch, cannot be related to the legislation's principal purposes. That is, these provisions have nothing whatsoever to do with financial institutions and markets. Title XV of the law contains requirements that apply to the mining and marketing of metals in the Democratic Republic of the Congo that might be used to provide Congo warlords with the means to wage war. Under the legislative mandate, firms that produce listed metals and minerals must report to the Securities and Exchange Commission—including the results of an independent audit—the steps taken to maintain production and supply security.

According to a *New York Times* opinion piece, the law has shut down legitimate producers and devastated local economies that depend on income from related jobs. But one producer has thumbed his nose at the law. The leading warlord, General Bosco Ntaganda, nicknamed "The Terminator," provides security to the bootleggers who now deal in contraband metals. And who was it that lobbied for the law? The *Times* reports that the special provision was sought by human rights advocates Global Witness and Enough, among others. Some metal bootleggers won, while lobbying "Baptists" helped with crisis legislation. The terrible outcome was undoubtedly not intended. But intentions rarely align with consequences.

RAHM'S RULE is a guarantee that efforts to resolve a deadline-based crisis will go on to the very last minute.

Final Thoughts

Rahm's Rule is a useful accessory to a body of theory that seeks to explain the political economy of regulation. The rule tells us that major crises can provide cover for distributing benefits to targeted special interest groups. The greater the magnitude of a given crisis and the shorter the interval for forming legislation to deal with it, the larger the spread of pork that can be packed into the final legislation. Rahm's Rule is a guarantee that efforts to resolve a deadline-based crisis will go on to the very last minute. We might keep this in mind for the next deadline-driven crisis.

In today's economy, regulation is found at every meaningful margin. Politicians set and rearrange prices for important services and products for consumers nationwide. They open and close market entry and give advantage to favored groups by altering taxes, depreciation schedules, and other regulatory schemes. Doing all this in the full light of day and with full and open debate would be a challenge. But then there are crises to serve the politicians' interests. Some arise spontaneously and some are created or magnified consciously by the politicians themselves. The sequestration element in the fiscal cliff story is an example. The shouts of crisis and the end of western civilization that preceded TARP are another. In all cases, Rahm's Rule applies: "You never want a serious crisis to go to waste." FEE

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Fordlandia: Henry Ford's Amazon Dystopia

TOM W. BELL

Libertarians daydream about building private cities in the developing world. It will never happen, though, if they ignore real-world nightmares. Consider the biggest, baddest failure of private government: Fordlandia.

In 1927, the American industrialist Henry Ford began building a private city—Fordlandia—in the depths of the Brazilian Amazon forest. His company had won title to nearly 2.5 million acres of land—over 3,800 square miles—for a planned rubber plantation and company town. Ford spent over $20 million (about $300 million in today's dollars) putting in roads, water and power systems, rail lines, factories, offices, medical facilities, homes, schools, and stores.

Drawn by the prospect of good jobs and modern living, thousands of workers and their families flocked to Fordlandia. Soon, however, waves of rioting, looting, and burning roiled the city. Ford abandoned his namesake in 1945, leaving it to rot in the jungle.

Hubris

Why did Fordlandia end in failure?

Perhaps because it was born in hubris. Its founding genius ranked as the richest man in 1920s America. He made his fortune founding and running the Ford Motor Company, one of the world's largest and most profitable firms. But Henry Ford cared about more than making cars and money. He wanted to make a new kind of worker.

Ford's mass production assembly lines needed regimented, reliable employees. Ford got them by paying nearly double the prevailing wage and by subjecting his workers to the oversight of Ford Motor Company's own sociology department, which directed workers' personal hygiene, household management, and off-hours recreation.

Ford exercised still more control over workers who lived in the Ford Motor Company towns built across the upper Midwest to harvest timber from the company's huge and remote forests. Henry Ford took a detailed interest in the company towns, dictating what workers should plant in their front yards and what dance steps their children should learn at school.

Ford longed for a larger canvas, however. He worked up plans to build a 75-mile-long city along an impoverished stretch of the Tennessee River, but federal lawmakers balked at the notion. Perhaps Ford would have fared better if he had not announced his intention to create a regional

Courtesy The Henry Ford

"energy dollar" backed by the power of his dams. Instead, the federal Tennessee Valley Authority took charge of the region's rivers. Frustrated at home, Ford looked abroad.

Fordlandia was born of Ford Motor Company's need for vast amounts of rubber—not just for the Model T's tires but for gaskets, hoses, wires, and other parts. Ford Motor Company began worrying about rubber during the 1920s, when it found itself relying on plantations located in Europe's Southeast Asian colonies. (Commercially viable alternatives to natural rubber had not yet been invented.) Rising prices and political uncertainty convinced Ford to find—or rather, make—another source of rubber. Just as the Ford Motor Company got wood from its own forests, it would get rubber from its own plantation. And just as it built towns for timber workers and their families, Ford would build an entire city to support its rubber plantation.

WHY DID Fordlandia end in failure? Perhaps because it was born in hubris. Henry Ford cared about more than making cars and money. He wanted to make a new kind of worker.

Poor Planning

Fordlandia ultimately failed because its rubber trees failed. Though native to the region, *Hevea brasiliensis* trees do not grow together in the wild. Packing them into a plantation made them easy prey for local diseases and pests. Plantations might work in Southeast Asia, where rubber trees had no natural enemies, but they seemed doomed to fail in Fordlandia.

In that, alone, we see one big cause of Fordlandia's failure: poor planning. Remarkably for so large and successful a company, the Ford Motor Company did not excel in working things out beforehand. The aviator Charles Lindberg, who worked with the company's aviation division, explained, "Their policy is to act first and plan afterward, usually overlooking completely essential details."

Ford distrusted experts. He staffed the Fordlandia project with capable men and expected them to work out the details by simple common sense and elbow grease. "Learning by doing" was a both a Ford management philosophy and a core principle of the pedagogy Ford impressed on the many schools he ran.

Fordlandia thus launched without anyone bothering to figure out what made Southeast Asian rubber plantations work—or what might make a Brazilian rubber plantation fail. And while the Ford Motor Company knew something about building and running company towns, it evidently never thought to consult with the United Fruit Company, which ran thriving company towns in neighboring regions. Ford would have to learn for himself how to deal with a foreign culture and a foreign government.

Consistent with his disdain for experts, Ford did not ask qualified attorneys to iron out the details of his agreement with Brazilian officials. On paper, Ford's negotiators won wide-ranging concessions: millions of acres of public lands; the right to exploit natural resources, construct buildings, railroads, and airfields, organize a private police force, and run schools; and exemptions from export taxes and import duties. Ford had no effective way to enforce those promises, however, when later political administrations found them inconvenient.

Logistical difficulties hobbled Fordlandia from the start. It was not simply a problem of remoteness—though the Amazon jungle proved remote indeed from Detroit. Nobody noticed until it was too late that the only effective way to reach Fordlandia—the Tapajos river, which ran through the property—grew too shallow during the dry season to allow passage of any but the smallest ships. A freighter sent from Detroit full of supplies necessary for getting Fordlandia started had to wait four months for the river to rise. When the freighter finally reached the work site, Ford workers discovered that the cranes needed to unload heavy cargo had been packed first, putting them at the bottom of the ship's hold.

