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Front cover by Tim Kelly

Not All Choices Are Equal

Opponents of the freedom philosophy never run out of insipid rebuttals. The latest to have a go at it is Martin Wolf of the *Financial Times* (August 8; www.tinyurl.com/2f28xo7).

Wolf ponders the question, “What is the role of the state,” and notes that a “strand” of classical liberalism (or libertarianism) “believes the answer is to define the role of the state so narrowly and the rights of individuals so broadly that many political choices (the income tax or universal health care, for example) would be ruled out a priori.”

Wolf here looks at choice from the perspective of the group, although only individuals choose. Thus he thinks if individuals are free, *society* is not free to do all that it might want to do, such as tax people’s incomes.

But the contest is not between society and individuals. So actually Wolf is lamenting that if libertarians had their way, some people could not use the State to restrict other people’s choices through the threat and use of aggressive force.

It is certainly true that libertarianism rules out some choices. But some choices are illegitimate. I can’t join Wolf in seeing a moral equivalence between wanting to keep the fruits of one’s labor and wanting to deprive others of theirs.

Wolf thinks libertarianism is “a hopeless strategy, both intellectually and politically.”

Why intellectually? “[B]ecause the values people hold are many and divergent and some of these values do not merely allow, but demand, government protection of weak, vulnerable or unfortunate people. Moreover, such values are not ‘wrong’. The reality is that people hold many, often incompatible, core values.”

I’m sorry, but I don’t quite get this. Is Wolf saying that government is the only advocate of the weak? When has government ever truly been the advocate of the weak? In any political system—including democracy—some are closer to power than others; some have a comparative advantage in manipulating the system, but it’s not the weak and vulnerable. Those in power use the weak to *justify* their usurpations. The weak may even be provided some level of succor—*after* having been exploited through mercantilism, corporatism, or one of

the other alternatives to the free market. They must be pacified and rendered harmless, after all.

Wolf is certainly right that people hold incompatible values. One payoff of liberalism is that it permits peaceful coexistence among such people. When religion was a State matter, everyone had to be concerned that if his sect didn't control the government, he would be persecuted. When no sect could gain political power, that threat disappeared and people could live peacefully even if they didn't particularly like each other.

And why is liberalism hopeless politically? “[B]ecause democracy necessitates debate among widely divergent opinions. Trying to rule out a vast range of values from the political sphere by constitutional means will fail. Under enough pressure, the constitution itself will be changed, via amendment or reinterpretation.”

Here Wolf stands on more solid ground. If people generally see nothing wrong in taking other people's things or otherwise depriving them of liberty, they will undoubtedly get around any constitutional prohibition. A constitution is only as good as people's understanding of it. No constitution interprets itself. We can't program a computer with The True Meaning and have it resolve all constitutional disagreements. People will do the interpreting, and no interpretation can put an end to the interpretative process.

I have no simple answer for how to establish liberty or prevent ideological erosion once it's established. Through a variety of activities (cultural and educational) we'll have to re-instill the libertarian maxims most people learn as children but fail to apply politically: Don't hit, don't take other people's stuff, and don't break your promises (contracts). Libertarianism is just the consistent application of those maxims. Maybe, as Anthony de Jasay suggests, these need to become taboos—things people just don't do, even if they can't recite a philosophical argument telling you why.

Until now the world of fashion has been innovative and competitive without the protection of “intellectual property” law, but some want Congress to extend copyright to fashion design. Good idea? Edward López has his doubts.

The adage “less is more” is an important guide to explicit rulemaking. Thomas Snyder and Noel Campbell find an example in an unlikely place.

We've seen mandated recycling of trash before. Get ready for the next step: electronic surveillance of your recycling and refuse activities. Wendy McElroy has the details.

In recent decades many nations made at least some progress in expanding economic freedom. However, the response around the world to the latest economic debacle has caused the index of economic freedom to decline. James Gwartney, Robert Lawson, and Joshua Hall interpret the results they have compiled.

Since 1980 the U.S. government has required 18-year-old males to register with the Selective Service System, although no draft has been in effect since the mid-1970s. There is a criminal penalty for not complying, but as N. Joseph Potts explains, there are other penalties as well.

Can an economy be stimulated by extending unemployment benefits? Our Keynesian culture thinks so. James Ahikpor dissents.

Rare earth elements are becoming increasingly important in the production of high-tech products, with China being a major producer. Should the U.S. government stockpile these materials to guard against supply disruptions? Warren Gibson takes up the question.

Although inconsistent, the California courts are beginning to see that free speech is rooted in property rights and that owners should be free to set the rules. Steven Greenhut looks at recent cases.

In the columns department, Lawrence Reed expresses his admiration for Scotland's William Wallace. Thomas Szasz reflects on the nature of psychiatry's “bible.” Stephen Davies celebrates the Scottish Enlightenment. John Stossel sounds the alarm for entrepreneurs under attack. David Henderson ponders the proposed Islamic center in Lower Manhattan. And Ivan Pongracic, Jr., confronting the *ipse dixit* that wealth distribution would end the recession, responds, “It Just Ain't So!”

The coming dollar crisis, the orgy of government spending, the drug war, and democratic tyranny are the subjects of books under review this issue.

Capital Letters challenges the argument that savings lowers GDP.

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Scotland: Seven Centuries since William Wallace

BY LAWRENCE W. REED



I am an American of Scottish extraction, and few things stir my blood more than the colorful history of my ancestral homeland. Through the centuries, rugged Scots stand tall among those heroes who gave every ounce of their lives for such noble ideals as liberty, independence, and self-reliance.

Mel Gibson's epic film *Braveheart*, released in 1995, introduced many non-Scots to one of our greatest heroes, William Wallace. A fierce and uncompromising Scottish patriot, Wallace gave English invaders fits for years until his capture on August 5, 1305. He was hauled to London to face charges of insurrection, found guilty, and brutally executed by Edward I seven centuries ago, on August 23, 1305.

Edward was deservedly known as the "Hammer of the Scots." His designs on Scotland were apparent shortly after he ascended to the English throne in 1272, when Wallace was but two years old. While the Scottish people themselves may have been staunch in their desire to retain their own national identity, many of their nobility were unprincipled opportunists who connived with Edward to allow English encroachment in exchange for political favors. More than a dozen of them claimed the Scottish throne in 1290 and then invited Edward's arbitration to settle the question.

The English king chose John Balliol to be his royal puppet in exchange for the Scottish king's oath of loyalty

to England. But in 1296 Balliol found the spine to differ with Edward over an important issue, and the two nations went to war.

Young Wallace emerged early as a Scottish patriot of special mettle, leading his countrymen to a smashing victory at the Battle of Stirling Bridge on September 11, 1297. "All powerful as a swordsman and unrivalled as an archer," John D. Carrick wrote in his classic *Life of Sir William Wallace of Elderslie*, "his blows were fatal and his shafts unerring: as an equestrian, he was a model of dexterity and grace; while the hardships he experienced in his youth made him view with indifference the severest privations incident to a military life."

Wallace's courage united Scotland, but 11 months after Stirling, the Scots were outnumbered at Falkirk and dealt a crushing blow. His forces scattered, Wallace took his campaign for independence to the courts of Europe in search of foreign alliances. When he returned to Scotland in 1303, he was the most-wanted fugitive in the country, and he was betrayed to Edward in the summer of 1305. The evidence is strong that it wasn't commoners who broke faith with him, but highly placed Scottish officials who sold out to Edward. In London he was hanged and then



William Wallace

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drawn and quartered while still alive. Before his torture and execution, he responded to the charges against him with these words:

I cannot be a traitor, for I owe him no allegiance. He is not my Sovereign; he never received my homage; and whilst life is in this persecuted body, he never shall receive it. To the other points whereof I am accused, I freely confess them all. As Governor of my country I have been an enemy to its enemies; I have slain the English; I have mortally opposed the English King; I have stormed and taken the towns and castles which he unjustly claimed as his own. If I or my soldiers have plundered or done injury to the houses or ministers of religion, I repent me of my sin; but it is not of Edward of England I shall ask pardon.

Avenging Wallace's death became a rallying cry in the years thereafter. Edward died in 1307 with Scotland still simmering in revolt. Under Robert the Bruce, the forces of Edward II were decisively defeated at Bannockburn in 1314. Six years later, a group of Scottish leaders issued the famous Declaration of Arbroath in hopes that the Pope would convince the English to leave Scotland alone. This declaration, written a full four and a half centuries before the American Declaration of Independence, enunciated the principle that a king must rule by the consent of the governed, who in turn have a duty to get rid of him if he doesn't. It includes these stirring words: "It is not for honors or glory or wealth that we fight, but for freedom alone, which no good man gives up except with his life."

The crowns of England and Scotland were united in the early seventeenth century and the parliaments were merged a hundred years later (see Stephen Davies, p. 23), but Scotland retains a strong national identity within the United Kingdom. Wallaceite rugged individualism was apparent in the ideas of the Scottish Enlightenment, which produced Adam Smith, David

Hume, and other eighteenth-century thinkers committed to limited government, self-reliance, freer markets, and personal freedom. William Ewart Gladstone, one of Britain's greatest prime ministers and an ardent opponent of excessive government, had deep roots in Scotland.

Though my Scottish blood and love of liberty make me proud of this heritage, I worry that Scots in more recent decades have forsaken their history. The spirit of Wallace and the contributions of Hume, Smith, and Gladstone are perfunctorily recognized, but in practice Scottish policymakers seem wedded to the coercive nanny state. The great Scots of the past would probably be shocked to know how extensively their descendents

now depend on the largess of government. As Alexander Hamilton, an American of Scottish ancestry, once wisely warned, "Control of a man's subsistence is control of his will."

Modern Reality

"Scotland is the most socialist part of Britain," says John Blundell, former director of the Institute of Economic Affairs in London. "It even has strong credentials as the most socialist part of the European Union. Its public sector,

including municipal agencies, consumes more of the [gross domestic product] than in any other OECD nation." The romantic, noble image of proud and independent Scots has given way to a very different reality: a heavily subsidized population that overwhelmingly supports political candidates who demand even more subsidies.

Still, 705 years after the death of William Wallace, Scots know who Wallace was and admire him. Many seem to know instinctively something very fundamental to the greatness of their past and their distinction as a people: Their proudest heritage is one of keeping government at bay, not granting it broad power over their lives and livelihoods. As a Scot in America, that's what I celebrate every chance I get. I hope someday the Scots of Scotland will do so once again as well. **FEE**

Today, a heavily subsidized population overwhelmingly supports political candidates who demand even more subsidies.

More Income Redistribution Will End the Great Recession? It Just Ain't So!

BY IVAN PONGRACIC, JR.

With increasingly widespread recognition of the failure of Keynesian economic policies, all the Progressives are left with are claims whose acceptance requires a suspension of one's logical faculties. An excellent example of this is a September 2, 2010 *New York Times* op-ed by Robert Reich, the Clinton administration secretary of labor and professor of public policy at the University of California, Berkeley (www.tinyurl.com/2bnv7jy).

In "How to End the Great Recession" (an apparent teaser for his new book, *Aftershock: The Next Economy and America's Future*), Reich attempts to provide another way to justify forced income equalization as well as rehabilitate Keynesian economics. After lamenting that trillions of dollars spent on standard Keynesian policy prescriptions have failed to end the Great Recession, Reich argues that "structural" problems in the economy prevent aggregate demand from rising enough to bring about a sustained, healthy recovery. More precisely, "[C]onsumers no longer have the purchasing power to buy the goods and services they produce as workers." Reich's primary culprit preventing the middle class from engaging in the "economically necessary" amount of spending is rising income inequality.

The problem, according to him, is that the rich are getting richer much faster than the middle class: "In the late 1970s, the richest 1 percent of American families took in about 9 percent of the nation's total income; by 2007, the top 1 percent took in 23.5 percent of total

income." (Most sources put the 2007 income share at 19 percent.) Then Reich presents his bottom line: Keynesian policies have been ineffective *because* of this rising income inequality. The reason is that "the rich spend a much smaller proportion of their incomes than the rest of us . . . so when they get a disproportionate share of the total income, the economy is robbed of the demand it needs to keep growing and creating jobs." Quite ingenious! In one fell swoop Reich gets Keynesianism off the hook for its failures of the past two years

and promotes more income redistribution, a key goal of Progressives.

Let's apply data and logic to Reich's argument.

Income inequality is an issue the left usually presents in a highly disingenuous way. The focus is on income statistics, which inevitably show a great deal of inequality. What they fail to point out is that income statistics are by their nature static and hide *temporal* movement of individuals *between*

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income groups. Dynamic studies have shown a remarkable amount of income mobility. Most people start off their working lives with small incomes, but as they become more experienced and more valuable to their employers—and, most importantly, to their customers—they move into higher income categories. The important implication is that the richest 10 or 25 percent are often quite different people from year to year. In addition, the people experiencing the greatest fluctuation

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tuations in income through their lifetimes are entrepreneurs, who in some years may do extremely well, but in other years barely stay afloat—and occasionally even go bankrupt.

There's a more fundamental problem with the Progressive interpretation of static income statistics: It demonstrates a complete lack of understanding of how wealth is created. Reich writes, "The rich are better off with a smaller percentage of a fast-growing economy than a larger share of an economy that's barely moving." He implies that income is distributed in some mysterious, potentially conspiratorial and certainly unfair way—like a fat kid who is constantly taking a bigger piece of the pie from the malnourished orphans through cheating and brute force. There is no recognition that income is the result of effort and creativity.

There is no indication that prudent investment and wise allocation of one's resources, including labor, have a great deal of influence on one's income.

It is a cliché, but a valid one, that a true free market is a meritocracy (though luck has a role) and that there are thus important reasons for income inequality, which are beneficial for society. Granted, we don't live in a true market economy, so some high incomes are made through government subsidies and protection from competition. But that's not the case for everyone. Real flesh-and-blood human beings react to incentives—a fundamental fact of life. If they will not receive rewards for their greater efforts, risk-taking, and innovation, they will not undertake these actions. It is only through income inequality that we can get wealth creation in the first place, and all attempts to reduce income inequality will result in less wealth being created. *This* is why the Great Recession marches on: Entrepreneurs see the full weight of the government starting to bear down on them in the name of greater "social justice" and they decline to expand, to hire, or to invest.

Another way in which the left is highly disingenuous in their presentation of income statistics is by failing to point out that while the richest 1 percent made

19 to 23 percent of the total income, they paid 40 percent of total federal income taxes in 2009! The richest 10 percent paid 71 percent, and the top 25 paid a whopping 87 percent! This is a remarkable fact. One has to wonder what degree of income-tax progressivity Reich and his ilk would like if they find this unfair. Furthermore, those percentages for the highest-earning groups have risen over the years. So income-tax revenues have become more progressive even as tax rates on the wealthy have declined. Also, in the three years following the 2003 tax cuts, federal revenues grew by three-quarters of a trillion dollars (roughly 30 percent of the average annual federal government budget in those years).

Finally, it should be pointed out that it is probably the greatest and most destructive fallacy of Keynesian economics that aggregate demand—of which consumer spending accounts for roughly 70 percent—is the key driver of the economy. (See Mark Skousen's article in the November *Freeman*.) The federal government under both Bush and Obama has done its best to compensate for any loss of consumer spending by increasing its own spending, and yet the economy continues to falter. There is an insufficient number of jobs being created today not because there is not

enough consumer spending, but because businesses do not expect to be able to make a profit if they expand and hire more employees. This is due to the recent dramatic and unpredictable expansions of the regulatory regime, along with expectations of rising long-term taxes on both businesses and business owners. All these factors increase the cost of doing business. Should it come as much of a surprise that we see less business activity? It has nothing to do with insufficient consumer demand and everything to do with the greater pursuit of "social justice."

Reich's argument is simple demagoguery intended to achieve his ideological goals. It is highly encouraging that Americans increasingly appear to see through these attempts to manipulate them. Let us hope that this most recent failure of Keynesian economics will keep "Count" Keynes from rising from his grave once and for all.