Courtesy The Henry Ford

Those and other logistical mistakes left Ford officials unable to provide workers with adequate food, decent housing, or gasoline for power tools. Clearing the jungle by hand proved grueling and often deadly work. Workers fell prey to biting insects, poisonous snakes, scorpions, exhaustion, and illness. After one too many meals of rotten meat, they rioted, arming themselves with machetes and putting the Americans to flight.

Although Ford officials restored calm in that instance, later maltreatment of workers—including strident programs to clean up residential areas and futile attempts to impose prohibition—triggered worse outbreaks of violence. In the last of them, rampaging workers set fire to Fordlandia as they chanted, "Brazil for Brazilians! Kill all the Americans!" Ford officials had to call in the Brazilian army to restore order.

Fordlandia struggled on for some years but never came close to turning a profit. The Great Depression made business of any sort difficult, much less a business plagued with dying trees and rioting workers. Ford finally called the experiment off in 1945, surrendering Fordlandia to the Brazilian government for merely $244,200—the amount owed to laid-off workers under Brazilian law.

People frustrated with the foibles of statism have often advocated private government. Ayn Rand imagined Galt's Gulch, Robert Nozick called for a "utopia of utopias," and Randy E. Barnett describes how competing companies could create a polycentric legal order.

It's not just talk, either. As I discussed in my prior column, reformers in Honduras have been working on plans for private developers to build special development regions that would enjoy considerable autonomy from the central government. (Things have been looking up since my last report, but that's a subject for another column.)

Little good will come of daydreaming about private governments, however, unless we face up to the possible nightmares. The history of Fordlandia offers valuable lessons in how not to build and run a city. It remains for us to learn from Ford's mistakes and do better. FEE

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A Note on the Passing and Legacy of Armen Alchian

The modern economics profession stands almost alone as a discipline within which academics debate the relative merits of free enterprise and government intervention. Meaningful debate exists within the economics profession because a handful of mid-twentieth-century economists challenged postwar Keynesian-Social Democratic orthodoxy. One of those mid-twentieth century defenders of limited government and free markets has passed: Armen Albert Alchian.

Alchian was born on April 12, 1914. As an Armenian, Alchian was keenly aware of the potential misuses of government power. His early work as an economist began while serving in the Army Air Corps during the Second World War. Alchian worked at the RAND Corporation temporarily, but settled at UCLA. He played an instrumental role in promoting a realistic and productive approach to economic analysis. Alchian was a pioneer of Chicago-school comparative institutional analysis, along with Ronald Coase and Harold Demsetz. The comparative approach taken by Alchian and his allies eschewed false comparisons between private enterprise and big government.

During the mid-twentieth century, many economists harped on imperfections in markets and private enterprises, real or imagined. Every imperfection was deemed a "market failure." Public agencies would then be charged with the responsibility of correcting supposed market failures. Alchian and his colleagues recognized the illogical nature of this approach to economics. Meaningful economic analysis requires a full accounting of imperfections in both the private and public sectors.

Alchian is best known for his keen analysis of property rights and of information issues regarding the internal organization of private enterprises. While Alchian was part of the mid-twentieth-century Chicago movement, much of this work was influenced by Austrian theorists, particularly F.A. Hayek. In 1950 Alchian published an outstanding essay, "Uncertainty, Evolution, and Economic Theory," which stressed the importance of competitive selection processes as a private means of regulating entrepreneurs.

Alchian also coauthored a prescient paper in 1960 with William Meckling that warned against a slow trend toward socialism in the United States. According to Alchian and Meckling, there was a gradual trend toward expansion of the public sector in the United States. The growth of government was problematic because of a disconnect between the benefits of government programs received by particular citizens, and the costs of these programs to all taxpayers. Alchian and Meckling thus recognized essential components of the socialist calculation problem, developed by Ludwig von Mises and Hayek.

Alchian collaborated in the development of the Alchian-Allen theorem, which examines the effects of fixed costs on relative prices. According to this theorem, fixed costs (e.g., transportation costs or fixed penalties) will create bias toward higher-quality goods. The Alchian-Allen theorem has been used to explain a variety of issues, from the export of high-quality agricultural goods to elevated demand for hard liquor during prohibition. Alchian also pioneered the economic analysis of discrimination.

Though Armen Alchian has left us, he left behind a rich legacy of economic analysis. While I never met Alchian in person, his ideas strongly influenced my understanding of economics. Economists such as myself owe an incalculable debt to Alchian and his peers for carving out a niche for free-market economics during a period in which it seemed it might be overwhelmed. The man himself will be missed, but his ideas will live on. FEE

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America's Food-for-Votes Program

WENDY MCELROY

During his 2012 bid to become the Republican nominee for President, Newt Gingrich repeatedly called Barack Obama "the food-stamp President." From the time Obama assumed office in January 2009 through October 2012, the number of people on food stamps spiked from 31.9 million to 47.5 million, according to the U.S. government's own data. That is a rise of nearly 50 percent to a peak of 1 in 7 Americans and 1 in 4 children participating. The program's cost has more than doubled in four years, from $30 billion to $72 billion. So, it seems, there was plenty of bread to go with the electoral circus.

The food stamp program's new name is Supplemental Nutrition Assistance Program (SNAP). Critics claim it is economically unsustainable, widely abused, and the harbinger of a colossal welfare state. Advocates insist SNAP is the result of recession—a humanitarian necessity—and that food is a human right. But it is difficult to square food-stamp humanitarianism with other policies issuing from the White House, which add up to an attempt to make people dependent.

IT IS DIFFICULT to square food-stamp humanitarianism with other policies issuing from the White House, which add up to an attempt to make people dependent.

Ulterior Motives?

The recession—which was largely caused (and continued) by the government—itself is an inadequate explanation for the surge in food stamp recipients. The Obama administration has been recruiting people for its food stamps program with a zeal that outstrips simple humanitarian concern. In an article entitled "Obama Encouraging Americans to Get on Welfare," Michael Tanner of the Cato Institute commented, "The Obama administration clearly doesn't believe that enough Americans are receiving welfare." He continued,

> Health and Human Services Secretary Kathleen Sebelius last week issued an order giving the Obama administration greater authority to waive work requirements included in the 1998 welfare reform law. This comes on top of a new ad campaign, using Spanish-language soap operas, to encourage more Latinos to sign up for food stamps. The administration even gave a special award to an Agriculture Department worker who found ways to combat the "mountain pride" discouraging Appalachian residents from taking full advantage of food stamps and other welfare programs. One message was loud and clear: More Americans should be getting welfare.

And that's not all.

In the months prior to the 2012 presidential election, the USDA actively promoted "food stamp parties." In an article entitled "Food Stamps: Both Obama and Republicans Are to Blame for Record Crisis," Cato Budget Analyst Tad DeHaven quoted the toolkit guide used to promote the celebrations. "Throw a Great Party. Host social events where people mix and mingle… Make it fun by having activities, games, food, and entertainment, and provide information about SNAP. Putting SNAP information in a game format like BINGO, crossword puzzles, or even a 'true/false' quiz is fun and helps get your message across in a memorable way." In other campaigns, large cash awards were given to those who signed up the most people. The latter fact may have encouraged bureaucrats, rather than high-ranking officials, to ramp up the program.

There are political advantages to expanding programs like SNAP.

President Obama has never hidden his goal to redistribute wealth in America. SNAP is forced redistribution on at least three levels:

- First, taxes from the rich and middle classes go to the poor, which causes dependency.
- Second, crony capitalists benefit. For example, JPMorgan administers the debit cards through which food assistance is distributed. The fiscal watchdog Government Accountability Institute claims that the company's contracts in 18 of the 24 states it manages have brought in at least $560,492,596.02 since 2004.
- Third, immense bureaucratic structures are established at the federal level. Entitlements thus lock in the allegiance and votes of both those who receive benefits and those whose livelihoods still depend upon administering the programs, which paves an easier path to election as supplicants show up to "pay" with their votes.

Runaway entitlements thus weaken the political opposition. For example, Republicans' demand for restraint gets recast as callousness. But more importantly, entitlements weaken the free market, which is the true ideological enemy of all ambitious politicians, Democrat and Republican alike.

Dependency by Design

In addition to this food-stamp activism, consider two policies—one actual, another proposed—that close off alternatives to going on the dole.

The renewable fuels policies initiated under President Bush with the Energy Independence and Security Act of 2007 continue to expand and affect the prices of meals served in family kitchens. Under the Environmental Protection Agency's program, oil companies must dilute their gasoline with biofuel, almost all of which is ethanol derived from corn. Thus EPA policy is causing food prices to rise.

The San Francisco Chronicle recently reported, "In an average year, growers divert one-third of the nation's corn crop from food to ethanol production. Last year, the drought that affected 65% of farmland… reduced corn yields. Because of that, nearly half the corn crop went to ethanol production." Farmers compete with oil companies for grain they need to feed livestock and poultry; they have pleaded with the EPA to relax oil dilution requirements so that corn can fall to its natural level. The agency refuses. Obama could lower food costs and increase availability by requesting changes in his own administration's policies. Yet he has been silent.

What Obama has made clear, however, is his antipathy toward private charities. In a recent article called "The End of Charity," legal scholar Richard A. Epstein explains that Obama has sought to limit the tax deduction for charitable donations no fewer than four times. A new push is underway in the President's FY 2013 budget. It's hard to square the humanitarian explanation for the increased SNAP enrollment with this policy.

Indeed, Epstein asks a key question: "Why then would the government take steps to cut back on charitable giving?" According to Epstein the unsavory explanation is "both insidious and dangerous. It is to shrink the size of its main competitors in the private sector in order to increase the dependence of ordinary people on the federal government."

Private charities that provide services more efficiently than government are a political embarrassment. They highlight government's waste, corruption, and incompetence. Thus, it is in Obama's political interest to hinder both farmers who could lower food costs and charities that could provide better social services.

The Currency of Power

The private and public sectors are competing for the same customers. The trouble is, the currency of power is becoming the only thing that will get you anything in the United States. What's left when that happens? Dependency in the place of liberty. Government in the place of a productive citizenry. FEE

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The Dorm Boom: Higher Education's Fellow Traveler

DOUGLAS FRENCH

As universities are reportedly suffering from less revenue from state governments, anyone driving through a college campus is likely to be interrupted by construction traffic. Where I live, much of the campus of the local university has been under construction since I moved here in 2008—when Wall Street was crashing.

Hundreds of millions of dollars are being spent on new facilities nationwide, from dorms to basketball arenas. And yet funding from the State continues to fall.

Creative Destruction amid the Construction

It's a curious time for a campus construction boom. Alternatives to a traditional college education are growing every day. Millions are signing up to take courses known as MOOCs (massive open online courses). *The New York Times* reports that dozens of public universities plan to offer free online courses for credit to anyone worldwide with an Internet connection.

The education model that once appealed mostly to polymaths is becoming mainstream. Even big universities such as Arizona State, the University of Cincinnati, and the University of Arkansas are participating in a new program called MOOC2Degree. "We're taking the MOOC idea, but now it will be part of a degree program, not a novelty," said Randy Best, the chairman of Academic Partnerships, a company that helps public universities move their courses online.

The *Times* points out that colleges hope the new online program will attract thousands of students to provide a "new revenue stream [that] could be a lifeline for public universities hit hard by declining financial support from states."

The Dorm Boom

Amid the change and uncertainty, real estate developers are rushing to build student housing. Major homebuilding companies like Lennar and Toll Brothers that ramped their businesses up in the single-family housing boom have now shifted their focus to another boom: student housing.

Ironically, these builders see student housing as a port in the storm to smooth out the ups and downs of the housing business. *The Wall Street Journal*'s Dawn Wotapka explains their rationale.

"During the real estate crash," writes Wotapka, "as prices of single-family homes declined and apartment landlords reduced rent, many student-housing landlords continued to raise rent, thanks to the generosity of parents and student-loan programs."

For instance, Kayne Anderson Real Estate Advisors, a private equity investor with 15,000 beds, earned more than 20 percent annually from 2007 to 2012, despite the downturn.

As evidence of how hot this market is, in 2012, $3.7 billion worth of student housing projects traded hands, a near-doubling from the prior year. Landmark Properties, a longtime owner of this type of product, owns units totaling 5,000 beds, but is looking to expand its portfolio by over 50 percent, with another 2,700 under construction.

Landmark's president, J. Wesley Rogers, told *The Wall Street Journal*, "A lot of people think our space is hot. You see a lot of new players circling the space right now."

Developers believe parents will continue to send their kids away to university — no matter that tuition costs have increased 440 percent in the last 25 years, more than four times the rate of inflation.

Mal-employment

Each year from now until 2022, three million students will graduate from high school and will be looking to head off to college. After all, a college degree is the key to financial success.

Except it hasn't been lately. Most college graduates cannot find a job requiring a degree. If they can find employment, it is as bartenders or baristas or the like, a phenomenon referred to as "mal-employment."

In a research brief titled, "The Employment and

Mal-Employment Situation for Recent College Graduates: An Update," produced by the Center for Labor Markets and Policy at Drexel University, the authors note that between 2007 and 2012, there was a sizable change in the proportion of all young college graduates who worked in jobs requiring a college degree. In 2007, 54.1 percent of 20-to-24-year-olds were employed at jobs requiring a college degree. Five years later, that percentage shrank to 43.9 percent.

For 25-to-29-year-olds, the proportion of those employed in college-required jobs fell from 63.9 percent in 2007 to 56.7 percent in 2012. According to the researchers at Drexel, a large part of these declines occurred in the last two years, despite a job recovery for the overall workforce.

Hard Realities

One of these days students and parents will figure out that college is not the bargain it once was. There is not enough gold at the end of the collegiate rainbow to pay off thousands in student loans.

As with most booms, there is plenty of debt fueling college admissions. The New York Fed reports that student loan debt has nearly tripled since 2004. Repayment isn't always possible, however; not everyone finishes college. While more than 80 percent of students think they'll graduate, only half that number actually do.

As it is now, according to TransUnion, "more than half of student loan accounts are in deferred status, where the repayment of the principal and interest of the loan is temporarily delayed. Deferred loans now represent 43.5 percent of all student loan balances."

Pinpricks

In Austrian business cycle parlance, students and their parents are investing in the higher-order good of a college degree, believing that skills-required, higher-paying jobs await college students after they have spent four to six years honing their skill sets. However, time preferences haven't changed. The demand for consumer goods remains, and that's where the jobs are.

The boom in government bureaucrats, barristers, and bankers is over. JPMorgan Chase just announced it is getting rid of 19,000 jobs. At the end of last year, banks in the United States had 2.1 million full-time employees.