REE

It is only through income inequality that we can get wealth creation in the first place.

Fashion Design and Copyright

BY EDWARD J. LÓPEZ

Should fashion designs be eligible for copyrights? When I listen to people talk about this issue, many of the same interesting arguments come up. These people know about designer knockoffs and feel that something is not quite fair about them. Yet they also view copyists as moving innovation along in the fashion world. Copying releases new fashions from the small circles of their origins to the wider marketplace; it translates designs from abstract experimentation on the catwalk to concrete wearability on the sidewalk. Copying thus plays a vital market role in fashion. And so, in my admittedly small and biased sample, a typical conversation about fashion copyright invariably trends toward a reluctant opposition.

The issue arises because after a century of relegating fashion designs to the wilderness of intellectual property law, Washington seems poised to begin domesticating the fashion industry. With Sen. Chuck Schumer (D-N.Y.) as lead sponsor, the Innovative Design Protection and Piracy Prevention Act (S.3278) was introduced last August. Design protection bills have been introduced routinely since the 1970s. Yet only in recent years has the cause gained significant legislative momentum. Since 2005 about a dozen precursors to the current bill have been introduced in the House and Senate. A slate of hearings has harvested the views of academics, designers, and celebrity witnesses. The current bill—pruned by numerous drafts and political-legal

deals, plus a detailed review by the U.S. Copyright Office—was a honed legislative compromise designed to win majorities in both chambers in a postelection congressional logrolling frenzy.

If enacted the bill would amend the Copyright Act to provide three years of protection to fashion designs that meet defined standards of originality and novelty.

As defined in the bill, a fashion design is the “appearance as a whole of an article of apparel including its ornamentation.” An infringement of a protected design occurs if a copy is found to be “substantially identical in overall appearance” to the protected design, so long as it can be “reasonably inferred [that the copyist] saw or otherwise had knowledge of the protected design.” The bill includes a system of penalties and various provisions to limit collateral consequences like excessive litigation as well as unfair burdens on emerging designers and home sewers. Once the law was in place, fashion would join computer software, vessel hulls, and architectural designs as recent exceptions to the “useful article” rule written



The fashion industry has been flourishing without copyrights for clothing designs.
Simon Deiner [flickr.com]

into the Copyright Act.

The U.S. apparel industry has essentially always operated in a “low intellectual property equilibrium” (as law professors Kal Raustiala and Chris Sprigman

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have aptly surmised in their influential study of fashion copyright). Trademark protects certain features in fashion design like brand names, logos, and unique attributes that consumers use to identify designs with a particular brand. The stitched polo player on Ralph Lauren's shirts is protected, but the overall design of the shirt is not. The plaid pattern made famous in the linings of Burberry's top coats is protected; the silhouettes of their topcoats are not. As for patents, the process is too slow and its standards of novelty too strict for fashion.

Copyright law has traditionally not protected fashion because a garment is considered a "useful article" that combines a utilitarian purpose (covering the body) with the designer's creative expression. Still, certain articles like a sculpted brooch or an artistic belt buckle are protected if they are considered works of art that are separable, at least conceptually, from the clothing article itself. And while a two-dimensional sketch is generally protected, the physical rendition of the design as an article of clothing is not. "[A] man's property is limited by the chattels of his invention," wrote Judge Learned Hand in an important 1929 case involving dress designs, *Cheney Bros. v. Doris Silk*. "Others," he concluded, "may imitate these at their pleasure."

The case before Judge Hand bore remarkable similarity to the fashion-copying issue before us today. The complainant was a company, Cheney Bros., Inc., whose business model employed constant experiments with dozens of dress patterns simultaneously to discover the designs that would become market trends. Meanwhile the respondent, a company named Doris Silk, would copy the successful dress patterns once they were identified by Cheney's experiments and then proceed to undercut its prices. Even though Judge Hand's opinion is full of sympathy with Cheney and he had some degree of impatience with the design copyist, he ultimately could find no refuge for design originators in the law. "To exclude others from the enjoyment of a chattel is one thing; to prevent any imitation of it, to set up a monopoly in the plan of its structure, gives the

author a power which the Constitution allows only Congress to create."

Having been spurned by the courts, fashion designers did not initially go to Congress for protection. Instead, the industry organized more effectively and took matters into its own hands. The Fashion Originators Guild of America, a cartel among design originators, lasted from 1932 to 1941. Guild members agreed to boycott retailers who dealt with known copyists. The Guild employed clandestine shoppers trained to spot fakes and a tribunal to determine whether designs were copies. Guild members were fined for conducting business with known copyists. While reportedly successful at achieving its ends, the Guild was dismantled in 1941 by the U.S. Supreme Court, which ruled the boycott in violation of the Sherman Antitrust Act. Since then the fashion world has enjoyed almost no intellectual property protection.

Meanwhile, as one would expect, copying of fashion designs has been rampant and grows faster and more efficient with digital communication and production technologies. Some design copying occurs bilaterally between individual designers. For instance, in 2009 Diane von Furstenberg inadvertently copied protected elements of a men's jacket designed by two Canadian designers (the dispute

was later settled out of court). More commonly, large-scale manufacturers copy the designs of small-scale and artisanal designers, then bring mass quantities of the modified design to market at lower prices. During fashion week or the Oscars, for example, copyists hurriedly beam runway photos to factories around the globe, which translate the images into wearable copies and begin manufacturing *tout de suite*. Copyists can place finished garments on store racks in a few weeks.

It is this latter, large-scale form of copying that most disturbs design originators. "When things get copied, it's like somebody coming into my head and robbing, stealing," said designer Maria Cornejo during New York fashion week last September. This reflects the attitude more broadly of the industry's upper crust of designers, which sometimes vilifies copyists in support

Copyright law has traditionally not protected fashion because a garment is considered a "useful article."

of the pending legislation. In 1996 Narciso Rodriguez designed a wedding gown for his friend Carolyn Besette for her marriage to John F. Kennedy, Jr. The gown was instantly copied and marketed around the world before Rodriguez could commercialize his own design. Fifteen years later the cleanly elegant design is still popular among brides and easy to find online. Testifying before Congress in 2008 Rodriguez pleaded for protection. “They have stolen my DNA,” he said. “We need your help.”

As Judge Hand reminds us, copyright is essentially a form of legal monopoly. As with any restriction of competitive market forces, consumers are made to pay higher prices and enjoy less choice than without monopoly. Copyright also restricts the public domain, diminishing the rate of downstream innovation. So the downside to copyright is higher access costs for two groups.

On the other hand, copyright is intended to encourage creative works since the designers know that their monopoly position will let them capture most of the economic value of their innovation.

In short, copyright is a social tradeoff: Some access is sacrificed for more innovation. This is a deeply ingrained concept in American society, as Article I Section 8 of the U.S. Constitution empowers Congress “To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”

Empirically speaking, the tradeoff bears no relevance to the fashion industry. Rather, fashion is well known as a highly competitive *and* highly innovative market. Design innovation in fashion is vibrant even though design originators enjoy no copyright and copying is widespread. Each fashion cycle unveils a remarkably creative array of novel designs. Entry by new designers is robust, and bold newcomers often move to the cutting edges of innovation. According to the evidence, the creative forces of design originators respond to something deeper than intellectual property protection, perhaps artistic imperative or the quest for fame. As for

revenues, design originators have developed indirect mechanisms to lend their reputational capital to perfumes, cosmetics, and accessories, whose high markups afford handsome licensing fees.

To be accurate, the supporters of the legislation do not seek to promote innovation but to achieve what they regard as fairness. Kaomi Goetz, the executive director of the Council of Fashion Designers of America, summed it up: “Designers invest a lot of time, a lot of resources, a lot of energy into creating their collections. It can take them nine months and billions of dollars. So when they present those collections and somebody can just steal them right off the runway, within seconds, and profit from their work, their energy, their intellectual property—it’s not fair.”

Nonetheless, this competitive and innovative outcome is puzzling because the lack of copyright does not appear to have been significantly costly to the industry. On the contrary, copying helps the fashion industry broaden the scope of its innovations and achieve greater relevance to consumers and society.

As we scratch the surface of the fashion industry and begin to analyze it more closely, we can see why fashion inverts the expected economics of intellectual property. As consumers of fashion (that is, all of us) we show enormous variety in the way each of us views it. We all place different combinations of value on novelty, exclusivity, style, variety, conformity, comfort, and of course money. Some of us are fashion-conscious. Others have mastered that traveling professor look. Probably most of us take fashion more seriously than we would admit. And we all seem to have strong feelings about how much time and money ought to be spent shopping.

Copyists enable the industry to meet the range of consumer preferences by segmenting the market into as many different consumer types as possible. By segmenting choices into different styles and price ranges, copyists let consumers easily identify with fashion, become comfortable with a look, experiment and cross over between segments, or pick and choose from multiple segments at once. Go ahead and splurge on the suit, but

Design innovation
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bargain hunt for the shirt and tie. Segmenting also lets people with low incomes afford to participate in fashion and have access to tasteful, fashionable looks even on a modest budget. Walmart in fact sells its own apparel lines and began showing at New York's Fashion Week in 2005. Fast fashion has dramatically expanded the options available to low-income households.

From Catwalk to Sidewalk

At the high end of design the fashion show lets design originators pursue their innovations. Since originators do not need to uphold wearability or marketability as priorities, they have freedom to experiment with materials, silhouettes, color patterns, hem lines, and so forth. This often results in designs that have high degrees of abstraction. This abstraction in turn gives wide berth to originators in exploring and communicating their ideas—their ideological statements on the current state of fashion, its relation to the world, and the designer's normative claims on how he or she wishes to change the world. Most people don't take fashion that seriously (myself not included), and many find it difficult to relate to what comes down the catwalk during fashion week.

To go from abstract ideas on the catwalk to fashionable clothing on the sidewalk, however, requires an imitative-adaptive process. As with all fields of creative expression, ideas at a high level of abstraction are initially appreciated by niches of elite expertise and taste. Ordinary consumers may not understand everything on the runway but experts can, and these small circles of virtuosity are the only audience that matters when design originators aim to innovate. To then translate the abstract into the economic trend, downstream innovators analyze, imitate, and reformulate the originals, editing the complexity while retaining the aesthetic. This process of adaptation and imitation transports abstract ideas from elite niches to broad appeal, creating clothes that people can relate to and want to wear.

When design copyists compete to imitate and adapt design originators, they also discover manufac-

turing and distribution shortcuts that help reduce unit costs. By removing a seam here or there, using less costly fabric, inventing an electronic inventory system, and so forth, fashion copyists reduce their own costs and can offer designs to consumers in even lower-priced market segments. It is only in recent decades that people of even modest purchasing power began to have access to fashionable, tasteful looks. "Queen Elizabeth owned silk stockings," Joseph Schumpeter famously observed. "The capitalist achievement does not typically consist in providing more silk stockings for queens but in bringing them within the reach of factory girls in return for steadily decreasing amounts of effort." Similarly, Frédéric Bastiat expressed wonder at the market's ability to feed Paris without a central plan. The same holds for the spontaneous order of the fashion world. Paris gets

clothed as well, good sir.

The public discussion over fashion copyright is well underway. Design originators have a normative head start in that discussion, just as the complaint by Cheney Bros. drew the sympathies of Judge Hand. It is unfortunate that the public discussion treats design copyists as pirates and parasites.

We might instead view them as adaptive-imitative entrepreneurs whose innovations serve beneficial economic functions. Copying in fashion is not a mere exercise in *copying* apparel designs. Copyists translate the abstract into the real, thus moving innovation along in the industry, reducing costs of production, and making fashion relevant to all segments of consumers and society.

As its proponents will tell you, the proposed legislation is not about spurring innovation. Rather, it is about design originators keeping a bigger share of the economic pie that they help create. In our democratic society, the industry can lawfully attempt to steer the machinery of government in directions that enrich itself. It is up to the rest of us to discuss whether easing the competitive market burdens on design originators is worth the costs to downstream innovators and their consumers.

FEE

Copyists translate the abstract into the real, making fashion accessible to lower-income people.

Rules, Regulation, and Mixed Martial Arts

BY THOMAS SNYDER AND NOEL CAMPBELL

The Ultimate Fighting Championship (UFC) illustrates well the benefits of limiting rules and regulations, and provides an example of immense success despite—rather than because of—government intervention.

The UFC, which hosts mixed martial arts (MMA) events, has grown immensely popular in recent years. In the early years, the mid-1990s, the sport had a limited number of rules of combat, and even today has far fewer than most fighting sports. However, its popularity was constrained because the Nevada Athletic Commission refused to sanction it and many states banned it. Eventually the UFC modified its rules so it could get sanctioned. The government's intervention in the UFC parallels its intervention in the economy and personal freedom, while the success of the UFC demonstrates the benefits of less regulation.

When the organization started, one of the main attractions was to see which types of fighters would reign supreme in a fight with essentially no rules (with a few exceptions, such as no eye gouging or biting). Fighters with different backgrounds—such as wrestling, Muay Thai, boxing, and Brazilian Jiu Jitsu—competed against each other. Although the participants willingly entered the competition knowing the rules (or lack thereof) and the risks, most state governments were

reluctant to allow the fights. Essentially, the government was protecting the fighters from themselves, similar to how the government steps in to prevent people from eating, drinking, or smoking certain substances. Of course, this frustrated some fighters who did not understand what business the government had in interfering with their lives. As former UFC fighter Kevin Randleman said, “If the public wants it, how can the politicians deny it? . . . They can be out the next election cycle. They need to listen to the people (www.tinyurl.com/22qxbxw).”

UFC copycat organizations were also banned in many places. One of the people who led the crusade against the UFC and MMA events was U.S. Senator John McCain. As Amy Silverman of the Phoenix *NewTimes* wrote in “John McCain Breaks Up a Fight” (Feb. 12, 1998), a sold-out show was

canceled hours before the bell, the owner of the theater explaining, “I’m not going to take on the U.S. Senate.” One of the fighters, Lyman Markunas, explained his frustration: “I am kind of disgusted, because of all the training I do.” The people wanted to see the event, the fighters wanted to participate in the event, but



Mixed Martial Arts fights have exploded in popularity despite government intrusion.
flickr.com/deskounlmtd

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powerful government figures pressured the states to ban the sport.

From the government's perspective, allowing people to fight with few rules may seem likely to lead to multiple deaths and serious injuries. Even if true, one can argue that the government still has no business telling a fighter that he cannot assume the risk, but the evidence does not support claims that MMA matches lead to serious injury or death. Up to now no deaths in the UFC have occurred. A study published in the *Journal of Sports Science and Medicine* in 2006 observed that in 171 MMA matches from 2001 to 2004, over 61 percent of the injuries were hand injuries or facial lacerations. There was only one reported neck injury, and there were no reported chest or abdomen injuries.

As time passed the UFC added a few more rules, became sanctioned, and was allowed to put on events in many states and countries and on cable television. Overall the fighters are still fairly free to fight in any style they prefer as long as they don't participate in activities such as eye gouging, head butting, groin attacks, hair pulling, or fish hooking. The main changes in the UFC seemed to have been for entertainment and television purposes. For instance, fights now consist of three or five rounds of five minutes each; there were no time limits before. Fighters are also repositioned if in a stalemate to prevent a long time of dull inactivity.

With the fighters essentially having the freedom to fight in any way they want, those with the best strategies and most ability will succeed and those with poor strategies and ability will fail, as with entrepreneurs in a competitive market. In the early years of the UFC, fighters usually came into the ring with a particular skill, such as wrestling, karate, or Brazilian Jiu Jitsu. However, those fighters who did not have a balance of skills did not last if they did not adjust. For instance, fighters who were not familiar with Brazilian Jiu Jitsu were quickly forced to submit, so fighters soon learned the basics of that discipline. Those fighters who had no wrestling skills were typically put on the ground and pounded out if the other fighters were skilled at

wrestling, so fighters had to learn the basics of that discipline as well. As time passed, fighters still entered the "octagon" with a specialty, but usually also had to be adequately skilled in the other disciplines to hold off generic attacks.

The government can take a lesson from the success of the UFC when it comes to business and personal freedom. Letting businesses choose whom they want to hire, how much they should pay their employees, what prices to set, and how much to produce seems like it would lead to chaos. Similarly, letting people eat and drink whatever they want, and participate in any sporting activity they want, would also seem to invite chaos. However, we have seen from the UFC that when the rules of the traditional disciplines were lifted, fighters innovated and became more skilled. The more regula-

tion intrudes on the UFC, the less potential for innovation and improvement exists. For example, if to protect fighters the rules limited the sport to make it a boxing match, the fighters would not need to improve their submission or kicking skills, and they would not have to worry about defending such attacks.

Similarly, when government protects a domestic industry with a tariff or quota, the firm may not be forced

to innovate and improve to compete with foreign competition. Also, when government tries to protect drivers and pedestrians with unnecessary traffic lights and stop signs, it may create a false sense of security, stifle ingenuity, slow traffic, and increase accidents. "We will be creating a bit of indecision in all road users' minds to create a safe environment," said Martin Low, Westminster City Council's head of transportation, who is running an experiment with fewer traffic lights in London. "When lights are out we have noticed that drivers are far more considerate and show more care and attention than they are when they have the reassurance of traffic lights." ("London Seeks to Reduce Congestion by Eliminating Traffic Lights," *New York Times*, Sept. 2, 2009.)

In fact, regulation may create chaos, while lack of regulation may create continuous innovation.

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When regulation of the UFC has increased, as when the regulation of business or personal freedom increases, a select group of people has benefited, while others were punished. Sometimes regulation hurts those who need help the most. For instance, when time limits were implemented in the UFC, it benefited those without the stamina for a longer match—typically the large and bulky fighters—while it hurt the more patient fighters who need time to set up a submission. A minimum wage benefits union workers, who don't have to compete with low-skill/low-wage competitors, while it hurts the young and unskilled workers who would be willing to work for a lower wage but are unable to find employment. The prohibition of certain drugs benefits the drug cartels and large corporations while imposing a large cost on society from the imprisonment of offenders, an insecure environment, and the unavailability of life-saving drugs.

Benefits of Uncertainty

Like the free-market economy and free people generally, the UFC has faced uncertainty. When two fighters enter the ring with limited rules and different styles, it may be difficult to predict the outcome of the match. This uncertainty can make it exciting for the fans, but it can make government and society nervous. As the saying goes, a known devil is better than an unknown angel. The same goes for freedom and the free market, where the unknown outcome may lead people to favor more government intervention.

However, uncertainty can lead to favorable economic outcomes. As economist Armen A. Alchian wrote in "Uncertainty, Evolution, and Economic Theory":

In general, uncertainty provides an excellent reason for imitation of observed success. Likewise, it

accounts for observed uniformity among the survivors, derived from an evolutionary, adopting, competitive system employing a criterion of survival, which can operate independently of individual motivations. Adapting behavior via imitation and venturesome innovation enlarges the model. Imperfect imitators provide opportunity for innovation, and the survival criterion of the economy determines the successful, possibly because imperfect imitators. Innovation is provided also by conscious willful action, whatever the ultimate motivation may be, since drastic action is motivated by the hope of great success as well as by the desire to avoid impending failure.

Like a free-market economy and free people generally, the UFC has faced uncertainty. This has led to favorable outcomes as fighters adapt, innovate, and compete.

As with people in society, fighters in the UFC do not want to fail. Surely each fighter would love to have a safety net that protects him but not the other fighters, just as a firm would love to have a subsidy and a protective tariff imposed, and just as an employee would love to have a secure union contract and unlimited unemployment benefits. A large company would also love to know that it would be bailed out if it failed. A casino gambler would love to know he will receive a refund if he loses everything. However, if the UFC or

the government tried to do too much to protect the fighters, firms, or employees, then competition, innovation, and individual responsibility would cease to exist, and everyone would fail.

Fortunately for the UFC, it has been able to make government accept it without too much overbearing regulation. MMA has now become one of the most popular sports in the United States, and it is growing fast across the world. The success of the UFC demonstrates that the freedom to choose leads to favorable outcomes, but it must overcome government, fear, and special interests. FEE



The Illegitimacy of the “Psychiatric Bible”

BY THOMAS SZASZ

“Mental health experts ask: Will anyone be normal?” So read the title of a July 27 Reuters report. The “experts” warned that the fifth version of the Diagnostic and Statistical Manual of Mental Disorders (DSM), scheduled for publication in 2013, “could mean that soon no-one will be classed as normal. . . . [M]any people previously seen as perfectly healthy could in future be told they are ill.”

This is not news. More than 200 hundred years ago Johann Wolfgang von Goethe (1749–1832) warned: “I believe that in the end humanitarianism will triumph, but I fear that, at the same time, the world will become a big hospital, each person acting as the other’s humane nurse.”

Moreover, Goethe foresaw the moral hollowness of the “humanitarian science” on which such therapeutic tyranny would rest: “I could never have known so well how paltry men are, and how little they care for really high aims, if I had not tested them by my scientific researches. Thus I saw that most men only care for science so far as they get a living by it, and that they worship even error when it affords them a subsistence.”

The depths to which such men would happily sink when worshiping error brings them fame and fortune became obvious only in the twentieth century.

Joaquim Maria Machado de Assis (1839–1908), the great Brazilian novelist and playwright, advanced the prescient literary satirization of the dark art of psychiatric diagnosis and the engine that drives it: the phony expert’s insatiable vanity and thirst for controlling his fellow man. His short story “O alienista” (1882, “The psychiatrist”) is a fable of a celebrated doctor retiring to a small town to pursue his scientific investigation of the

human mind, gradually finding more and more of the townfolk insane and needing to be incarcerated in his private asylum. Eventually he alone is left at liberty. As soon as modern psychiatry became a legitimate branch of medicine, Machado de Assis recognized and exposed its quintessentially unscientific-sadistic character.

It remained for the French playwright Jules Romains (1885–1972) to call public attention to the corruption of modern medicine by political power. “It’s a matter of principle with me,” declares his protagonist, “Dr. Knock” (1923), “to regard the entire population as our patients. . . . ‘Health’ is a word we could

just as well erase from our vocabularies. . . . If you think it over, you’ll be struck by its relation to the admirable concept of the nation in arms, a concept from which our modern states derive their strength.”

Sigmund Freud (1856–1939), too, has played an important part in persuading people that health is an abnormal state. This old joke is illustrative: “If the patient is early for his appointment, he is anxious; if he is on time, he is obsessive-compulsive; if he is late, he is hostile.”

Particular psychiatric diagnoses have not escaped professional criticism. Wishing to make a name for themselves as psychiatrists, “critics” object to one or another diagnosis (homosexuality)—or to “overdiagnosis” (ADHD)—but continue to respect the American Psychiatric Association (APA) as a scientific organization and regard the various incarnations of the DSM as respectable legitimating documents. This is

This old joke is illustrative: “If the patient is early for his appointment, he is anxious; if he is on time, he is obsessive-compulsive; if he is late, he is hostile.”

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dishonest. Confronted with the DSM, the challenge we face is to delegitimize the authenticators, the APA and DSM, not distract attention from their fundamental phoniness by ridiculing one or another “diagnosis” and trying to remove it from the magical list.

I have consistently rejected this piecemeal approach. In my essay “The Myth of Mental Illness,” published in 1960, and in my book with the same title that appeared a year later, I stated my view forthrightly. I proposed that we view the phenomena conventionally called “mental diseases” as behaviors that disturb others (or sometimes the self), reject the image of “mental patients” as helpless victims of patho-biological events outside their control, and refuse to participate in coercive psychiatric practices as incompatible with the foundational moral ideals of free societies. In short, I rejected the authority of the APA as a legitimating organization and of the DSM as a legitimating document. I believe nothing less can undo the mischief wrought by the successive editions of the “psychiatric bible.”

Settled by Political Power

But times have changed. Fifty years ago it made sense to assert that mental illnesses are not diseases. It makes no sense to do so today. Professional debate about what counts as mental illness has been replaced by political-judicial decree. The controversy about the nature of so-called mental diseases/disorders has been settled by the holders of political power: They have decreed that “mental illness is a disease like any other.” Political power and professional self-interest have united in turning false beliefs into lying facts: “Mental illness can be accurately diagnosed, successfully treated, just as physical illness” (President William Clinton, 1999). “Just as things go wrong with the heart and kidneys and liver, so things go wrong with the brain” (Surgeon General David Satcher, 1999).

The claim that “mental illnesses are diagnosable disorders of the brain” is not based on scientific research.

The claim that “mental illnesses are diagnosable disorders of the brain” is not based on scientific research; it is a deception and perhaps self-deception. My claim that mental illnesses are fictitious illnesses is also not based on scientific research; it rests on the pathologist’s materialist-scientific definition of illness as the structural or functional alteration of cells, tissues, and organs. If we accept this definition of disease, then it follows that mental illness is a metaphor, and asserting that view is stating an analytic truth not subject to empirical falsification.

For centuries the theocratic State exercised authority and used force in the name of God. The Founders sought to protect the American people from the religious tyranny of the State. They did not anticipate, and could not have anticipated, that one day medicine would become a religion and that the alliance between medicine and the State would then threaten personal liberty and responsibility exactly as they had been threatened by the alliance between church and State.

The Founders faced the challenge of separating the cure of souls by priests from the control of people by politicians. Today the therapeutic State exercises authority and uses force in the name of health. We face

the challenge of separating the consensual treatment of patients by medical doctors from the coercive control of persons by agents of the State pretending to be healers.

When psychiatry was in its infancy the belief that all human “dysfunctions” are manifestations of brain diseases was a naive error. In its maturity the mistake was treated as a valid scientific theory and the justification for a powerful ideology and the powerful institutions based on it. Today, in its senescence, psychiatry is deceit and self-deceit—coercion concealed as objective science (“medical diagnosis”) and benevolent help (“medical treatment”). As a result, paraphrasing Orwell, telling the truth becomes “a revolutionary act.” FEE

Big Brother Is Watching You Recycle

BY WENDY MCELROY

In 2009, after four years of controversial and piecemeal policies intended to enforce recycling, England imposed a complex and compulsory system of garbage-sorting on homeowners.

Citing the British model, Cleveland, Ohio, is taking a giant step toward a similar scheme of compulsory recycling. In 2011 some 25,000 households will be required to use recycling bins fitted with radio-frequency identification tags (RFIDs)—tiny computer chips that can remotely provide information such as the weight of the bin's contents and that allow passing garbage trucks to verify their presence. If a household does not put its recycle bin out on the curb, an inspector could check its garbage for improperly discarded recyclables and fine the scofflaws \$100. Moreover, if a bin is put out in a tardy manner or left out too long, the household could be fined. Cleveland plans to implement the system citywide within six years.

Extreme recycling programs are nothing new, even in American cities. In San Francisco recycling and composting are mandatory; trash is sorted into three different bins with compliance enforced through fines. New York City has a similar program.

Neither are RFID bins new. They were introduced on London streets in 2005 ostensibly to track the amount of trash households produced and to discour-

age “overproduction,” but they have also had trials in American cities. Earlier this year, Alexandria, Virginia, approved such bins, which were to be placed with households this autumn.

Cleveland is particularly important, however, because of its size. Cash-starved local governments will be watching to see if an American city as big as Cleveland can use RFID bins to increase revenues. The revenues would flow from three basic sources: a trash-collection fee that could be increased, as in Alexandria; the imposition of fines; and the profit, if any, from selling recyclables. The last source should not be dismissed. Recycling programs are not generally cost-efficient, but much of the reason is that collections need to be cleaned and re-sorted at their destination. If households can be forced to assume these labor-intensive tasks, then selling recyclables—especially such goods as aluminum cans—is more likely to be profitable. (Perversely, the demand for volume

recycling may hit the poor the hardest; in the wake of recession, it is becoming increasingly common for people to hoard their aluminum cans in order to turn them in for cash.)



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The British Model

Since the British system is praised as a model, it is useful to examine its specifics.

An estimated 2.6 million Britons now have RFID bins monitoring how and when they sort garbage from recyclables. Implementation varies from borough to borough since trash collection, as in America, is under local jurisdiction. But the basics of the scheme are the same, with fines for noncompliance ranging up to £1,000 (over \$1,500).

Councils routinely employ “rubbish police,” who fine households that commit offenses such as producing “excessive” trash. For example, Oxford employs “waste education officers” who go through household bins and instruct the owners on proper sorting and disposal; the officers also fine residents 80 pounds if the trash overflows the 240-litre bin, which is emptied fortnightly. Of course, this makes trash from a large party or other events like Christmas problematic. (Such a fine differs from a fee for additional service in at least two ways. The “customer” is unable to cancel the service and go to a competitor, and the fine is absurdly high, especially given the extremely low service provided.)

The policing of trash bins is also enforced by surveillance cameras; this practice became evident in a recent controversy when a Coventry woman was captured on video throwing a cat in a trash bin.

The British system also mandates how trash is to be sorted. The U.K. website Green Launches explained gleefully:

The next time you dump your garbage in a bin, make sure you have it sorted well and dropped in the correct bin. Or else, you’ll probably burn a £1,000 fine in your pocket. Household waste like food scraps, tea bags etc in the wrong bin will have the family penalized. This forces families to use up to five different types of bins for waste separation and encourages picking up of recyclable products. This will also include the compulsory use of slop buckets to get rid of food waste. [www.tinyurl.com/28ct644]

The Orwellian intrusion into the lives of peaceful Britons is justified primarily on the same grounds used

by Cleveland: It is a “green” measure to preserve the environment. Green Launches continued, “Environment secretary, Hilary Benn came up with this idea that will help reduce green house gas emissions. These strict and hefty rules are sure to raise a cry amongst taxpayers and residents. But these rules will also help increase the production and use of greener energy resources and at the same time, decrease those mounting piles in landfills.”

Cleveland echoes the environmental justification.

In It for the Money

The British also justify the draconian trash system on financial grounds. Benn once exclaimed to the press, “What sort of a society would throw away aluminium cans worth £500 a ton when producers are crying out for the raw material?” Generally speaking, however, the Brits downplay the government’s financial motives.

Here Cleveland parts company with its British counterparts and makes it abundantly clear that money is a driving factor. City waste-collection commissioner Ronnie Owens, who perhaps remembers the municipal bankruptcy of the 1980s, says, “The Division of Waste Collection is on track to meet its goal of issuing 4,000 citations this year.” In short the goal is revenue enhancement not perfect compliance. Indeed, the two stand in conflict with each other. Bloggers have widely speculated that the recycling scheme is an excuse to create noncompliance and thus maximize the payment of fines.

Bankrupt cities across North America will be watching the Cleveland experiment. At the first indication of success—that is, of revenue enhancement—debates on mandatory recycling will break out in a multitude of city council chambers. It is not enough to hope that the Cleveland experiment will be a debacle; it almost certainly will be one but, nonetheless, debacles are often profitable to those who conduct them.

Perhaps, unlike the British, Americans will object to an RFID chip monitoring their garbage on privacy grounds. This objection may well be valid but it does not touch on the motives of local governments that consider mandatory recycling schemes. Nevertheless, it may well be the strongest defense that can be mounted. **FEE**

The Decline in Economic Freedom

BY JAMES GWARTNEY, ROBERT LAWSON, AND JOSHUA HALL

In the early 1980s both the United States and the United Kingdom reduced marginal tax rates, brought inflation under control, and relaxed both regulations and trade barriers. Many other countries soon followed, and the result was a quarter-century of expansion in both economic freedom and the growth of income. These movements can be observed in the data of the just-released *Economic Freedom of the World 2010 Annual Report* available at www.freetheworld.com.

The Economic Freedom of the World (EFW) index measures the consistency of a nation's institutions and policies with economic freedom. Put simply, institutions and policies are consistent with economic freedom when they permit individuals to choose for themselves, enter into voluntary agreements with others, and protect individuals and their property from aggressors.