M. Ali Khan/Shutterstock.com

That's 100,000 fewer than at the end of 2007. Since the end of the recession, government has shed 580,000 jobs, and James Huffman writes in *The Wall Street Journal* that law schools are in trouble, with applications down by half since 2004. The reason? Only about 65 percent of 2011 law graduates had law-related employment within nine months of graduation. And even those with work aren't necessarily set: Starting pay has crashed.

All of these facts would seem to fly in the face of the logic of the student-housing industry, but developers appear undaunted. Reportedly there is a shortage of between 1.5 million and 2.15 million beds. Universities lack the funds to build and are counting on the private sector.

While Freddie Mac, a large purchaser of student housing loans, is a bit cautious after purchasing $1.7 billion in loans last year, the private sector is ready to build. Kayne Anderson's managing partner Al Rabil isn't worried about oversupply. "In most all cases, you're looking at a situation where development is just catching up in creating supply to keep up with demand."

Bricks-and-mortar higher education is a bubble searching for a pin. Now it's not alone. Student housing is going along for the ride. FEE

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Too Much Distortion: Federal Meddling in Your Music

MELISSA DANIELS

Last fall, Linda Perry performed a special show for a very small audience. Her venue: a white-walled hallway outside a hearing room in the U.S. Capitol.

Perry is the songwriter behind “Beautiful,” the ode to inner strength popularized in 2002 by Christina Aguilera. Perry performed the pop ballad just before a meeting of a House subcommittee taking up the issue of Internet radio royalties. Instead of gospel singers, she was backed by a PowerPoint projection that read, “Beautiful was played more than 12.7 million times on Pandora and Perry’s compensation equaled $349.16.”

Who created the formula that had Pandora, an Internet radio service, paying Perry just a few hundred bucks for millions of plays of a smash single? Not the fans. Not the industry.

> CONGRESS’S attempts to impose last century’s regulatory structures on a dynamic, evolving music ecosystem have produced a tangle of copyright laws. And it doesn’t seem to be working for anybody.

Pandora pays royalties set by the U.S. government through the Copyright Royalty Board, or CRB. The same goes for Internet radio broadcasters such as Last.fm, Clear Channel’s iHeart.com, and any radio station with an online broadcast, whether college or corporate.

Perhaps as much as any songwriter, agent, artist, audience member, or critic, the three judges of the CRB, appointed by the Librarian of Congress, determine the future of your music, one case at a time.

Social Distortion

The little-known board has been around for about a decade, never developing anything like groupies outside niche legal circles. Its anonymity is enhanced by the fact that it meets—quietly—inside the Library of Congress, with an address on the fourth floor of the James Madison Memorial Building along D.C.’s Independence Avenue.

In real estate, homes have titles. In music, the corollary is copyright—a title to a song, if you will, which can be shared among several interests, including the songwriter, the artist, and a music label. That share determines how much in royalties others (other artists, for example) wind up with to pay the shareholders. That cash, in turn, runs the music business.

Undistorted, the relationship between the use of music and royalty payments to artists might produce something like a real free market in music. Fans would still argue about matters of taste, of course—Beatles or Stones? The Clash or Sex Pistols? Tame Impala or The Lumineers?—but their listening habits would translate in the marketplace, based on frequency, demand, and availability.

That’s not how it played out. Instead, distorted by federal regulators trying to manage the myriad relationships between buyers and sellers, the government system produces horror stories.

The Horror

The story begins in 1976, when the feds first addressed copyright protections specific to sound recordings as part of an overhaul meant to address new technologies. Back then, that meant the spread of cassette recording. But compact-disc technology followed, and then came the rise of the personal computer.

Just two decades later, Congress was again playing catch-up, this time to account for the explosion of digital music copies on the Internet.

The result was a complicated, technology-specific system. A series of federal acts spelling out copyright laws (and therefore, royalty payments) for digital radio followed, including new standards for song-recording copyright owners and performers. Any discrepancies would be settled by the Copyright Arbitration Royalty Panel.

But even this system wasn't enough. Technology moved more quickly than the regulators. So, in 2004, Congress created a new body—the three-judge CRB—to establish royalties for recordings played on Internet and satellite radio outlets. For each song created, copyrighted, and then played on one of these services, payments are supposed to trickle down in a gentle drizzle of cash and coin, percentage point by point, to performers, songwriters, and other rights-holders.

The result of the 2004 legislation was a tangle of copyright laws, the result of imposing the last century's static regulatory structures on a constantly evolving music ecosystem. And it doesn't seem to be working for anybody—the industry, the artists, or the consumers.

The Capitol Killed the Radio Star

This patchwork regulation has created an uneven playing field among broadcasters. Under its CRB-set royalty rate, Pandora paid rights holders a whopping 50 percent of its revenues in 2010. By contrast, satellite service Sirius XM paid 10 percent.

Terrestrial radio stations, which operate in a separate system, paid—and continue to pay—royalties to publishers and songwriters, but pay no royalties to performers at all.

If you're looking for evidence of the government picking winners and losers, you need look no further.

The Internet Radio Fairness Act, proposed in the fall of 2011, would have brought Internet radio services like Pandora into the CRB's lower rate structure for Sirius. It sounds fair for Pandora, maybe, but it would have cut back the royalties earned by artists.

Artists receive what amounts to fractions of a cent for each "listen" their song receives. Taken collectively, though, payments issued for the total number of "listens" received by every song and artist can really add up. In 2012, the nonprofit SoundExchange, which collects and distributes these royalties, doled out $462 million, up 58 percent from the previous year.

Very quickly, though, the government's attempt to align players like Sirius and Pandora was bogged down in controversy. Along with "Beautiful" songwriter Perry, other creators, including Desmond Child, the songwriter behind Bon Jovi's "Livin' on a Prayer," went to the capitol last year to lobby lawmakers. Whatever balance it might restore at the industry level, they argued that the new law would dent their own revenue. Dozens of artists—from Alabama to the Zac Brown Band—also came out against the new regulation.

This image—artists arguing with lawmakers, lobbyists, service providers, fans, and one another—says a lot about what's wrong with government attempts to regulate an industry.

"We Called It Punk Rock"

Lost in the fight over a certified payday for creators is the original intent of music copyright law: to ensure public access to works of art.

A few people spoke up for the possibility that the free market provides the best protection for art. Free-market advocates from the likes of Citizens Against Government Waste, Americans for Tax Reform (ATR), and the Center for Individual Freedom spoke out against the IRFA legislation on the basis that it expands government price-fixing.

"Pandora is free to choose which business model it pursues, and to adapt and modify its business model as the market dictates," wrote Timothy Lee, the executive director of the Center for Individual Freedom. "But it should not be able to turn to Congress to intervene and reduce its cost structure in order to enhance or salvage a struggling business model."

Grover Norquist from ATR chimed in, asserting that "both the existing and proposed models pick winners and losers rather than allowing free-market negotiations."

How would free-market negotiations work in this case? For some artists, a simple exchange model of creating and selling hard copies of music is a not-so-distant memory. Damon Krukowski, of indie rock group Galaxie 500 and duo Damon & Naomi, has worked in the industry for decades.

He remembers not getting paid for his first album back in 1988—his label eventually went bankrupt.

But today, "the ways in which musicians are screwed have changed qualitatively, from individualized swindles to systemic ones," Krukowski wrote in an opinion article at the indie-music website Pitchfork.