To achieve a high EFW rating on our zero-to-ten scale, a country must provide secure protection of privately owned property, evenhanded enforcement of contracts, and a stable monetary environment. It also must keep taxes low, refrain from creating barriers to both domestic and international trade, and rely more

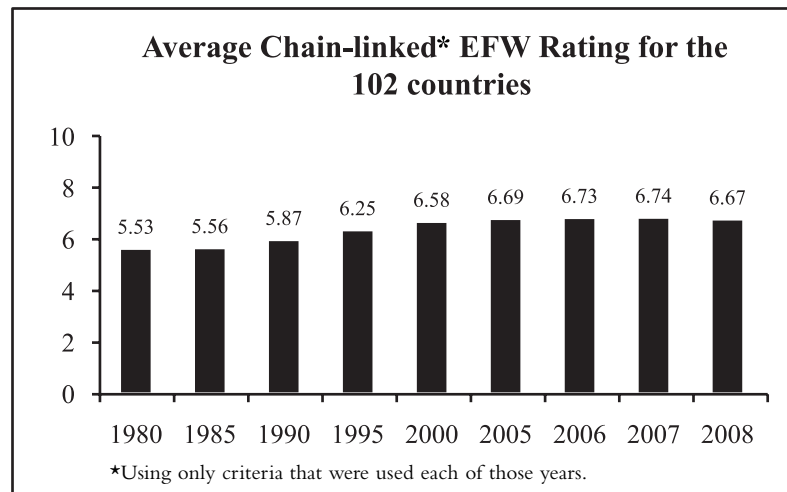
fully on markets than the political process to allocate goods and resources.

From 1980 to 2007 there was a gradual but steady movement toward economic freedom. (The graph includes only the countries that have been in the index since 1980.) However, as the world confronted financial instability and economic decline in 2008, the average

economic freedom rating fell for the first time in several decades. Of the 123 countries with ratings in 2007 and 2008, 88 (71.5 percent) exhibited rating decreases and only 35 (28.5 percent) recorded rating increases.

The rating of the United States is down from 8.45 in 2000 to 7.93 in 2008, which has

sent the accompanying ranking down to sixth from third in 2000. The rating reduction in the United States was primarily the result of lower ratings in the area of "Legal Structure and Security of Property Rights," but the huge recent increase in government borrowing was



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also a contributing factor. The increased government expenditures, larger deficits, and increased regulations of the past two years are sure to push the U.S. economic freedom rating even lower in the years immediately ahead.

We now know more about the sources of growth and prosperity than ever before. Economic growth is primarily the result of gains from trade, capital investment, and the discovery of improved products, lower-cost production methods, and better ways of doing things. Numerous studies have shown that countries with more economic freedom grow more rapidly and achieve higher levels of per capita income than those that are less free. Similarly, there is a positive relationship between changes in economic freedom and the growth of per capita income. Moreover, as per capita income has grown, the world's poverty rate has declined, and most of this progress has occurred in countries that have made substantial moves toward higher levels of economic freedom.

Dangerous Trends

Given how governments around the world have responded to the financial crisis, earlier positive trends are in danger of slowing or even reversing. The world now faces a situation similar to that of the Great Depression. During the 1930s perverse economic policies transformed a cyclical downturn into a decade of hardship and suffering. The length and severity of the Great Depression were the result of a sharp monetary contraction, imposition of trade restrictions, higher taxes, increases in government spending financed with debt, price controls, and uncertainty created by constant policy changes that were supposed to hasten the end of the crisis. This is ironic since perverse policies caused the Great Depression in the first place.

While the current economic downturn is far less severe than the Great Depression, both the fundamental cause and the policy responses are similar. In the United States perverse credit expansion and regulatory policies were the primary cause of the current crisis. Seeking to promote more affordable housing, politicians expanded

the availability of credit and imposed regulations that contaminated the quality of mortgages (including loans with little or no down payment, excessively large loans relative to income, and loans to unqualified borrowers with poor credit histories).

The result: an unsustainable housing price boom followed by the bust and eventually increases in the default and foreclosure rates as heavily indebted borrowers were unable to make the payments on the loans the regulators had arranged for them. The downturn in the housing industry soon spread to other sectors as the contaminated mortgage-backed securities were marketed throughout the world, leading to a financial crisis.

Undermining Incentives

The policy response to the crisis has also been similar to that of the Great Depression: more regulation, growth of government spending financed by debt, and constant policy changes that have created uncertainty and undermined private-sector activity. This is unfortunate because there is a dramatic difference in the incentive for productive action between a market economy and one managed by the political process. With markets, profits and losses will direct people toward productive actions and away from unproductive and counterproductive ones. If a business is going to succeed in a market economy, it must bid resources away from others and use them to supply goods that people value enough to pay prices sufficient to cover their costs. Profits and losses also provide people with a strong incentive to innovate and discover production methods with lower costs and new products that people value highly relative to cost. This incentive to use resources productively and discover better ways of doing things is the driving force underlying economic growth and progress.

The incentive structure of the political process is vastly different. There is nothing comparable to profits and losses that will consistently direct resources into productive projects and away from those that are coun-

Given how governments have responded to the financial crisis, earlier positive trends are in danger of reversing.

Economic Freedom of the World Index, Top Ten and Selected Nations, 2008

<i>Rank</i>	<i>Country</i>	<i>Rating</i>
1	Hong Kong	9.05
2	Singapore	8.70
3	New Zealand	8.27
4	Switzerland	8.08
5	Chile	8.03
6	United States	7.96
7	Canada	7.95
8	Australia	7.90
9	Mauritius	7.82
10	United Kingdom	7.81
12	Estonia	7.73
24	Germany	7.46
24	Japan	7.46
27	Costa Rica	7.45
32	Peru	7.39
35	France	7.32
37	Korea, South	7.28
37	Sweden	7.28
60	Greece	6.95
69	Mexico	6.89
76	Philippines	6.77
81	Israel	6.67
82	China	6.65
82	South Africa	6.65
84	Russia	6.62
87	India	6.51
87	Moldova	6.51
90	Indonesia	6.44
102	Brazil	6.18
114	Argentina	5.99
118	Pakistan	5.84
138	Venezuela	4.33
140	Myanmar	3.81
141	Zimbabwe	3.57

terproductive. Politicians will allocate resources toward the politically powerful—those who can provide them with the most votes, campaign funds, high-paying jobs for political allies and, yes, even bribes. There is no reason to expect that this incentive structure will channel resources into productive projects and away from counterproductive ones. Innovators and entrepreneurs will be disadvantaged by this system because it will not be enough to make products that consumers value highly relative to cost; one will also have to compete for political favoritism and cater to the views of the political class. The result: More resources will be used to obtain political favors—economists call this rent-seeking—and fewer channeled into productive activities.

Market Entrepreneurs vs. Crony Capitalists

It is important to distinguish between market entrepreneurs and crony capitalists. Market entrepreneurs succeed by providing customers with better products, more reliable service, and lower prices than are available elsewhere. They succeed by creating wealth—by producing goods and services that are worth more than the value of the resources required for their production. Crony capitalists are different: They get ahead through subsidies, special tax breaks, regulatory favors, and other forms of political favoritism. Rather than providing consumers with better products at attractive prices, crony capitalists form an alliance with politicians. The crony capitalists provide the politicians with contributions, other political resources, and, in some cases, bribes in exchange for subsidies and regulations that give them an advantage relative to other firms. Rather than create wealth, crony capitalists form a coalition with political officials to plunder wealth from taxpayers and other citizens.

We are now in the midst of a great debate between the proponents of limited government and open markets on the one hand and those favoring more collectivism and political direction of the economy on the other. The outcome of this debate will determine the future of both economic freedom and the prosperity of Americans and others throughout the world. **FEE**



Lessons from the Scottish Enlightenment

BY STEPHEN DAVIES

Among the many aspects of the modern world invented in Scotland, we may include the discipline of economics—indeed, the contemporary social sciences in general. In the latter half of the eighteenth century a whole congregation of brilliant intellects appeared in this small country on the edge of Europe and articulated profound insights into what we would now call economics, sociology, political science, cultural studies, anthropology, history, and philosophy. Some, such as Adam Smith and David Hume, are still well known, but there were other people such as Adam Ferguson, Thomas Reid, James Millar, Francis Hutcheson, and Henry Home (Lord Kames), who are equally worthy of study but receive far less attention. Seldom has such a short period of time (a little more than two generations) seen such a burst of insight and ideas in such a small space.

Moreover, the ferment and vitality of Scots society at this time was not confined to purely intellectual pursuits. The same period also saw a flourishing of the arts and literature, in areas such as painting (Allan Ramsay), architecture (Robert Adam), poetry (Robert Burns), and prose fiction (Tobias Smollet and later James Hogg). It was also the society that produced figures such as James Watt and Thomas Macadam, who contributed to advances in technology and engineering.

Most dramatic however was the economic transformation of Scotland into one of the most dynamic and prosperous parts of Europe. By the end of the eighteenth century Scotland was at the forefront of the nascent Industrial Revolution.

None of this would have been predicted by anyone who looked at the condition of Scotland at the end of

the seventeenth century. It was poor and backward, with an agricultural sector that had not joined in the innovations pioneered by the Dutch and adopted south of the border. There had been a series of armed rebellions and civil wars between 1637 and 1690 that had brought loss of life and large-scale emigration (both forced and voluntary) in their wake. In the 1690s famine and harvest failure carried off at least an eighth of the population. Most dramatically, in the same decade most of the nation's liquid capital had been squandered on the Darien Scheme, a foolish idea to plant a Scottish colony on the isthmus of Panama.

Within a century
Scotland went from
isolation and
backwardness to the
forefront of the
nascent Industrial
Revolution.

Scottish Miracle

Given this kind of starting point, the subsequent flourishing and transformation of Scottish society becomes even more remarkable. Indeed it was partly awareness of this dramatic metamorphosis that inspired the investigations of Smith and his contemporaries. Can the Scottish Enlightenment be explained or must we write it off as one of history's mysteries? Certainly there is something

ultimately mysterious about brilliant intellectual efflorescences in a particular place, but we can cast some light on the Scottish case.

The key was the union of Scotland and England in 1707—but not in the way commonly supposed. The Union, as intended, benefited Scotland by giving her merchants access to the larger markets of England and her colonies. The unintended consequences had the most profound effect, however, and this tells us something about the origins of episodes of intellectual and cultural flourishing.

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The Scottish side entered the Union, which was brought about by political maneuvering and bribery, with no great enthusiasm. The collapse of the Darien Scheme forced its hand. The English side was driven by pure calculation of high politics, in particular the possibility of Scotland refusing to go along with the English Parliament's decision that on the death of Queen Anne the crown would pass from the House of Stuart to that of Hanover—raising the prospect of the Scots sticking with the Stuarts and so dissolving the union of the crowns of the two kingdoms and maybe even restoring the “Auld Alliance” of France and Scotland.

The motives for the Union meant the English government had no real interest in Scottish affairs other than to check the continued support there for the exiled Stuarts. Given the relative size of the two countries, the merger of their Parliaments effectively abolished the Scottish Parliament. Because of the continued strength of Jacobitism and peculiar features of Scottish electoral law, elections from Scotland to the Westminster Parliament were deeply corrupt, involved a small (and shrinking) electorate, and were controlled by the Whig oligarchy that ruled Britain from 1715 onward. So political careers were no longer possible in Edinburgh.

Moreover, in 1708 the government of the new United Kingdom did something as significant as abolishing the Scottish Parliament. For essentially short-term and trivial reasons the government also abolished the Scottish Privy Council, the center and main instrument of executive government in Scotland for several hundred years. Meanwhile the distinct Scottish legal system survived, as it does to this day.

Salutory Neglect

The result of all this was that eighteenth-century Scotland, just like the contemporaneous American colonies, experienced “salutory neglect.” The imperial

government in Westminster did not legislate affairs north of the border in any detail. What was left was an increasingly efficient and honest legal system together with the Church of Scotland and a system of local government that was much less active than its counterpart in England.

Decreasing Political Domination

All this had a number of effects that contributed to the sudden dynamism and innovativeness of Scottish society. Talented and ambitious people now looked for other outlets for their energy besides politics and government. In short, they were left to their own devices to sort out their problems and explore their

opportunities in a system of law without having to contend with an active political power. Intellectual life was less and less dominated by the political (and religious, since the two were so connected) disputes that had dominated it in the previous century.

At the same time Scotland, like the rest of the world at that time, experienced sustained population growth because of the gradual improvement of the planet's climate and the impact of new crops such as the potato. This led to innovation in the context of a society no longer dominated culturally by the values and outlook of a ruling warrior aristocracy—indeed the aristocracy (including the Jacobite ones) now

turned increasingly to innovation and “improvement.”

The transformation of Scotland in the eighteenth century and the intellectual flowering that it led to was in part the outcome of an unintended experiment: the removal of much of politics and government from Scotland by the Act of Union and its aftermath. We can conclude that in any society, even the most apparently unpromising, there is an enormous reserve of talent, ingenuity, and insight that can find expression when law and property are stable and government keeps out of the way.

FEE

Scotland's transformation and intellectual flowering were in part the results of an unintended experiment: the removal of much of politics and government from Scotland.

A Pen That Turns into a Sword

BY N. JOSEPH POTTS

It's a promotional giveaway pen, a rather nice one by BIC, white with red and blue writing that at first I found puzzling:

MEN: Don't lose benefits! Use this to *register with Selective Service*.

Benefits from (or through, or with) Selective Service? When I turned 18 several years before the Vietnam era I registered for the draft with Selective Service and served nine years in the U.S. Navy. Although I received many benefits, I never regarded the experience as a net benefit.

So I considered the possibility that the benefits of being in the military might not be (all) the benefits referred to in the enigmatic exhortation on the little red, white, and blue pen. What other benefits, then, might men lose by not registering with Selective Service? The answers surprised and disheartened me—and struck me with a vision of 51 predatory governments endlessly revolving around the draft-age (18 to 25) male in ever-tightening circles. Among those governments, it turns out, are the 50 once-sovereign states whose own powers and prerogatives are steadily being absorbed by the black hole of the federal government, which runs the Selective Service System.

Much of what I learned about the benefits of registration, and the consequences of not registering, are outlined on the Selective Service website (www.tinyurl.com/2drrftg). The benefits one “gains” in many states include the “privilege” of operating a motor vehicle on the government roads. That's right—

in at least 41 states the law denies any male 18 to 25 the right to apply for issuance or renewal of his driver's license if the SS computer doesn't confirm that he's registered.

The denial of benefits can go even deeper. Many states refuse to issue a government identification card to males who can't prove they've registered with the draft board. In those states if Selective Service doesn't know who you are and where you sleep, you'll have no official identity. You might never become able to order a drink in a bar, for example, unless you look old—or fly on a commercial airline.

Of course, as Selective Service literature constantly repeats, registering for the draft (provided you haven't yet reached 26) is as simple as checking a box on practically any of the many government forms on which you disclose your name, date of birth, and address. And it may be easier than that. Many people, such as my draft-age son, don't even know whether they're registered. They may have

been registered by stealth, as the young customers of Farrell's Ice Cream Parlour famously were in 1983 (www.tinyurl.com/ybg643h).

But I checked (that's easy, too—just go to www.tinyurl.com/ywh5oq and check on the men in your family), and it turns out that he is registered, which is a

Selective Service registration struck me with a vision of 51 predatory governments revolving around the draft-age male in ever-tightening circles.

N. Joseph Potts (pottsf@msn.com) is a member of his local Selective Service Board. He says that in the event of a draft, the board's primary function would be to judge claims for conscientious-objector exemptions.

“good” thing, since it became impossible for him to register when he turned 26 last July.

That’s right—as simple as it is to register between the ages of 18 and 25, it becomes utterly impossible once your birthday cake sports 26 candles. And from this arises a Catch-22 that Joseph Heller could be proud of: Federal benefits for males of any age require proof of registration—and if you pass 25 without having registered, you’re out of luck unless you can prove either that you somehow weren’t required to register or that you somehow never heard that you were supposed to. This is, of course, all spelled out on an extensive website (www.sss.gov), though the title of Heller’s novel isn’t used there.

And in this age of the welfare state, in which sustenance itself may soon be unobtainable without the favor of the State, the benefits denied may not be trivial. With some exceptions, noncitizen males are also required to register. So citizenship itself, if you didn’t inherit it, is denied those who fall afoul of the Catch-22. Depending on what other citizenship(s) you may have access to, this can be a big benefit indeed to lose, since the governments of the world have banded together to make statelessness a parlous condition for anyone who wishes to live outside a correctional facility.

Immigration Statistics

The statistics of the Department of Homeland Security (immigration is now chiefly a security issue to the grantor of citizenship) reveal what must be primarily the effect of the registration requirement on the male/female ratios of naturalizations. Since 2005 the lowest percentages of males have been in the 30–34 age bracket and the second-lowest percentage have been in the 25–29 bracket—every year. In the younger bracket, would-be American males have the option to cure their nonregistration in their 25th year. In the first two years of the older bracket (through age 31), as well as in the last four years of the younger, applicants must prove that they weren’t required to register, the most common reason being that they had not yet entered the

United States. Some applicants simply failed to register: Ineligible. Others weren’t required to register, but can’t prove it: Ineligible. Others weren’t required to register but don’t care to go to the considerable trouble and expense that can be required to prove it. They also don’t become citizens—ever, in many cases. (Forgiveness is possible after 31.)

From 2002 to 2009 about 2.9 million women were naturalized, while about 2.4 million men were, roughly 21 percent more females than males. Obviously, external factors can affect the gender ratio of those who apply for citizenship and who complete the often lengthy, expensive, and demanding process. But the requirement to register for the draft, or to *have* registered for it, is the only citizenship requirement that impinges differently on each gender. In the world population men outnumber women in the four age brackets spanning the critical years 18–31, but over half the

Draft registration is the only citizenship requirement that impinges differently on each gender.

shortfall of about a half-million men is in these four age brackets even though only 37 percent of the women naturalized were in those brackets (compared with 34 percent of the men).

Further Limits

Failure to register also denies people access to many government aid programs that provide loans and grants to students for attending college or vocational schools. Yes, if you passed your 26th birthday without registering, you’ll *never* qualify for this benefit. This denial is echoed among the state laws with the added bite that unregistered males are barred from *admission* to state colleges and universities if they happen to live in Colorado, Arkansas, Idaho, Louisiana, New Hampshire, South Dakota, or Tennessee.

Of course, these so-called benefits should not exist in the first place, but these rules demonstrate how military considerations set the boundaries.

Perhaps the most lucrative “benefit” withheld from the unregistered is the right to prey on fellow citizens through government employment. The federal government and a large number of states bar you from employment if you aren’t registered. If you’re over 26

and didn't register, you'll need a lawyer if you wish to render "civil service."

Involuntary service in the military may be the greatest abrogation of civil rights that can be imposed on the citizens of "free" countries without judicial process, but registration with the draft board, particularly the "stealth" registration that seems to be stipulated in the driver's-license laws of many states, is yet another violation of a dwindling civil right—of privacy. Of course, failure to report a change in one's address—or in other words to perform self-surveillance—is also a violation of the law, though so far such a violation seems unlikely to lose you your benefits short of an

"activation"—that is, the issuance by Congress of a draft call-up.

The draft, as well as registration for a future draft, violates natural rights, the 13th Amendment forbidding involuntary servitude, and every possible conception of equal treatment before the law (in this case, on the basis of gender), notwithstanding the Supreme Court decision to the contrary. This is the answer to those who would ask why the State can't require military service in return for its various "benefits" or even citizenship. The dozens of state laws enacted in support of this system merely extend this trampling of civil rights, simultaneously broadening and deepening it. **FEE**

The draft violates natural rights.

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Paying the Unemployed Does Not Stimulate an Economy

BY JAMES C.W. AHIKPOR

Many in Congress as well as the President and some of his economic advisers have argued that extending the period for paying the unemployed will stimulate the U.S. economy out of its sluggish performance. Would any of them consider as valid an argument that giving money out of their own pockets to an unemployed member of their household would promote the financial prosperity of that household? Would they not correctly see such financial contribution as merely a transfer within the household? Would they also not be eager to nudge the unemployed to get up quickly and find a job?

So why don't they apply the same logic to the economy as a whole? The only tenable answer is that they are under the spell of the economic miseducation inflicted on the minds of economists and many among the general population by John Maynard Keynes. They believe that consumer spending drives the economy, without having stopped to consider from where consumers get the means to spend.

Consumption Doesn't Need Stimulation

On their own—that is, in the absence of government handouts in the form of welfare payments or unemployment compensation (funded by taxpayer money)—people acquire the means to spend by earning income from producing and selling goods and services or directly selling their labor services. If they borrowed the money to spend, it must be from someone else who has earned income from production. And

as Adam Smith long ago noted in *The Wealth of Nations*, “[C]onsumption is the sole end and purpose of all production. . . . The maxim is so perfectly self-evident, that it would be absurd to attempt to prove it.”

Why else does anyone work other than to acquire the means to purchase goods and services? That is why consumption spending does not need stimulating. What we currently save out of our incomes is to enable us to smooth out our consumption spending over time or to acquire the means to increase consumption and/or our income-earning capacity in the future.

Such household investments may take the form of bank accounts or bonds to earn interest income, stocks to earn dividends, or educational skills to earn higher future wages and salaries. The only part of our unconsumed income that we do not devote to increasing our future capacity for increased consumption spending is

cash hoarding; cash does not earn interest or dividends. But in normal times, when we are not too scared to keep our savings in bank accounts or to purchase stocks or bonds, cash hoarding constitutes a very minor part of our unconsumed income. Meanwhile, what we save is spent by borrowers of our savings, mostly producers of goods and services.

On the basis of these fundamental truths about how people manage their financial affairs and drawing on the wisdom of Adam Smith, Jean-Baptiste Say con-

Why else does anyone work other than to acquire the means to purchase goods and services?

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structured the thesis now named after him, Say's Law of Markets, in his 1803 *Treatise on Political Economy*. It is from production that people earn incomes to purchase those goods and services they themselves don't produce:

Since the time of Adam Smith, political economists have agreed that we do not in reality buy the objects we consume, with the money or circulating coin which we pay for them. We must in the first place have [acquired] this money itself by the sale of productions of our own. . . . It is then in strict reality with their productions that [people] make their purchases; it is impossible for them to buy any articles whatever to a greater amount than that which they have produced either by themselves, or by means of their capitals and lands.

The law simply says that “*productions can only be purchased by productions*” (Say, *Letters to Malthus*, 1821).

Regarding the need for savings rather than consumption spending to promote economic growth, Say noted that:

The public interest is . . . not served by consumption, but it is served and served prodigiously by saving, and though it seems extraordinary to many persons, not being any the less true as a consequence, the labouring class is served by it more than anyone else. These persons think, perhaps, that the values which the wealthy save out of outlays on their personal pleasures in order to add to their capitals are not consumed [spent]. They are consumed; they furnish markets for many producers; but they are consumed reproductively and furnish markets for the useful goods that are capable of engendering still others, instead of being evaporated in frivolous consumption.

Failing to understand all this, Keynes made a fetish of consumption spending as the engine that drives an economy during the 1930s, especially in his famous

book *The General Theory of Employment, Interest, and Money* (1936). He argued that Say's Law applies only to an economy in which there is no unemployment or one in which money is not used as a means of exchange. Neither claim is true. However, many an economist has been hooked on Keynes's miseducation ever since. In macro models legislated unemployment compensation is listed among “automatic stabilizers.” The thinking is that paying the unemployed so they would keep spending will sustain the economy's so-called aggregate demand. Even if proponents of that view recognized that the government would have to pay the unemployed from its tax revenue (or borrowed funds), they still do not realize that total spending would not change. But unless the government borrowed the additional funds from outside the domestic

economy, what it takes from purchasers of its bonds will not be available for private borrowers to spend on investment projects or for their own consumption. Put differently, variations in the level of government spending, besides the portion funded by external borrowing, do not change total spending in the domestic economy.

The Need for New Production

As for stimulating economic activity, it is not the level of consumer spending but new directions in production that make the difference. Entrepreneurs conceiving of new ways to meet economic necessities or desires in the marketplace create new incomes with their positive ripple effects in the economy. Meeting such needs requires that entrepreneurs find the savings, or loanable funds, to acquire the resources to engage in production. Of course, followers of Keynes's mistaken 1937 view—“The investment market can become congested through the shortage of cash. It can never become congested through the shortage of saving. This is the most fundamental of my conclusions within this field”—do not recognize the necessity of savings to fund investment expenditures. But the fact is that the government's taxing the employed or borrowing the community's

As for stimulating economic activity, it is not the level of consumer spending but new directions in production that make the difference.

savings to pay people who are unemployed does not help entrepreneurs in their socially useful task of new wealth creation. This is also how we should recognize the failure of the \$787 billion so-called stimulus of February 2009, the subsequent Cash for Clunkers program, and the first-time home purchasers' subsidies of 2010 to stimulate economic recovery. The money to fund such programs has to be taken from the economy: There is no injection of new money by the government; it effects only a transfer.

Specialization and Trade

Adam Smith in the *Wealth of Nations* made the salient point: "What is prudence in the conduct of every private family can scarce be folly in that of a great kingdom." The prudence is in the fact that households typically do not aim to be their own tailors, shoemakers, wine makers, homebuilders, or producers of all the numerous things they need, but rather specialize in those things they can produce at the cheapest cost and buy the others in the marketplace—the advantage of specialization and trade. That's how Smith came to urge nations to adopt the wisdom of households in the management of their production and consumption activities and to reject mercantilist restrictions on trade and opt for free trade instead.

We can apply the same wisdom of households to the question of paying the unemployed. Just as no household

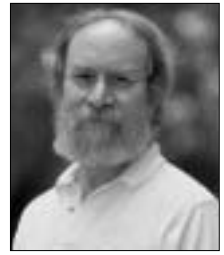
would expect that giving money to any of its members to spend would stimulate wealth creation for the household, so it is for the economy as a whole. An economy is little more than the collective activities of households. It is ultimately the aggregation of household production and consumption expenditures that is called gross domestic product, GDP.

We also can learn from the experience of Europe. Its greater "generosity" in unemployment compensation does not produce less unemployment and greater economic growth but higher levels of unemployment and relatively poorer economic growth than in the United States. Extending the period of unemployment insurance compensation only assures that the unemployment rate stays permanently higher than the 4 to 7 percent range within which it fluctuated over the last 20 years or so until 2009. Arguing about the ballooning deficit may help stop the extensions, but that really is a side issue. The real point is that paying people who are unemployed simply discourages them from seeking and/or accepting alternative job offers quickly. And such payments do not change total spending in the economy.

It is truly a pity that followers of Keynes's mistaken understanding of how a monetary economy works now claim the relevance of his ideas to our current economic situation and are implementing some of his mis-conceived policies.

BBB

Extending the period of unemployment insurance compensation only assures that the unemployment rate stays permanently higher than the 4 to 7 percent range of the last 20 years or so.



Trading for Security

BY SHELDON RICHMAN

Americans tolerate a costly global national-security apparatus in part because they believe the country would be economically vulnerable without it. After all, we use resources from all over the world—oil being only the most prominent example. What if an embargo cut us off from supplies?

Anyone expressing skepticism about this is sure to be confronted with the oil embargoes of the 1970s. According to popular belief, Americans suffered in that decade because the OPEC nations stopped oil shipments in retaliation against the U.S. government's Middle East policy. The nation was at the mercy of malefactors who held its lifeblood in their hands. That crisis had American officials talking about war (the "low-cost option," one high-ranking bureaucrat called it), and the military was restructured accordingly.

The lesson? America must not let foreigners control its economy through access to needed resources.

Except that's not what happened.

U.S. Policy

As Donald Losman wrote in a 2001 Cato Institute paper, "Far too much of the economic debacle of the 1970s has been attributed to OPEC and the price hikes and far too little to U.S. government policies—both pre- and postembargo."

People forget that in 1971, two years before the first embargo, President Richard Nixon imposed price controls on the U.S. economy in an ill-conceived attempt to curtail inflation. For Americans, oil and gas were kept artificially cheap, pumping up demand—and creating shortages and long gas-station lines—when world demand and prices were already rising. "[D]omestic price signals were misleading and promoted vulnerability to price and supply disruptions," Losman wrote. The government tampered with the price system, and an

economic debacle resulted. Where have we heard that before?

What effect did the 1973 Middle East war have on things? "When war broke out in the Middle East October 1973, an OPEC delegation had been in Vienna negotiating with the big oil companies for yet another round of price increases," Losman wrote. "The timing was fortunate for Arab suppliers, who would drape their price-raising production cutbacks in the flag of Pan-Arab rhetoric. Acting opportunistically, non-Arab cartel members went along for the ride."

Note this well: "Despite the embargo, U.S. oil stockpiles fell *only slightly*, and, by March 1974, they were growing again" (emphasis added).

In other words, the embargo was a flop. As the Saudi

oil minister put it, "[T]he embargo was more symbolic than anything else." How can that be? The minister had the answer: "[T]he world is really just one market."

The FEO Crisis

Losman explained: "[S]upplies meant for other consuming countries were diverted to the United States." But that did not ease things for American consumers because the U.S. government still controlled domestic prices. The regulators raised them, but not nearly as much as the world price had risen. As economist Paul MacAvoy summed up: "[R]egulation created the effects of the embargo . . . and the FEO [Federal Energy Office] gets the credit for the energy crisis perceived by consumers in 1974."

The terrible seventies, then, were not the result of anti-American oil sheiks shrewdly manipulating the U.S. economy for political or religious purposes. The

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The oil embargo was a flop. Regulation created the crisis.

injuries were self-inflicted—or U.S. government-inflicted, to be precise.

The lessons from that decade, then, are these:

1. Don't interfere with the price system, and
2. Don't worry about embargoes.

The second may seem more controversial, but think about it: Oil producers need to sell their oil. They have nothing else to do with it. If they won't sell it to Americans, they will sell it to someone who will. That's true for other commodities as well. Keep the trade channels open, and we have little to fear. We don't need to be perpetually prepared for war to save the economy. What believer in the efficacy of markets could disagree?

This point was made recently by Bruce Fein, a conservative lawyer who worked in the Reagan administration and at the Heritage Foundation. Writing in *The American Conservative* magazine, Fein quotes President Dwight Eisenhower as an exemplar of the view he plans to demolish. Eisenhower said:

From my viewpoint, foreign policy is, or should be, based primarily upon one consideration. That consideration is the need for the U.S. to obtain certain raw materials to sustain its economy and, when possible, to preserve profitable foreign markets for our surpluses. Out of this need grows the necessity for making certain that those areas of the world in which essential raw materials are produced are not only accessible to us, but their populations and governments are willing to trade with us on a friendly basis.

Oil producers must sell their oil. They have nothing else to do with it. If they won't sell it to Americans, they will sell it to someone who will. That's true for other commodities as well.

Imperialist, Not Liberal

Before getting to Fein's response, I note that Eisenhower's position, which faithfully captures the ruling elite's historic approach to foreign policy, violates the classical-liberal spirit as well as free-market principles, since it inevitably assigns a major economic role to politicians, bureaucrats, and generals in the service of special economic interests. Furthermore, it sullies the freedom philosophy by associating it with a picture of the less-developed world as a mere convenience for the

United States, both as supplier of raw materials and as consumer of what American manufacturers can't sell domestically at desirable prices. In other words, it rhetorically links the free market with empire, although these things have no true relationship whatever. Unsurprisingly the U.S. record on the ground is less free-market and more imperialist. This criticism did not originate with Marxist-Leninists but with free-market advocates like Richard Cobden and John Bright. Joseph Schumpeter later elaborated the point.