Krukowski said Pandora paid a total of $64.17 for use of the entire Galaxie 500 catalogue in a single quarter, for 64 registered tracks (under the CRB's performer-rate structure). The band, a trio, also received a whopping 21 cents for 7,800 Pandora streams of a single song, "Tugboat," through BMI royalty checks meant for songwriters.

Frustrated with the nickel-and-dime system, Krukowski said he now streams all of his recordings for free on sites like Bandcamp. He'll get the same immaterial benefits from airplay—expanding a fan base and generating hard copy, ticket, or merchandise sales—without getting caught up in the game.

"But I have simply stopped looking to these business models to do anything for me financially as a musician," Krukowski wrote. "As for sharing our music without a business model of any kind, that's exactly how I got into this—we called it punk rock."

What a Free Music Market Might Look Like

Technological change may trigger regulatory avalanches, but there's also the opportunity for the industry to blossom outside of that structure once creators like Krukowski take their business plans into their own hands.

If the industry were able to negotiate royalty payments outside the confines of government-set copyright laws, the system could naturally reset itself to reward artists and consumers. Such deregulation of the digital radio industry could put the industry on the right foot as it continues to grow, expand, and adapt to the times.

If you're wondering what a free market in music might look like, consider Spotify—a streaming service that allows users to search for and play any song from any artist. This choose-your-own-playlist option is popular and growing: Spotify has more than 20 million users worldwide.

Spotify doesn't play in the same regulatory arena as Internet radio. It negotiates individual licenses with record labels to use music, as well as unsigned (that is, independent) artists.

While the company doesn't make the terms of those licenses public, several case studies indicate per-song stream rates at about half a penny. Some artists say Spotify pays too little, but others say the firm is actually quite generous; they point out that royalty payments consume about 70 percent of Spotify's total income.

As Spotify grows its market share, it's possible the company will use its power to push down royalties in order to increase profitability. At that point, artists might do better than appeal to federal regulators. They'll move somewhere else.

They may join someone like Joey Flores, co-founder of EarBits, an online radio service that doesn't pay royalties to artists. Bands can sign up for free, have their songs played on genre-based stations, and directly build an audience from EarBits listeners.

Flores says where 1,000 online radio streams might earn a band $1, on EarBits they're "paid" (our word, not his) in a different currency: an average of nine Facebook friends. For a band looking to build an audience, that can translate into ticket, album, or merchandise sales.

Flores, a musician himself, founded EarBits with a fellow bandmate in 2010. He envisions the future of artist compensation involving other valuable assets, like listener data or mailing lists. These kinds of negotiations also happen outside the regulatory apparatus of Washington—and end up benefitting the artists behind the music.

Such a model could be a win for independent artists looking to make a living at music. And there are many more of those than there are Top 40 pop stars.

"It's unfortunate," Flores said, "that no one says, 'Well, what else could we do that would be valuable for you?'… I don't know a band that wouldn't pay a dollar for nine Facebook friends." FEE

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Algae, Evolution, and the Future of Biofuels

JACOB BORDEN

The fiscal cliff deal that greeted New Year's Day included language qualifying algal biofuels for the $1.01-per-gallon blending tax credit available already to cellulosic and advanced biofuels. Once again, rather than letting market-based evolution work out how to replace fossil fuels, the government has decided it can pick the winner.

This of course has reignited both sides of a long-running debate, either touting algae as fuel sources of the future, or dismissing them as so much "pond scum." I have made a career of biologically derived liquid transport fuels (LTFs) and would like to offer some clarifying information.

ONCE AGAIN, rather than letting market-based evolution work out how to replace fossil fuels, the government has decided it can pick the winner.

Algae are amazing creatures. They or something like them created the petroleum deposits on earth from which we derive our LTFs, working their magic over many millennia. The potential energy yield from an acre of land, if this process could be run at 100 percent efficiency, is truly impressive, so scientists have been tinkering with algae growth and genetics.

Getting There

Here are the numbers: Of the sun's energy that makes it to earth, only about 17 percent reaches the surface, translating annually into 7,000 megajoules of light energy on a square meter of "standard" earth surface area. Only 53 percent of sunlight is photosynthetically active; about 70 percent of this actually makes contact and is absorbed by chlorophyll. Algae are able to convert 32 percent of chlorophyll-bound energy into fat. If everything worked perfectly, algae could produce approximately 15,000 to 20,000 gallons of liquid fuel per acre per year.

The science is well understood. In a nutshell, algae convert sunlight into molecules by reversing our digestive process. We eat sugars, extract energy, and expel "end-metabolites" of CO2 and water. Algae and other photosynthetic organisms take these metabolic dead ends and turn them back into the stuff of life: DNA, protein, and fat. They absorb sunlight with the enzyme chlorophyll, using the energy to bond CO2 with water, and store excess energy as fat. Some obese strains of algae generate 25 percent and sometimes even 50 percent of their body mass as fat.

It takes more processing to convert this fat into useful LTFs. Fat from algae can be extracted from the non-fat using methods similar to those for extracting soybean and canola oil—with a chemical solvent and/or with mechanical "breaking" of the cells. Both processes take a considerable amount of energy, but do produce a net output of fatty oils. Extracted oils can then be converted into the biological equivalent of diesel. Biodiesel, such as Willie Nelson's BioWille, is only the most prominent example. UOP and Neste Oil, among others, have competing technologies for converting oils into "green diesel," with a near-identical chemical fingerprint to diesel.

Just Engineering

But here's where, as a biochemical engineer, I must recommend caution. There's an industry adage that goes, "Once you solve the science, everything else is just engineering." But that "just engineering" is another way of saying that it usually doesn't work perfectly. If you don't want just a teaspoonful but rather 60 billion gallons of bio-equivalent diesel, it's not as simple as building more and bigger test tubes. There are certain to be issues and limits associated with scaling up.

Take just one example: Two of the ingredients, CO2 and water, are simple to combine; they make soda water. But scaling that up to account for all of the CO2 produced by U.S. diesel combustion—more than 440 million metric tons annually—presents a host of problems. For one thing, actually converting that much CO2 to soda would fill Lake Tahoe. Then you have to source the CO2. The air contains plenty, but has to be concentrated to be of any practical use. Industrial and utility combustion off-gases are rich in CO2, but are also dirty and not necessarily located where the sun shines brightly enough. Then we have to bring the water, CO2, algae, and sunlight together in some processing machinery. Will we use open ponds or enclosed plastic or glass bioreactors? Open ponds raise environmental contamination issues. Enclosed reactors would require a lot of plastic and glass that reflect light. In all cases, pumping water and mixing CO2 are energy intensive.

And the Winner Is…

What's my point? That each scale-up issue and parasitic energy load reduces the actual gallons per acre per year to well below the number of theoretical gallons. So the land area equivalent needed to replace diesel with algae may be Connecticut, or it may be Alaska. Algae may not even work out as an engineering solution to LTF production. We simply don't know yet, and we won't until the market is allowed to allocate capital to the thousands of engineering R&D projects that need to be completed before a practical biofuels industry is in place.