Fein, author of the newly published *American Empire Before the Fall*, rejects Eisenhower's statement com-

pletely: "[I]t is founded on a myth. Neither the United States nor any other nation has ever been deprived of essential goods and brought down by economic warfare. Smuggling, bribery, and middlemen eager to make money invariably evade the tightest embargoes."

The economic-security argument for a war-ready global military presence is worse than wrong. It's dangerous since it is sure to create peril instead of averting it. BBB

Rare Earth Elements: Stockpile or Markets?

BY WARREN C. GIBSON

Quick, what do you know about lanthanum, praseodymium, neodymium, or dysprosium? If you said they are chemical elements, you are right: numbers 57, 59, 60, and 66, to be exact. They and their neighbors on the periodic table, collectively “rare earths,” were once mere curiosities tucked in between barium and tungsten. Now they’re having their day in the sun, thanks to new technology, as did uranium and plutonium when atomic energy was developed. The military may begin stockpiling them.

Good idea or not?

My first encounter with these elements was a project that developed high-tech shock absorbers to protect a replacement camera for the Hubble telescope during the camera’s rough ride to orbit. These devices, called M-Struts, pioneered the use of permanent magnets for shock mitigation. The only material our team found that would provide sufficient magnetic flux density (a measure of the strength of a magnetic field at a given point) was a rare earth alloy, NdFeB (neodymium-iron-boron). This material could only be procured from China.

M-Struts were a one-off project that had no discernible effect on the demand curve for neodymium. But now the demand curve is crowding up against the supply curve largely because of rare earth applications in “green” energy devices such as wind turbines (extra points if you knew that).

Engineers build things that work right most of the time, and as a result the public remains largely ignorant of how devices and systems work or how they are designed, manufactured, built, and maintained. For every blowout preventer that enters the limelight, thousands of other more or less critical devices just keep on working. Consider wind turbines, which have been a common sight along the freeway near my home for some years now and are popping up in other windy parts of the country. They may look simple from a distance, but they definitely are not. They are complex machines designed and built under stringent safety, efficiency, reliability, and durability constraints. Great care must be taken to ensure that they work consistently and safely under normal circumstances and can survive worst-case earthquakes and wind storms. Maintenance

and repair work on a turbine 30 meters above the ground is an expensive and hazardous undertaking.

The turbines are encased in aerodynamic nacelles, which hide the complexity of the machinery inside. There is a gear train that steps up the slow rotation of the blades and drives an output shaft connected to a generator. Bearings, lubrication systems, control systems, brakes, and gears must be carefully designed for



Government stockpiling of elements like these has proven unnecessary, wasteful, and inefficient.
U.S. Department of Agriculture

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efficiency, reliability, longevity, and quiet operation. Weight minimization is an important design goal, meaning wind turbines, like M-Struts, must employ permanent magnets with very high flux density, which only rare earths can provide. A generator of moderate size (three megawatts) uses about a ton of these super magnets, of which roughly 700 pounds are neodymium. Multiply those figures by thousands of current and projected wind generators and you get an enormous demand for neodymium.

Wind turbines aren't the only new use for rare earths. A typical hybrid car employs about 25 pounds consisting of lanthanum in the battery and neodymium in the drive motor. Lithium, also a chemical element but not a rare earth, is another key element used in current battery designs. Compact fluorescent bulbs, which the government will force us all to use by 2014, include a phosphor coating of rare earths. Other applications include water treatment, precision-guided munitions, DVD players, optical lenses, and MRI scanners, to name just a few.

Why Stockpile?

Rare earth oxides are mined. At one time a single mine in a remote part of California called Mountain Pass accounted for the majority of world production. But in the early 1990s imports from China began cutting into the mine's market share and prices began a steady decline. At the same time, environmental problems raised production costs at Mountain Pass. Consequently, production ceased for about five years. In 2008 Chevron Corp. sold the mine to a private group that intends to restart it. The group formed a company called Molycorp, which had an initial public stock offering last July. Analysts estimate the owners reaped substantially more in that offering of 25–35 percent of the company than they paid for the whole operation. Molycorp management claims to have resolved production problems and hopes to restart production next year.

A free-market success story in the making? Not exactly. This being the age of crony capitalism, Molycorp management expects and will likely receive, as the company website puts it, "appropriate federal assistance for research, development and capital costs." In other words, some of the risk is imposed on taxpayers while all the profits go to private parties.

Ninety percent of current rare earth production comes from China, though this may change if Mountain Pass comes online. Given the high demand for rare earths and export restrictions imposed by the Chinese government, it comes as no surprise that the U.S. government, specifically the Department of Defense,

intends to begin stockpiling these materials.

Past Stockpiling Fiascoes

U.S. government stockpiling began after World War I, though the basic idea is ancient and mentioned in the Book of Genesis. The War Industries Board, which encountered shortages during the war, suggested that future problems be ameliorated by stockpiling: a reasonable-sounding idea that did not quite work out as planned. In 1922 a bureau was established in the War Department that got busy compiling a list of 42 strategic materials to be acquired. But the gov-

ernment took its time acting on the list. It was only in 1938, with another war looking ever more likely, that Congress passed the Naval Appropriations Act, authorizing \$100 million for purchases of materials. Unfortunately, when war did come in 1941, only about half of the authorized acquisitions had been completed. Consequently, most strategic materials had to be imported during the war. Only three of the 15 materials in the wartime stockpile came from domestic sources.

Following World War II there was a great deal of debate about what should be stockpiled and who should be in charge. Compromise legislation established an unwieldy bureaucracy led by the Army/Navy Munitions Board, with participants from the departments of State, Treasury, Agriculture, and Commerce. It was left

Given the high demand for rare earths and Chinese export restrictions, it comes as no surprise that the Department of Defense intends to begin stockpiling these materials.

largely to the bureaucracy to decide what materials should be stockpiled, where, and in what quantities. By 1948 a list of 51 materials valued at about \$2.1 billion had been compiled, and by 1950 \$1.6 billion worth of materials was on hand with half a billion more on order—this of course being a time when a billion dollars was real money. As always, those in charge took care to spread the work over as many congressional districts as possible: By 1953 the stuff could be found at 71 military depots, nine General Services Administration depots, four government-owned vaults, six commercial vaults, 165 commercial warehouses, 34 commercial tank farms, seven open-air commercial sites, four open-air government sites, and 18 industrial plants. One wonders how much was lost, stolen, or simply forgotten.

In 1962 President John Kennedy said he was “astonished to find that the stockpiling program had accumulated \$7.7 billion worth of materials, an amount nearly \$3.4 billion greater than estimated wartime needs.” By 1965 a disposal program was in full swing, but in 1981 another upswing began as part of the Reagan defense buildup. “It is widely recognized that our nation is vulnerable to sudden shortages in basic raw materials that are necessary to our defense production base,” President Ronald Reagan warned. The next downturn came in 1992 with the demise of the Soviet Union along with candidate Ross Perot’s harping on deficits in that presidential election year. Eighty-four individual materials were on hand then, worth an estimated \$7.7 billion. Between 1993 and 2005 some \$5.9 billion worth of materials were sold, while minor acquisitions continued. By 2008 a mere \$1.6 billion stockpile remained, and that may turn out to be another cyclical low. In that year the military suspended or limited sales of 13 commodities whose stockpile levels had previously been considered excessive.

Another Cyclical Upswing

A new turning point may now be at hand in the form of the Pentagon’s proposed Strategic Mate-

rials Security Program, which among other things would grant the military greater discretion in deciding what to buy and from whom. One wonders about the likelihood that Congress will give up an option to steer major amounts of spending and jobs to their constituencies.

In any event, in 2009 several rare earths were added to the list of materials that the military might stockpile. So now we have one branch of the government attempting to mitigate a problem caused largely by other branches. Observe: Except in special circumstances, electricity cannot be generated economically by wind or solar devices, absent government subsidies. Hybrid or all-electric cars are likely uneconomical as

well at present. Thus the increased demand for rare earths is largely due to government subsidies. By the very nature of such subsidies, all these technologies divert scarce resources away from other projects that would better serve consumer needs.

But wait. If not presently economical, won’t these devices soon *become* economical, and isn’t it a smart idea for government to hasten a good thing that is surely coming? No. Even if we concede the inevitability of these “green” alternatives, the unhampered market will tend toward not

only the optimal uses of present resources but also the timing with which new technologies are deployed. Scarcity of saved capital is always the limiting factor in investment and production, not technological knowledge, as Murray Rothbard pointed out in *Man, Economy, and State*.

What Are the Alternatives?

Returning to stockpiling, we now ask why governments stockpile strategic materials at all and whether there are better alternatives.

If we are to have a military at all, it must consume materials. Just as manufacturing firms try to stockpile the right amounts of materials and parts—too much ties up scarce capital while too little risks shutdowns—we might expect the military to follow similar prac-

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tices. But this comparison is superficial. To begin with, the aforementioned tendency of members of Congress to pursue their narrow interest is always at work, which is also why base closings are so difficult. Second, Pentagon planners have a hard time foreseeing what might actually be needed. (When it became apparent that Humvee military vehicles were vulnerable to roadside bombs in Iraq, the DoD had to scramble to find supplies of a special hardened steel alloy to retrofit the vehicles. It had stockpiled many materials, but not that alloy.) And of course, unlike loss-fearing private businesses, government officials lack any strong motivation to economize.

What is Unseen

In evaluating the economics of stockpiling, we must follow Frédéric Bastiat's insistence on considering what is unseen as well as what is seen. DLA Strategic Materials (DLASM)—what the Defense National Stockpile Center was called until July 2010—assures us, via its website, that the “stockpile acts like an insurance policy with an outlay return of many-folds [sic] over the original costs should the stockpile be used, and yet until used, it retains indefinite value (at current market value).” A win-win situation, free of costs, it would seem. The DLASM site makes no mention of the costs of acquisition, transportation, storage, safeguarding, accounting, or deterioration. Nor does it consider higher prices paid by civilian consumers of stockpiled materials.

DLASM stockpiling is not motivated solely by military needs. In fact, the website specifically states that the stockpile “is not solely a military element, but rather, it is intended for all essential civilian and military uses in times of emergencies.” Who decides what is essential

Who decides what is essential and what is an emergency?

and what is an emergency? Blank-out, as Ayn Rand liked to say. The *laissez-faire* notion of strictly separating government activities from private interests, if it ever existed at all, is not what we have today, not by a long shot.

So if stockpiling is problematic, what is the alternative? Private speculation. Uranium is difficult to store because it is radioactive, and yet the Uranium Participation Corporation is a private Canadian firm which does just that. It offers operators of nuclear power plants a steady source of supply and speculators an opportunity to seek profits. In addition, uranium futures are traded on the New York Mercantile Exchange. Although rare earths can be difficult to store,

they are not radioactive. Given the long list of materials that are now traded in spot and futures markets, it would not be surprising to see rare earths joining their number, thereby harnessing the efforts of speculators for the benefit of military or commercial users. Markets offer the opportunity

for all users to harness the profit-driven foresight of speculators.

But what if somebody cornered the market for neodymium? Could they hold the entire military or even the entire civilian economy hostage? No. Cornering (purchasing almost all available stocks in an effort to exact monopoly prices) is almost impossible to achieve, as Nelson Bunker Hunt found out when he tried to corner silver in 1980 and lost his shirt. Should a cornering effort be detected, the military or another major user could easily front-run it with above-market bids.

Stockpiling, in short, is a practice with major political problems and a historical record of wild swings. We would do better to let markets husband scarce resources. FEE

Free-Speech Clarity by California Courts

BY STEVEN GREENHUT

When kids get into complex arguments about who did what to whom, parents can usually sort through the miasma by focusing on a few key points. Whose toy is it? Which one of you threw the first punch? And likewise, almost every major debate in the political arena these days can be sorted out by relying on basic principles. Whose property is it? Who violated someone else's rights?

I've been astounded, for instance, about the heated debate over the Ground Zero mosque. It's not at Ground Zero and the proposed Muslim community center isn't really a mosque. But never mind those side points. My question: Who owns the property? Apparently the center is a private project and a lawful use of the property, per the government's standards. End of story. But critics—many of whom claim to be champions of property rights, religious freedom, and the free market—remain opposed to it because they do not like the idea

of a group of individual Muslims building something near a site where some other Muslims committed an atrocity.

The beauty of property rights is that they grant individuals the ability to determine their own future regardless of whether other people like them or not. If I own a property and propose a project that conforms to some easily recognizable preexisting rules, then I have the right to build on it whether or not my neighbors prefer that something else be built on the site—or whether or not they like me, the facility, or my religion.

Likewise, if I own a home or a business, I have a right to decide who gets to visit me on that property. It's a simple concept. Surprisingly, California's courts—which seem to have specialized in eroding property rights—cut through the nonsense last July and ruled in a way that would make any parent of a kindergartner proud, even though the same court contradicted itself in a different ruling the next month. Still, it's progress.

California's Third District Court of Appeals "struck down a union-backed California law Monday that allows labor picketing on a store's parking lots and private sidewalks, saying it unconstitutionally requires property owners to host speakers with whom they disagree," reported the *San Francisco Chronicle*.

In this case the Sacramento local of the United Food and Commercial Workers Union began picketing a Foods Co. supermarket, owned by the Ralphs Grocery chain. Union protesters stood only a few feet from the

door, handed out flyers to customers, and occasionally marched in front of the door.

When the company tried to evict the protesters the union invoked the 1975 Moscone Act. As the court of appeals explained in its decision, "The Moscone Act declares that conduct relating to a 'labor dispute,' such as

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peaceful picketing, 'shall be legal,' . . ." The state's labor code, the court stated, requires that before a court grants an injunction in a labor dispute, it must find that "unlawful acts have been threatened and will be committed unless restrained" and "That substantial and irreparable injury to complainant's property will follow" and "That as to each item of relief granted greater injury will be inflicted upon complainant by the denial of relief than will be inflicted upon defendants by the granting of relief" and "That complainant has no adequate remedy at law" and "That the public officers charged with the duty to protect complainant's property are unable or unwilling to furnish adequate protection."

Free Speech vs. Organized Labor

This is an absurdly hard-to-meet standard. Under the state law, then, protesters can swarm a property unless the owner can prove the protesters will destroy the property and meet all the other impossible-to-prove caveats stated above. In the name of protecting unions in labor disputes, the state code obliterated what one would normally consider the most basic tenet of property rights: the right to keep intruders off of one's property.

In its 3-0 ruling in *Ralphs Grocery Company v. United Food and Commercial Workers Union Local 8*, the court ruled: "This case presents the question of whether the state, based on the content of the speech, can force the owner or possessor of real property that is not a public forum to give an uninvited group access to the private property to engage in speech. We conclude that such legislation violates the First and Fourteenth Amendments of the United States Constitution and, therefore, is invalid."

And more simple clarity from the court: "Forcing a speaker to host or accommodate another speaker's message violates the host's free speech rights."

This is not an inconsequential point. I recall during the four-month grocery union strike in southern California in 2004 the degree to which union protesters disrupted business, harassed customers, yelled at store employees, and did so right by the entrance to these

privately owned buildings. In some cases the employees blocked store entrances. (Ironically, the leader of that strike is now speaker of the California Assembly, which offers some insight into the type of legislation that moves forward in California these days.) As I wrote in *The Freeman* in September 2004 (www.tinyurl.com/my5q8l), the strike "disrupted most people's lives. Store hours at almost all major grocery stores were curtailed; food selection was limited; and shoppers who continued to frequent Ralphs, Vons, or Albertsons stores were forced to cross picket lines manned by increasingly surly workers." Unions gained a leg up in their bargaining because they could wantonly violate private property rights.

In a series of legal decisions over the years, California courts had come up with some convoluted distinctions regarding free speech on private property that is accessible to the public. Before the July ruling the basic standard was that in malls and multistore facilities serving as a de facto town square, individuals have more speech rights than at single-store facilities that are not intended as meeting places. But even at these free-standing stores, labor speech is protected by the above-referenced Moscone Act and other sections of the state labor code.

In the name of protecting unions, the California code obliterated the right to keep intruders off of one's property.