ExxonMobil invested heavily in photosynthetic algae technology. You probably saw their commercials. Joule Unlimited, a biotech startup company, manipulates the genetics of blue-green algae (which is actually a photosynthetic bacteria) to directly produce diesel analogues that transfer across the cell membrane and alleviate the need for physical extraction. Dynamic Energy is a joint venture between Tyson Foods and Syntroleum for converting animal fats and inedible greases into green diesel. Chevron and an international lumber company,

Courtesy Honeywell

Weyerhaeuser, also have a joint venture between them, Catchlight Energy, with a "longer term focus on direct conversion of biomass to hydrocarbons." Royal Dutch Shell and BP Biofuels—the business unit of BP where I worked as principal engineer—have both invested in Brazilian sugarcane-ethanol. Both have also invested in biotech companies with cellulosic ethanol and advanced biofuel technologies. And I was part of a technology collaboration between BP and Royal DSM, looking into non-photosynthetic organisms as an alternative to algae-derived diesel.

Who's right? I don't know. What I do know is that no one in the government knows, either. I do know that biofuels are worth investigating as a potentially cost-effective means of producing a substantial supply of LTFs for the world. Mother Nature uses an evolutionary process that involves testing and rejecting millions of systems over billions of years before winners emerge. We don't need that much time, but we do need the patience to let market-based economic evolution take place. Let's give the market-based evolutionary process an opportunity to work its wonders. **FEE**

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The New Swedish Model

SANDY IKEDA

Among policy nerds back in the day, “Swedish model” meant the brand of social democracy practiced in Sweden in the second half of the twentieth century. (Somebody would usually crack wise about Anita Ekberg whenever the phrase was uttered.) Outside policy circles, whenever the problems of socialism were discussed, it was common to hear people say as a kind of shut-up argument: “Ah, but socialism works in Sweden; what about the Swedish model?”

Swedish social democracy created an extensive welfare state—including comprehensive health care, generous unemployment benefits, and marginal tax rates commonly in excess of 70 percent. But that followed years of relatively free-market policies in the early twentieth century, which generated impressive economic growth. Government intervention in Sweden didn’t really get going until the 1960s.

The Economist on “Northern Lights”

Interventionists in the United States could learn something from what’s going on now in Sweden (although I fear they won’t). According to a recent spread in *The Economist* magazine:

> Sweden has reduced public spending as a proportion of GDP from 67% in 1993 to 49% today. It could soon have a smaller state than Britain. It has also cut the top marginal tax rate by 27 percentage points since 1983, to 57%, and scrapped a mare’s nest of taxes on property, gifts, wealth and inheritance. This year it is cutting the corporate-tax rate from 26.3% to 22%.

Compare these rates with the U.S. tax rates, under the 2013 tax law, of 39.6 percent on incomes above $400,000 (filing single) and 35 percent on corporations.

But in some sense the current dramatic policy changes in Sweden are just a continuation, after an interruption of several years, of a dis-interventionist trend that began in the 1990s. The “new” Swedish model is not really that new. Indeed, Sweden has climbed to 30th out of 144 countries in economic freedom according to FreetheWorld.com, compared to the United States, which has fallen to 18th, just ahead of Germany (31st) and far outpacing France (47th) and China (107th).

So What About the United States?

The federal deficit numbers in the United States, however, look worse compared to Sweden’s. Again, according to *The Economist*,

> Sweden has also donned the golden straitjacket of fiscal orthodoxy with its pledge to produce a fiscal surplus over the economic cycle. Its public debt fell from 70% of GDP in 1993 to 37% in 2010, and its budget moved from an 11% deficit to a surplus of 0.3% over the same period.

Not this kind of model.
Courtesy Allan Warren

The current U.S. federal deficit—the annual excess of government spending over tax revenue—is around $1.1 trillion.

The accumulated debt of the United States federal government now exceeds $15 trillion, which is roughly equal to the current gross domestic product (GDP), the dollar value of all goods and services produced in the U.S. economy in 2012. That means that the federal debt as a percentage of GDP is now slightly more than 100 percent (compared to 37 percent in Sweden).

The United States does compare favorably to Sweden in federal spending as a percentage of GDP. For the United States, that's about 39 percent, versus around 50 percent for Sweden. Including state and local spending boosts this figure somewhat, to over 40 percent of GDP for the United States, but that's still significantly below Sweden's figure. Sweden, though, with one-thirtieth the population of the United States, has a per capita GDP of $57,091 to the United States's $48,112.

If Sweden Can Do It, Can the United States?

Some fear that a debt-to-GDP ratio above 100 percent places the United States past the fiscal "point of no return"—that is, past the point where in modern times governments have been able to significantly reduce the percentage of debt to GDP. How did things get so bad?

Milton Friedman brilliantly characterized the main alternative politico-economic systems as follows:

1. Spending my own money on myself (capitalist model)
2. Spending my money on someone else (Christmas model)
3. Spending someone else's money on myself (rent-seeking model)
4. Spending someone else's money on someone else (socialism)

He went on to say that the problem with socialism is that eventually you run out of other people's money.

But if Sweden, a country in which the welfare state has been so entrenched over so many decades, can make such dramatic, even radical, changes in its interventionist habits, why couldn't the United States? A comparably dramatic reform here—perhaps "revolution" comes closer to describing what would be needed—is certainly possible, despite staggering institutional barriers, tenacious entrenched interests, and sheer economic ignorance.

The biggest obstacle, as I see it, is not having the strength of will to sustain the relentless intellectual and political battle needed to overcome all those other obstacles. And in all honesty, I find it hard to be very optimistic about that.

The Greek Model

Well into my sixth decade of life, one of the things I think I've learned is that radical change and the will to see it through are indeed possible—beyond any so-called point of no return—but only when it's clearly a matter of life and death. There has to be a sense of urgency, even desperation, to the extent that you become willing to do whatever it takes to survive. But of course desperation is tricky; desperate people can easily make matters worse. It's perhaps during crises, moments of widespread desperation, that a well-developed philosophy of freedom can have its finest moment by guiding desperate people toward real solutions.

So does the United States have to follow, say, hapless Greece—with its bloated welfare state, strangling regulation and taxation, and monetary profligacy? Will our crony-capitalist system develops cracks wide enough for enough of us to see that embracing liberty and rejecting statism is our last, our best, and our only hope?

I'm afraid our economy will have to look much more like the Greeks' before we'll muster the will to follow the example of the Swedes. FEE

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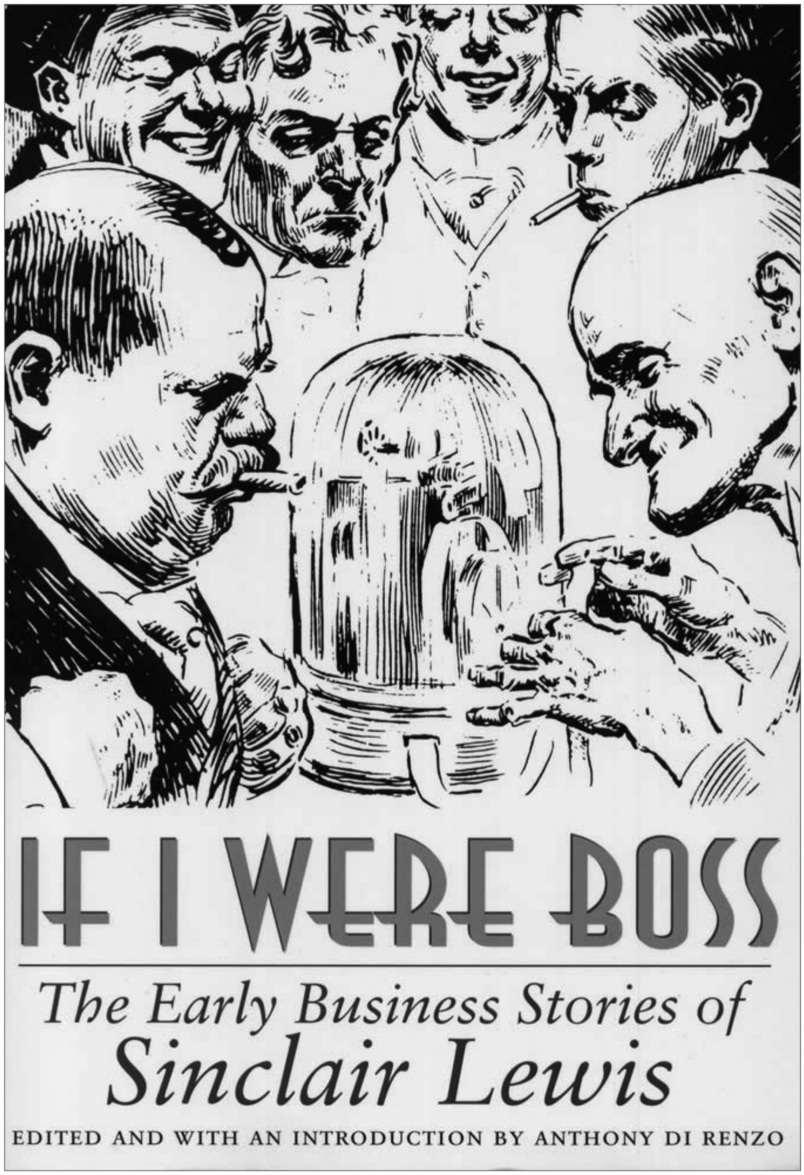
Fairy Tales for Cube Dwellers

SARAH SKWIRE

Sinclair Lewis's *Babbitt* may be the business novel of business novels. It's certainly one of the most frequent entries on the perennial lists of "100 Best Business Novels" that inspired this column. *If I Were Boss*, a collection of fifteen of Lewis's business stories written long before *Babbitt*, will certainly interest those who want to do a little literary archaeology and dig for the foundations of that great novel. They are certainly there to be exhumed. But *If I Were Boss* rewards any reader who likes a good business story. And while the collection's editor is unashamed about his preference for Lewis at his most bitterly satirical, the full set offers something for everyone's palate.

Those who want the satirical Lewis will relish the masterful Lancelot Todd stories, about an endlessly entertaining and ethically impaired advertising man. They're gems of business satire. Some of their funniest moments are "quotations" from the works of Lancelot Todd himself: works with titles like "Fishin' for Effishincy" and "The Smash and Lash that Put the Zing in Advertising." Equally funny are the tangles into which Lancelot puts himself by consistently ignoring his own advice that "You can flash up a rust-eaten stove on a full page set in seventy-two point Gothic BUT never make Doc Ultimate P. Consumer believe that the stove is honest-sure heating his little old shack. …Brer Ad Man, get hooked up with a by-jiminy firm that produces the honest goods, the good goods, before you attempt the Snappy Display."

Lancelot, who is all snappy display and no good goods, is as dishonest as possible, and gets caught every time. In "Snappy Display," Todd tries to seduce a "society lady" for her money and influence, but his plans are thwarted by his general manager and his secretary. In "Slip It to 'Em" he advertises and takes over the production management of a new line of cars that are so cheap and unsafe that the "way to get the best results with a Vettura



Sinclair Lewis, *If I Were Boss: The Early Business Stories of Sinclair Lewis*, ed. Anthony Di Renzo (Southern Illinois University Press, 1997). Original publication dates range from 1915 to 1921. 363 pages.

is to remove the engine entirely." The end of the story finds him driving another wealthy target of his seduction through a dark and stormy night in the Vettura she has purchased in order to prove her affection for him. "Getting His Bit" finds Todd on the lecture circuit, modestly detailing his military heroism in WWI France, until some real soldiers expose his fraud. And in "Jazz," Lancelot Todd tries to take advantage of a ghostwriter and finds that the pen is mightier than the three-piece suit.

But there is far more than satire here. The collection contains a trio of stories about women in the business world: "Honestly—If Possible," "A Story with a Happy Ending," and "The Good Sport." These are business romances, and unsurprisingly for the period, their happy endings do imply that no matter what her business interests might be, no woman's life can be complete without a man. However, on the way to these happy endings, we see a trio of women gain confidence, power, and economic independence by being very, very good at their jobs. "The Good Sport" is a particularly nice literary evocation of Dierdre McCloskey's bourgeois virtues as a couple learns to live and work together and both discover that being "a good sport" is much less important than being a good partner. And "A Story with a Happy Ending" gives us an office romance that teaches a boss that his former secretary—now his boss—"was his equal… his more quickly responsive companion, sharer in his every ambition and enthusiasm." She is his colleague as well as the woman he loves. This is fairly heady stuff for 1917.

Two of my favorite stories in the collection are diametrically opposed in their representations of businessmen. The first of these is "The Whisperer," which is about the spider-like Doctor Doremus and the subtle machinations he uses behind the scenes to gain control of a company, destroy his rivals, and put his toadies into place. Set in the pharmaceutical industry, the fears this story plays upon will chime with modern readers, and the office politicking and plotting will be strikingly familiar. Lewis's initial description of Doremus will certainly sound exactly right to modern managers.

> There are two blighted beings who are lavishly hated by all regular office men, whereof one is the suggester, that person who sits in a padded chair, and out of the rich fullness of his lack of experience with practical details advises comic changes which the chief expects you to carry out at once. The other pallbearer is that outsider who is suddenly elevated above men trained in the business because he has a college degree or a beautiful handshake. Both of these was Doctor Doremus.

Though Lancelot Todd always comically rises again, Doctor Doremus meets a decisive and businesslike destruction at the hands of a former toady who surpasses him. He is sent unceremoniously out the door with a five-cent cigar and, as Lewis says, "After that it wasn't easy for the doctor."

At entirely the opposite end of the scale is the final story in the collection, "Number Seven to Sagapoose," about Mr. Rabbitt, a traveling shoe salesman who is so nondescript that "if you had studied him for days, ten hours a day, you would have remembered nothing but his button and suitcase and moustache and diffident mouth." Mr. Rabbitt, however, has the salesman's skill of understanding people, of sizing them up at a glance. In the course of the story he bumps into a series of people while he travels, engages them in conversation, and changes their lives forever. The waiter who brings him coffee and pie ends up a famous surgeon. A small-town lawyer becomes a state senator. And a young woman about to leave her husband and run off with a Lancelot Todd type finds a job in a fancy hotel and closes the story by beginning to write her husband "a grudging illiterate letter, yet through its gray there sifted a tremor of dawn."