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Public Private Property

In this particular case the unions showed up about five days a week and picketed the store for about eight hours. The company provided the union with a memo detailing its rules for speech on store property, and union members generally ignored those rules. The store called the Sacramento police, but the police refused to do anything other than give the union picketers the same copy of the rules they already had been ignoring.

The unions argued that the store was actually a public forum because another part of the shopping center had sitting areas. Those sitting areas, in the union's view, made the store equivalent to a multistore facility that served as a town hall for public debate. The trial court ruled in the union's favor, noting that the grocery com-

pany did not meet the five standards detailed in the Moscone Act.

It also agreed that the store is something of a public forum given that other groups had solicited money and signatures in front of the store. This is like saying one's front lawn is the equivalent of a public park because the homeowners had allowed neighbors to congregate there. The beauty of property rights is that the owner can decide whom to allow on his property, at what times, and under what conditions—a point thoroughly lost on the trial court but overturned by the appeals court. As the appeals court explained, “A private owner may selectively permit speech or prohibit speech in a private forum without affecting the private nature of the forum.”

The appeals court also rebuked previous courts for decisions that “were based on the now-discredited notion that the First Amendment of the United States Constitution may prohibit private property owners from restricting expressive activities on their properties.” The court found the Moscone act unconstitutional: “The Act affords preferential treatment to speech concerning labor disputes over speech about other issues. It declares that labor protests on private property are legal, even though a similar protest concerning a different issue would constitute trespassing.”

It similarly voided the relevant section of the state labor code (section 1138.1).

Attorney General Jerry Brown, recently elected governor again, filed an amicus brief in the Ralphs case that in 21 pages made no reference to private property and no distinction between the speech rights one has in the public square and the rights one has in a private space. His brief noted that “the state has no obligation to assist a property owner in restricting the expression of others.” All this time I thought the main purpose of the government was to ensure the life, liberty, and property of residents are protected from trespass.

Fortunately, the court grasped the latter point. Yes, the court acknowledged, a private property owner can limit access to his property, even to unions that are there to disrupt and harm the business. Yes, there are different free-speech standards—not depending on union membership, but based on where the speech is taking place (private versus public property).

Mixed Messages

Ironically, in August the same court came to a rather different conclusion in a free-speech case involving the Westfield Galleria, a large indoor shopping mall in the Sacramento suburb of Roseville, when it ruled against a set of severe speech restrictions adopted by the mall's management. This is one of the more bizarre such

speech issues since the Galleria had adopted a set of rules that prohibit people in the mall's common areas from “approaching patrons with whom he or she was not previously acquainted for the purpose of communicating with them on a topic unrelated to the business interests” of the mall or shops within the mall, according to a *Sacramento Bee* report.

The rules are silly and offensive. Hearing about them would make me avoid the Galleria—although I already do so because I hate mall shopping. Nevertheless, despite the complications and circumstances, the same principle should be at work here as in the union-picketing case. Property owners get to set the rules on their own property, even bad ones, just as I get to determine the guests at my own house, even if I decide to invite a group of ne'er-do-wells and deadbeats.

Instead, the court ruled that the Galleria's rules “are unconstitutional on their face.” Still, I can't help but be thrilled by its decision in the Ralphs case and its recognition that unions do not have a set of free-speech rights elevated above everyone else. Overall, it's a step forward for property rights in California, given that disruptive union picketing is common and few malls arrest customers who chat about the weather. FEE

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Entrepreneurs Under Attack

BY JOHN STOSSEL

Every day, federal, state, and local governments stifle small businesses to privilege well-connected incumbent companies. It's a system of protectionism for influential insiders who don't want competition. Every locality has its share of business moguls who are cozy with politicians. Together, they use the power of government to keep competition down and prices high.

The Institute for Justice (IJ), a libertarian public-interest law firm, works to free entrepreneurs from such opportunity-killing regulations. Here are four cases from IJ's files.

Case No. 1. The monks at St. Joseph Abbey had to take the state of Louisiana to federal court to defend their right to make money selling handmade caskets. That's right: empty wooden boxes. As soon as the monks started selling them, they were shocked to receive a cease-and-desist order from something called the Louisiana State Board of Funeral Directors. The funeral directors had managed to get their state to pass a law decreeing that only "licensed funeral directors" may sell "funeral merchandise" like caskets. To sell caskets legally, the monks would have to obtain a funeral director's license. That required a year-long apprenticeship, passing a funeral industry test, and converting their monastery into a "funeral establishment" by installing embalming equipment, among other things.

The state board and the Louisiana Funeral Directors Association—the profession's lobbyist—say the law is designed to protect consumers. But that's what established businesses always say about absurd regulations

they demand. An unusually candid funeral director told the *Wall Street Journal*, "They're cutting into our profit." Well, yes, free competition does do that. That's the point.

Another funeral director said that the law must remain unchanged because casket-making is a complicated business: "A quarter of America is oversized. I don't even know if the monks know how to make an oversized casket." Does that even deserve a comment?



Dennis Harry, Vincent Cummins, Pat Harvey and Hector Ricketts (L to R) have seen their private van service regulated nearly to death.

Photo courtesy Institute for Justice.

Wheels, No Justice

Case No. 2. Hector Ricketts wants to offer New York City residents an alternative to New York's slow and clumsy public transportation. He employs drivers who offer commuters rides in minivans. The vans serve mostly low-income neighborhoods and typically charge \$2 a head. People like the vans. They're more convenient than unionized government-run public transit

—and cheaper, too. The subways and buses charge \$2.25.

So the city's public transit union used its political connections to regulate the vans to death: The politicians have decreed that vans may not drive routes used by city buses or provide service to a passenger unless it is prearranged by phone; and the vans must keep a passenger manifest on board and enter the name of everyone to be picked up.

John Stossel hosts Stossel on Fox Business Network and is the author of Myths, Lies, and Downright Stupidity: Get Out the Shovel—Why Everything You Know Is Wrong. Copyright 2010 by JFS Productions, Inc. Distributed by Creators Syndicate, Inc.

“Government makes it easier to get on welfare than to grow my business,” Ricketts says.

The fight continues.

Case No. 3. Melony Armstrong of Tupelo, Miss., wanted to expand her African hair-braiding business. But Mississippi bureaucrats told her that to teach workers how to braid she needed a full cosmetology license. That required 1,200 hours of classes. Next, she needed a cosmetology instructor’s license—2,000 more hours.

The courses and license had little to do with her profession. They were simply barriers to entry favored by her competition. Fortunately, IJ won that case.

Case No. 4. Dennis Ballen has a bagel shop located far off the main roads in Redmond, Wash. He couldn’t

afford to advertise on radio or TV, so he paid people (typically unemployable people with quirky personalities) to stand on the road with a sign directing traffic to his store. It worked. The sign brought him two or three new customers a day.

Then Redmond police slapped him with a cease-and-desist order, warning he could face a year in jail or up to \$5,000 in fines if he didn’t stop displaying the sign. Ballen estimates that he would lose at least \$200 a day in business if he complied. He and IJ sued the city and won the right to employ the sign-holder.

It’s great that IJ and some determined entrepreneurs win a few victories for free enterprise. But in a country with a real free market, such lawsuits would be unnecessary. **FEE**

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claim they’re trying
to protect consumers
when they demand
legal favors.

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Capital Letters

Does Saving Reduce GDP?

Warren C. Gibson's article, "GDP: Who Needs It?" in the May 2010 edition of the *Freeman* (www.tinyurl.com/yywwazy), asserts an inconsistency. He correctly denigrates the Keynesian notion of promoting consumption spending as a means of promoting GDP growth: "The predominance of consumption seems to have spawned the *bizarre notion* that if we can only get consumer spending up, GDP will rise and everything will be fine" (p. 28, my italics). Two sentences after this statement he asserts an erroneous claim: "If people believe they need to save more they will have to forgo some present consumption, and this may *lower* GDP temporarily. Savings, wisely invested, boost future consumption. But the future may not arrive until after the next election" (p. 28, my italics).

Why would increased saving reduce GDP? Saving, correctly understood or defined, is the acquisition of interest- or dividend-earning financial assets, such as bank deposits, certificates of deposit, mutual fund shares, bonds, and stocks. Thus saving is not cash hoarding but the transfer of funds from income earners to borrowers who spend the funds. Savings are the source of loanable capital sought by businesses, as Adam Smith in the *Wealth of Nations* well explains: "By what a frugal man saves, he not only affords maintenance to an additional number of productive hands, but like the founder of a public workhouse, he establishes as it were a perpetual fund for the maintenance of an equal number in times to come." Also, "Capitals are increased by parsimony. . . . Whatever a person saves from his revenue he adds to his capital, and either employs it himself in maintaining an additional number of productive hands or enables some other person to do so, by lending it to him for an interest, that is, for a share of the profits." Indeed, increased savings make increased borrowing at lower interest rates possible.

In his concluding paragraph, Gibson also quotes an explanation from Ludwig von Mises that is in accord with Smith's argument and in contradiction to his earlier income-lowering claim: "There is but one means to

improve the material well-being of men, viz., to accelerate the increase in capital accumulation as against population." Gibson goes on to state: "Capital accumulation requires saving, saving requires confidence. . . ." I think he needs to acknowledge the error of attributing an income-lowering effect to savings or else explain the contradiction in the two paragraphs. We cannot get rid of the Keynesian nonsense that increased saving causes poverty—the so-called paradox-of-thrift proposition—by continuing to employ Keynes's misconceived definition of saving to mean cash hoarding.

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Warren Gibson replies:

Professor Ahiakpor quite reasonably questions my assertion that an increase in saving could temporarily suppress GDP. I lacked the space (and inclination) to explain this assertion in the article, but here it is: I agree with him that savings are invested in real assets, and I am willing to stipulate no growth in cash balances. And of course new investments do add to GDP. So it looks like a wash: some consumption is simply shifted to capital goods. But I suggest that if we consider the time structure of production we see a difference. Capital goods are priced at the estimated discounted value of the final products they are intended to produce, and because of this discounting the present value of new investments could well be lower than the consumption goods they replace. Only in the fullness of time will the productivity of the new capital work its way down to consumption, at which time we would expect increased GDP, other things being equal.

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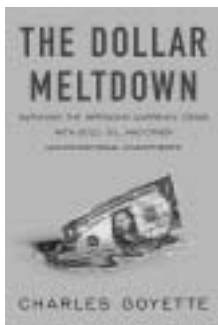
Book Reviews

The Dollar Meltdown: Surviving the Impending Currency Crisis with Gold, Oil, and Other Unconventional Investments

by Charles Goyette

Portfolio • 2009/2010 • 240 pages • \$27.95 hardcover; \$17.00 paperback

Reviewed by George Leaf



Imagine an ice cube on an asphalt roadway in the mid-summer heat, quickly melting away to nothing. That's a good way of thinking about what government policy has been doing to the value of our money. In *The Dollar Meltdown*, investment adviser and former radio talk-show host Charles

Goyette explains why the dollar is melting away and offers sound advice for people who prefer that their wealth avoid the fate of that ice cube.

Goyette begins by noting that while the federal government has been going through money like a drunken sailor for decades, the last ten years have been simply devastating. In 2004 Congress had to raise the government's debt ceiling to over \$8 trillion. The increase in federal debt just in the first three years of the Bush II presidency was two and a half times greater than the total debt the government had accumulated from 1776 to 1980. Gold, which Goyette calls the canary in the coal mine, rose to \$442 per ounce with that increase. Of course, the politicians could not restrain their appetite for spending and in 2006 Congress once again had to raise the debt ceiling (not much of a ceiling!) to \$9 trillion. Gold had risen to \$554 by then.

That was not a mere coincidence. Gold's price is a referendum on the expected trend of fiat money—the dollar. Gold has been over \$1,200 lately, indicating that confidence in the value of the dollar keeps falling. Goyette shows that there are good reasons why people are losing confidence. When the stock market plunged and financial markets hit the panic button in

September 2008, President Bush asked his advisers, “How did we get here?” Goyette provides an explanation that even an airhead politician should be able to understand.

Our political and media elites, confused and desperate over the economic debacle, advanced the notion that the culprit was “deregulation.” Goyette gives that self-serving falsehood the back of his hand, showing that the problem was rooted in massive government intervention in the economy, with meddling in the housing market most prominent. He has a great talent for colorful analogies, writing, “Like pirates whose fake lighthouses drew hapless ships to plunder, political pirates distort otherwise self-regulating economic activity with laws and regulations aimed at winning favor among specific beneficiaries.” Politicians—and Goyette correctly holds both major parties to be equally guilty—make off with the booty of campaign support, special interest groups enjoy the subsidies and other favors bestowed by the politicians, and the rest of us suffer the harm.

Bad as the “official” federal debt is, Goyette informs the reader that the situation is actually much worse. The government would need to set aside over \$99 trillion to cover just the anticipated shortfall in its spending plans—that's over and above the current taxes (including Social Security “contributions”) the government collects. Paying for all the megastate's promises is, Goyette accurately says, “insurmountable.”

But of course the politicians will try, and the time-honored method for governments to pay excessive debts is through inflation. Goyette knows his monetary history and observes that monarchs have resorted to monetary debasement, such as making coins from cheap metals and printing up vast amounts of irredeemable paper money, for more than 2,000 years. Inflation, he instructs the reader, means that the supply of money gets *inflated*, leading to generally rising prices. Knavish government officials may say that the causes of inflation are mysterious—Goyette quotes some astounding nonsense spoken by one of Jimmy Carter's top economists on how inflation is somehow “society's” fault—but misleading ordinary people while looting their wealth is one of the things governments are best at.

Another excellent feature of *The Dollar Meltdown* is the way it disabuses readers of the foolish notion that the government does all its spending and inflating for the good of the people. Consider this sentence: “Ultimately the survival of the government and the governing classes (at least in the reckoning of those in charge) trumps the resilience of the economy and the well-being of the people.” Devastatingly accurate. The State’s depredations against us will continue as long as most citizens continue believing that the State acts to serve them. Goyette tells them that it’s a gigantic lie.

If you want a good, easy-to-read explanation of gold, fractional-reserve banking, the Federal Reserve, and the nasty side-effects of the politicization of money, this book is excellent. And if you already understand all that and desire good advice on how to protect your wealth when the government means to expropriate people to the fullest, it provides that, too.

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Soft Despotism, Democracy’s Drift: Montesquieu, Rousseau, Tocqueville, and the Modern Prospect

by Paul A. Rahe

Yale University Press • 2009/2010 • 400 pages • \$38.00 hardcover; \$25.00 paperback

Reviewed by Ross B. Emmett



Paul Rahe’s *Soft Despotism, Democracy’s Drift* bears a title that seems far from the preoccupations of America today. We have nothing to do with despots, do we? And the subtitle refers to authors—Montesquieu, Rousseau, and Tocqueville—that many have heard of but few know anything about. So what does the book have to do with American democracy today?

Consider our current setting: Threatened with the loss of our homes and financial security, and the potential for terrorism; embroiled in endless war in lands few of us understand; worried that the American dream is disappearing—is it any surprise that Americans look to

political change that provides hope? Furthermore, many Americans apparently do not believe our crises will be solved until the government steps in to protect us. We seem to assume that human action happens either through political organization or within the boundaries set by political leaders.

The State, in other words, is the guardian of our interests and the shepherd of our action; without it, many believe, all would descend into chaos or worse.

Professor Rahe, a self-described “political historian” who teaches at Hillsdale College, tells us that such is the setting in which despotism will increase—not just the sword but also by the “soft” means of the regulator, the consumer advocate, the bank overseer, even the community organizer. “I know what you really need,” says the despot-cum-shepherd. “Let me organize things for you, so your choices are simple, and the common good is advanced.”

Rahe’s book tells us what those famous political theorists whom we never seem to get around to reading can teach us about our “modern prospect.” He concentrates mainly on the best known of the three, Alexis de Tocqueville, the Frenchman who first warned us about soft despotism. Rahe argues that American democracy is well on its way to the destination that Tocqueville feared.