If I Were Boss is a joy to read. But it is also a fine example of why it is futile to expect that a great writer will have only one view about a topic as rich and as complicated as business or the people who engage in it. Lewis gives us a wealth of views, a wealth of characters, and a wealth of ways of thinking about business and businesspeople in these fifteen stories. The topic is too good, and the mind behind the writing is too good, to do any less. **FEE**

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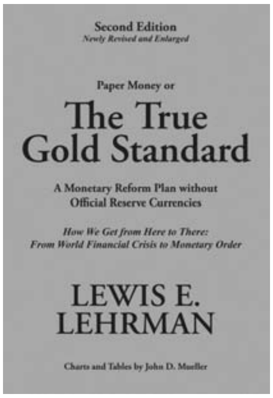
The True Gold Standard

by Lew Lehrman

The Lehrman Institute • 2011 • 148 pages. • $9.95



Reviewed by Robert Batemarco

I've reviewed many books for *The Freeman* that are long on diagnosis but short on prescription. Lew Lehrman demonstrates his appreciation of the need to finish the journey from idea to action by subtitling his book, *How We Get from Here to There*. The "here" and "there" in question are our current fractional-reserve fiat monetary system and a gold standard of the type in operation before 1914.

The book is divided into two parts. In the first, Lehrman lays out arguments many readers of *The Freeman* will be familiar with, such as the benefits of a gold standard over current monetary arrangements. In the second, Lehrman proffers the outline of a plan to implement a gold standard.

Lehrman makes the basic economic arguments—that a gold standard can:

- generate growth by drawing savings from inflation hedges into productive investments;
- prevent both inflation and the deflation that at times follows it;
- minimize the magnitude of business cycles; and
- provide an environment necessary to free international trade.

Lehrman also draws upon the lesson of history. The classical gold standard developed alongside the breakthrough economic growth of the West's Industrial Revolution. It was no coincidence. He also makes the legal argument that a gold standard is the type of monetary system called for in the Constitution.

The book's second part—pages 51 through 86—reads like a piece of legislation. This isn't really a criticism. In the first place, the author intends for it to be, at the very least, a starting point for the legislative enactment of a world gold standard. Second, if all U.S. legislation resembled this one—thirty-six widely-spaced pages, written in clear English, with no hidden power grabs buried in the fine print—most legislators would actually read it before voting on it and the United States would very likely be a much freer country than it currently is.

While Lehrman also argues that a gold standard will place constraints on the Fed, he does not go so far as to call for that institution's elimination. He does, however, propose that the Fed be privatized and stripped of its monopoly power, and that it divest its portfolio of all government securities within fifteen years (pp. 78–79). That's a good start.

Lehrman's plan has numerous merits. Demonstrating his knowledge of the history and economics of the gold standard, Lehrman takes pains to avoid repeating the interwar folly of setting the gold price so low as to require wrenching deflationary adjustments—adjustments that would immediately undercut public support for the gold standard. He also seeks to avoid setting it so high as to permit the inflation it is intended to eliminate. Lehrman also sees the need for gold coins to circulate (although the market would determine the extent to which this actually occurs). On the other hand, his provision to suspend the gold standard in wartime suggests he forgets the historical fact that the classical gold standard ended not because of any inherent flaws, but because of the desire of the belligerent powers to engage in inflationary war finance.

The biggest obstacles to the gold standard's acceptance, however, most surely come from within our borders.

The first includes the well-connected beneficiaries of the unearned and much-abused U.S. privilege of printing the world's reserve currency. The second is made up of the victims of the current dollar-reserve system, which is to say most of the rest of us, who neither understand nor care about monetary issues. While the presidential campaigns of Ron Paul have made a start in spreading such understanding, books like this one are needed to continue that process.

Lehrman's book should at the least generate needed debate and serve as a starting point from which to put in place the type of monetary system that will both uproot a key cause of our economic ills and take giant strides in the direction of a freer society. FEE

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Zero Dark Maybe

MICHAEL NOLAN

Sometimes being a libertarian can really get in the way of a good time, regardless of what you think about the war on drugs. Even without running everything I come across in pop culture through a filter of political orthodoxy—politics already pervades our lives enough as it is—some things present me with dilemmas I wouldn't have to think about if my politics were a little more mainstream.

Adam Ziaja/Shutterstock.com

At present, I'm trying to decide if my Oscar-season catch-up should include finally watching *Zero Dark Thirty*. Because it's about the war on terror, it raises questions that, say, the latest Adam Sandler movie wouldn't (though the latter might make me wonder if waterboarding is really so bad).

I'm reluctant mainly because I'm afraid I might like it too much. I'm as curious as the next guy to see how Seal Team Six finally got their man. It's just too difficult to set aside all the other men (and women and children) the U.S. government has gotten along the way.

Clearly, stakes aren't all that high. I'm not going to end the war on terror however I decide. Regardless, where I put my consent matters. I figure if I'm going to be saddled with a conscience, I might as well take possession of it.

In fact, the more I think about *Zero Dark Thirty*, the more I'm reminded of other movies set during the last "good war." The first, *The Americanization of Emily*, is one of the too-rare antiwar movies about WWII (it seems like almost all antiwar movies are about Vietnam, regardless of when they're set). In the key scene, James Garner's character says the blame for perpetual warfare lies with the willingness of everyone to honor the institution and speak of it as a venue for bravery.

I can't get over the point: Draping the deaths of soldiers in talk of patriotism, heroism, self-sacrifice, and the like ensures that another generation of kids is going to meet the same fate. And people will mostly find a way to be okay with that.

Choosing *Zero Dark Thirty* over other alternatives runs the risk of allowing myself to participate, however indirectly, in a contemporary version of the same kind of mindset. At least when I try to vegetate in front of a weekend's worth of basketball, I can mute the TV or change the channel during the relentless onslaught of military recruitment ads.

But there's also something a bit larger at stake, particularly since the villain we're talking about in *Zero Dark Thirty* is unmistakably awful on a world-historical scale. In other words, I'm glad they got him. But do I need to indulge in Hollywood fantasy about it?

And that makes me think of my experience watching Quentin Tarantino's *Inglourious Basterds*, also set during WWII. I saw it on September 11, 2009, in Manhattan, so I already had villainy on my mind. On the September 11 that mattered, I'd been a thousand miles away, but I had wanted blood regardless. By 2009, I had come to live in a world where a global network of U.S.-run torture cells, constant domestic surveillance, and a steady stream of drone-fired missiles raining down on rural Afghanistan (and, increasingly, Yemen, Pakistan…) were all part of the established norm.

Watching *Basterds*, I thought, would at least give me a break from thinking about this. Then I came to the climax, in which a packed theater is set on fire while a team of American commandos starts shooting people. The audience around me burst into cheering and applause as the audience onscreen realized what was happening—and that the exits had all been barred.

I knew where they were coming from. The theater onscreen was full of Nazi elites, including Hitler and Goebbels, so maybe calling them people is a stretch. And given the choice between the world we got and the one in the film—that is, one in which WWII ends without the slog to Berlin, and maybe without the incineration of Hiroshima and Nagasaki—I would choose the latter in a heartbeat.

But the choice I have instead is about how much more violence I'm willing to accept in the name of vengeance. There's a gulf between sympathy for the devil and simply not taking the first crucial step—like the one I suggested above, where the enemy stops being a person—down a number of different paths, none of which lead anywhere good. What that evening watching *Basterds* brought home to me is how easily even justifiable hatred can dissolve the barriers that hold us back from doing, being—or cheering on—otherwise abominable things.

I'll probably wind up watching *Zero Dark Thirty* anyway. I can't help being curious about how the hunt for bin Laden unfolded, even if I'm skeptical that the movie will be any more historically accurate than, say, *Argo*. But I also can't help remembering that the U.S. government, while hunting him down, built a surveillance State on the rubble of the Twin Towers. It's going to take a lot more than a good movie for me to forget now how much less safe we all are because of it. FEE

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