The United States of today has more in common with Tocqueville’s royalist France than with the nation of the American founders. It has a stable elite that happily presides over the erosion of individual rights. Large swaths of our economy now are under the control of bureaucrats, petty and inconsequential people who revel in the use of power. Instead of a free society, ours is increasingly controlled and directed—as the French would say, *dirigiste*.

Among the manifestations of that is the transformation of higher education, about which Rahe comments:

Our colleges and universities became the finest in the world when they were left to their own devices. It is in the years of federal regulation and superintendence that they became top heavy with bureaucracy and ridiculously expensive, fiercely ideological and unwilling to give grades that would distinguish the goat from the sheep, and increasingly hostile to

the very idea of liberal education. The only conceivable justification for federal regulation of education is the preposterous conviction, entertained by our administrative class, that ordinary human beings are simply unfit to manage their own affairs.

Of course, it isn't only in education that our elite regards ordinary people as unfit to manage their own affairs. That has become the norm; we're engulfed by regulations.

What has gone wrong? Rahe maintains that "We have jettisoned much of the equipment—political, social, moral and psychological—that in the past enabled us to join together, stand our ground, and resist liberal democracy's despotic drift."

America is in a bad way, but Rahe does not believe that once a nation starts down the "road to serfdom," it will inevitably reach that destination. In fact, he argues—persuasively to my mind—that Tocqueville and Montesquieu assist us in recovering that American form of limited government and the rule of law that lovers of liberty cherish. Soft as the path to despotism may be, Rahe believes that Americans can reverse course and restore the virtues of the republic that have been dismantled.

If despotism in democratic society isn't inevitable, where do we see the opposing forces and hope of new opportunities? What's missing from Rahe's discussion of Tocquevillian soft despotism is the same thing I find missing from F. A. Hayek's discussion of the pull toward state centralization in *The Road to Serfdom*: recognition of the ways in which free actions of individuals and voluntary associations pull in the opposite direction. Rahe spends his time talking about action in the political realm that we should be taking (or, mostly, stopping).

Absent from his account are the positive actions of civil associations and individuals acting independently and responsibly. I'm thinking, for example, of homeschooling, the explosion of liberty-based think tanks and civil associations, and the creation of several new colleges resistant to government intrusion.

In the tug of war between soft despotism and individual liberty, liberty is down but far from out.

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The Great Money Binge: Spending Our Way to Socialism

by George Melloan

Threshold Editions • 2009 • 304 pages • \$26.00

Reviewed by Gerald P. O'Driscoll, Jr.



"Can we do it again?" asks Amity Shlaes in her introduction to this book. She is asking about the Reagan revolution of the 1980s. In his final chapter George Melloan answers yes. But it won't be easy because of the great expansion of government in 2008–09. He calls for a new vision of "Supply-Side Prosperity." In the intervening pages, he examines the origins of the Crash of 2008 and a way to restore not the false prosperity of the bubble economy, but the genuine prosperity that characterized the Reagan years.

Melloan recently retired from a 54-year career with the *Wall Street Journal*. He is a superb wordsmith, able to turn the dry details of finance into highly readable prose. He has a story to tell and tells it very well.

Bad economic policy and troubled times often stimulate good economic ideas. That was true of the 1970s and stagflation: the simultaneous appearance of recession and inflation. It was a crisis for Keynesian economics and a crucible for revisionist economic thinking. It led to Reaganomics and a renewal of the American spirit.

For Melloan the core principles of supply-side thinking and the Reagan revolution ("a repeat of the American Revolution") were cutting marginal tax rates and restoring sound money: "Sound currency is essential to the health of an economy." He correctly characterizes supply-side economics as "a revival of classical economic theory." The classical view is that production not consumption is the engine of economic growth. The supply-siders focused on government policies that would stimulate production. They wanted to extricate the U.S. economy from the inflationary and recessionary abyss of the 1970s.

Supply-side thinking triumphed and justified Reagan's tax cuts and Paul Volcker's assault on infla-

tion. The ensuing prosperity lasted through the 1990s.

So what happened? It's now a familiar story and begins in June 2003. After a series of rate cuts, the Fed decided to do one more and bring the fed funds rate down to 1 percent. "It was a bridge too far," in Melloan's words.

The rate cuts ignited the great money binge. "Everyone joined in the fun": banks, mortgage brokers, the Republican Congress, and state legislators. Spending of all kinds exploded. Add an ill-conceived policy to promote homeownership, institutionalized in Fannie Mae and Freddie Mac, and you understand why the money binge channeled through housing finance and home building.

Melloan criticizes the Fed for its policy blunders. He observes that the Federal Reserve System was founded in 1913 to stabilize the banking system. Only 17 years later, the new central bank presided over the Great Depression. One could add that numerous recessions followed, accompanied by an inflationary bias in monetary policy only temporarily interrupted under Volcker. Melloan has a realistic view of the Fed's role today: "Claims that it operates independently of political influence have little basis in fact, but give politicians deniability when it errs, as it often does."

Melloan strongly criticizes President Obama's policies, especially his spending. He described Obama's 2010 budget as "more like a revolution than a mere change."

Maybe.

There was perhaps a fiscal revolution, but it began under the second President Bush. Melloan lets Bush off with little more than an observation of his fiscal "permissiveness." Bush comes off sounding like an indulgent grandfather to Congress, rather than the author of a great spending binge.

The saga of the Bush administration reveals a fatal flaw in supply-side thinking, if not as originated, then as practiced. In preaching the magic of tax cutting, supply-siders took their eye off the spending side of the budget. Tax cuts and sound money foster entrepreneurship and economic growth. But the process is not unbounded.

Government spending measures the real resources appropriated by the government and constitutes the true burden on the private sector. Spending can be financed by current tax collections or borrowing. Borrowing must be paid by future taxes. The Fed can inflate away some of the real value of government debt, but that substitutes an inflation tax (loss of wealth) for a conventional one.

Culminating in the Crash of 2008, Bush's spending binge paved the way for Obama's victory. Rather than bringing "change," however, Obama has ushered in the third Bush term.

In his final chapter Melloan outlines a multistep program for an American renewal. To be effective, however, a multistep program must begin with recognition of the problem. The economic problem did not begin with Obama but with the easy-spending policies of the Bush administration and the easy-money policies of the Fed. Both fiscal and monetary profligacy must be recognized and reversed.

Notwithstanding this criticism, I heartily recommend *The Great Money Binge* for a highly readable account of the Crash of 2008 and the largely misbegotten response.

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This Is Your Country On Drugs: The Secret History of Getting High in America

by Ryan Grim

John Wiley & Sons, Inc. • 2009/2010 • 272 pages

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Reviewed by Jacob H. Huebert



Americans really like to get high, and they'll go out of their way to do so even when the government threatens to punish them.

That's the theme that comes through strongest in Ryan Grim's *This Is Your Country On Drugs*, a look at the relationship among

Americans, the drugs they use, and their government.

The author, a relatively young man, isn't shy about his own history of casually using and enjoying drugs, particularly hallucinogens. He discovered in the early 2000s that LSD was nowhere to be found—not only could he not find any for himself but statistics showed acid use was down in general.

Investigating further, Grim found that several factors had come together to make LSD unavailable. One was a success in the war on drugs: The DEA nabbed a long-time leading supplier, Harvard graduate William Leonard Pickard. Surprisingly (or not), another major factor was the breakdown of the LSD distribution system after the Grateful Dead disbanded, the band Phish stopped touring, and the groups' concerts could no longer serve as major trading venues.

With LSD mostly gone, Americans didn't stop seeking mind-altering experiences. They just turned to other substances that weren't illegal, such as the herb salvia (still legal and readily available in most states), which offered even more intense trips.

Grim shows that this sort of thing has happened many times in U.S. history, both before and after drug prohibition began with the 1914 Harrison Narcotics Tax Act. One drug goes out, others come in. In the 1980s, for example, the Reagan administration decided to focus on fighting marijuana. That made pot expensive, so people switched to other drugs, including crack—a substance that might never have been invented but for Reagan's antidrug policies.

The book also shows how government's attempts to discourage drug use through propaganda often fail.

For example, in one chapter Grim considers the government's D.A.R.E. program, in which police visit schools to teach students about drugs, and reports (as have others, including the Government Accountability Office and Surgeon General's office) that the program has been a failure. Children who go through it tend to use drugs *more* than other children because the education makes them less afraid. Yet the program persists because it's popular—with police and with parents who are relieved of the burden of talking to their kids about drugs themselves.

Anti-marijuana ad campaigns that have cost taxpayers more than \$1.5 billion since 1998 also failed to produce any decline in minors' drug use. Eventually marijuana use did drop, but not because of the ads; rather, kids began participating in more structured after-school activities and doing more of their socializing online. They didn't stop using drugs, though. They just started taking illicitly obtained prescription pills instead.

Other chapters consider such topics as the harmful effects of the drug war on people in other countries and the relationship between the drug war and U.S. foreign policy. There are also detailed examinations of Americans' history of using amphetamines and cocaine. And Grim looks at drug prohibition's unsavory origins. For example, he shows how DuPont helped push marijuana prohibition to eliminate hemp as a competitor to its synthetic products, and he explores the role of bigotry against blacks and immigrants in the move toward prohibition.

All these chapters don't really fit together neatly; Grim goes from one topic to the next without much transition. And he doesn't explicitly push any public policy conclusions.

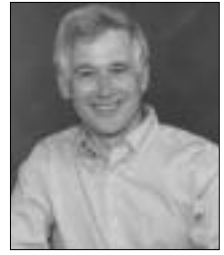
But his main themes come through clearly. One is, again, that Americans like to get high. Another is that what we've been told in propaganda from *Reefer Madness* to "This Is Your Brain on Drugs" ads isn't quite true—doing drugs might not be a good idea, but most drug users don't become crazed addicts. Another theme is that the war on drugs hurts a lot of people, from would-be medical-marijuana users, to poor South American coca growers, to the many young black men in prison.

The book is not a comprehensive guide to the evils of the drug war—things are actually worse than Grim suggests—but for people looking for a highly readable look at America's relationship with drugs, *This Is Your Country On Drugs* is a good place to start. That's true even if, like me (but unlike the author and millions of our fellow Americans), they would never do drugs themselves.

FEE

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The Conquest of the United States by Militant Islam



BY DAVID R. HENDERSON

In 1898 William Graham Sumner, a famous libertarian sociology professor at Yale University, gave a speech titled, “The Conquest of the United States by Spain.” You read that right. In the same year the U.S. government had attacked Spanish forces in Cuba and the Philippines, a case of conquest *by* the United States, Sumner claimed that Spain had engaged in conquest *of* the United States. Was Sumner simply blind to the obvious? No. He was open to the subtle. Sumner saw that by using force to acquire control over property in other parts of the world, the U.S. government was imitating the Spanish conquistadors of old and in doing so had forsaken its own non-imperialist tradition.

Something similar may be happening in the United States, not with foreign conquest but with our domestic freedoms. Two freedoms are at risk: The freedom to practice our religion and the freedom to use our property in any way that’s peaceful. This is not new, but what’s different are the people who are putting them at risk. Some Americans have attacked these freedoms because other Americans want to build, on property they have legally acquired, a center that includes Muslim prayer space. The Park51 center—prayer space, athletic facility, culinary school, auditorium, and art studio—would be two blocks from “Ground Zero,” where murderers flew hijacked airplanes into the World Trade Center on that awful September 11, 2001. If the most extreme protesters succeed, they will have limited the religious freedom of Muslims and the right to use property peacefully.

Therein lie two ironies. The first, the kind highlighted by Sumner, is that if these opponents limit Muslims’ rights, they will make the United States a little

more like some of the Muslim countries they abhor. A defining characteristic of many Muslim countries is their governments’ intolerance of religious freedom. The 2010 annual report of the U.S. government’s Commission on International Religious Freedom asserts that Burma, China, North Korea, Eritrea, Iran, Iraq, Nigeria, Pakistan, Saudi Arabia, Sudan, Turkmenistan, Uzbekistan, and Vietnam are “countries of particular concern.” Governments of these countries, says the report, “have engaged in or tolerated systematic

and egregious violations of the universal right to freedom of religion or belief.” Of these 13, seven—Iraq, Pakistan, Saudi Arabia, Sudan, Turkmenistan, and Uzbekistan—are countries with majority Muslim populations. The commission also put 12 countries on the “Watch List.” These are places where religious freedom is low, but not as low as the other 13. The 12 are Afghanistan, Belarus, Cuba, Egypt, India, Indonesia, Laos, Russia, Somalia, Tajikistan, Turkey, and Venezuela. Of those, six—Afghanistan, Egypt, Indonesia, Somalia, Tajikistan, and Turkey—have majority Muslim populations.

The second irony is that many of the people most involved in attacking the religious freedom and property rights of Muslims had previously fiercely defended—or at least posed as fierce defenders of—religious freedom and property rights. Radio and TV



Newt Gingrich’s opposition to the “Ground Zero mosque” undermines property rights and freedom of religion.

Gage Skidmore [flickr.com]

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talk-show host Sean Hannity, for example, has passionately defended religious freedom for Christians. Could this all along have been special-interest pleading on his part because he's a Christian? Possibly.

Or consider Republican politician Newt Gingrich, who last April mounted a ringing defense of religious freedom. In a *Washington Post* op-ed Gingrich and Jim Garlow argued that students at the University of California's Hastings College of Law have the right to set up their own Christian club, with belief in Christianity as one of the requirements of membership. Gingrich and Garlow wrote: "[P]eople of faith are being deliberately marginalized and excluded not for any real misdemeanors but for having the temerity to suggest that there's an authority higher than school administrators, a truth more compelling than the latest government-dictated cultural doctrine."

Notice the term "people of faith" rather than "Christians." A careful reader would conclude that Gingrich strongly believes in religious freedom for everyone. With his rejection of "government-dictated cultural doctrines," Gingrich sounds like someone who would defend all people of faith.

Neither Property Rights Nor Religious Freedom

Yet just three months later, on July 21, Gingrich wrote: "There should be no mosque near Ground Zero in New York so long as there are no churches or synagogues in Saudi Arabia. The time for double standards that allow Islamists to behave aggressively toward us while they demand our weakness and submission is over."

Although Gingrich was clever enough to say, "There should be no mosque," rather than, "The government should not allow a mosque to be built," his meaning seems clear. By invoking the Saudi government's intolerance, he seems to be saying that governments in the United States should follow the Saudi model, in this case at least, and not allow the Islamic center to be built. My interpretation is buttressed by how he ends his article:

No mosque.

No self deception.

No surrender.

The time to take a stand is now—at this site on this issue.

On September 10 Gingrich said that President Obama should "tell" Imam Rauf, the Muslim leader who wants to build the Manhattan facility, "don't do it."

To add to the irony, who has given a property-rights defense of Muslims' freedom to build mosques on their own property? None other than President Barack Obama. Obama recently stated: "As a citizen, and as President, I believe that Muslims have the same right to practice their religion as everyone else in this country. And that includes the right to build a place of wor-

ship and a community center on private property in Lower Manhattan, in accordance with local laws and ordinances."

I would have preferred that Obama drop his qualifier—local laws and ordinances—given that zoning laws and other such ordinances are, as legal scholar Richard Epstein has pointed out, a huge assault on property rights. Still, at least Obama

defended these rights.

So here's where we are. A man who would be president, Newt Gingrich, from a party that in recent years has claimed to defend religious freedom and property rights, the Republican Party, gives up all claim to be a defender of these rights and seems to want to imitate a society whose government is highly intolerant of religious freedom. If Gingrich has his way the Saudis will have won—without firing a shot or even lifting a finger.

Of course, those who oppose the facility do have other options in a free society, including boycotting and picketing. But they do not include using force to prevent it from being built.

The only credible way to defend freedom, the way most likely to lead to its preservation, is to defend everyone's freedom, not just the freedom of those with whom we agree. FEE

If Gingrich has his way the Saudis will have won—without firing a shot or even lifting a finger.

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