

# Liberty

# Iron Man Explodes

July 2008

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## Who Caused the Mortgage Crisis?

*by Edmund Contoski*

## American Revolution: Right or Wrong?

*by Ronald Hamowy*

## Libertarians Invade Washington

*by Bruce Ramsey*

## Summer Books

*by the editors & contributors*

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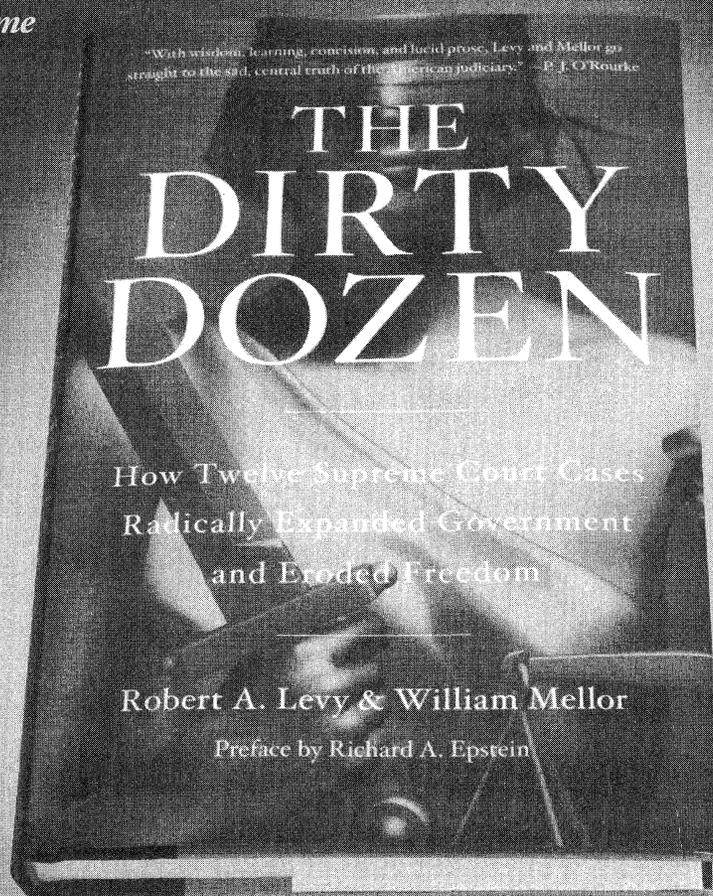
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**4 Letters** Point, counterpoint.

**5 Reflections** We create a slush fund, slap down Big Technology, underestimate voters' intelligence, revise the 6th Commandment, love pretty words, make prisoner foie gras, earn a degree in ignorance, find the upside to disaster, recycle dirt, and can't afford not to speed.

## Features

**17 Salesmen, Stalwarts, and Old Pols** The Libertarian Party is set to nominate its presidential candidate. *Bruce Ramsey* handicaps the race.

**19 Libertarian Like Me** Several recent studies into the roles of tolerance and altruism in biological evolution suggest that evolved minds prefer liberty. *Sandy Shaw* explains.

**23 The Housing Bubble and Bust** *Edmund Contoski* documents the ultimate causes of the mortgage crisis, and warns of what is yet to come.

**31 How to Think About Pollution** Ronald Coase proved in 1960 that people misunderstand externalities. Almost 50 years later, politicians, regulators, and voters still misunderstand. *David Friedman* sheds some light on the subject.

**37 The American Revolution: Right or Wrong?** To many Americans, declaring independence proceeded from self-evident premises. On the other side of the Atlantic, the issue was more complicated, even for people friendly to human freedom. *Ronald Hamowy* explains.

**43 Summer Books** Summer is the season of exploration, and there's nothing more fun to explore than a good book. Liberty's editors and contributors reveal some of their own discoveries.

**49 Liberation Theology vs. McDonalds** El Salvador has survived the Cold War, the Football War, a weak economy, and the "export" of a third of its people. *Doug Casey* wonders what the future will bring.

## Reviews

**53 When Theories Collide** Ben Stein's dissertation on religion and science gets a very good grade from *Jo Ann Skousen*.

**54 Should Ben Stein Be Expelled?** *Mark Rand*, on the other hand, argues "Expelled" deserves an "F" for ignorance and mendacity.

**56 Iron and Dynamite** *Jo Ann Skousen* maintains that Robert Downey, Jr. makes science cool.

**57 Dissent for Me, Not Thee** *Gary Jason* investigates those institutions of higher education in which you can think what you want, so long as you don't let anybody know.

**58 Too Smart for Its Own Good** If you're arrogant, loveless, and without a clue, you must be really smart — or isn't that so? *Jo Ann Skousen* considers the question.



**59 Notes on Contributors** Fons et origo.

**63 Terra Incognita** Ecce homo.

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# Letters

## Justice on a Budget

In reference to Gary Jason's article ("The Ethics of Tort Reform," June), I agree that in tort cases where the plaintiff loses, having the plaintiff pay the legal fees of the defendant is better than what we have now, especially for defendants who are not at fault. But it still has a major flaw — runaway cost. This prevents low-budget plaintiffs from seeking justice. A plaintiff may feel that he has such a strong case that he can prove his case on a low budget. But, he has to figure into the "to sue or not to sue" equation that he may lose and will not only have to pay his legal cost but also the legal cost of the defendant. Though the plaintiff can calculate his legal cost and do many things to keep it as low as possible, he has no control over how much the defendant will spend.

Since the losing side ends up paying the winning side's legal cost, they both have a great incentive to have no check on spending, since each side is expecting the other side to pay their legal costs, and since, unfortunately, the more you spend, the better chance you have of winning. To give both sides an incentive

to keep their cost as low as is practical, I propose requiring the loser to pay the legal cost of the winner, but only up to the amount that the loser actually paid. So, if the loser spent \$10,000 and the winner spent \$100,000, the loser is out \$20,000 (\$10,000 for his legal costs and \$10,000 for the winner's legal costs.) Yes, the winner is down \$90,000, but it was their decision to outspend their opponent ten to one.

The goal is justice. This system will allow low-budget plaintiffs to have their day in court while being in complete control of what the effort will cost them, if they lose.

Clyde Garland  
Bryan, Texas

**Jason responds:** Mr. Garland's suggestion, that the loser be only required the legal charges of the other side up to his own expenses, is interesting, but I am neither persuaded that it is necessary to keep costs down, nor that it would be just.

To the first point: what incentive is there for me to keep my legal fees down

*continued on page 62*

## From the Editor

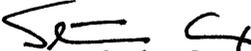
This is the issue in which *Liberty* runs its annual feature, "The Books of Summer." As you'll see, it's as interesting as usual. One thing to notice is that "Summer Books" is the product of a number of people, but it's not the product of a committee; it's the product of a group of individuals. There's a difference between the two. A big difference.

It's probable that the King James translation of the Bible is the only beautiful thing that ever resulted from a committee. Committees expect people to agree, whether they have reason to do so or not. Committees operate on the principle that no tree shall grow too high. The result is that every tree grows low, and looks the same.

*Liberty*, by contrast, is a place where individuals say what they want to say. I doubt very much that anyone will go out and read all the books recommended by the authors of "Summer Books." I know I won't. But I have no doubt that readers will turn up at the bookstore to buy two or three of these interesting books. I know I will.

That's the way it should be, and that's the way it is, in this place. *Liberty* is a place where you can look around and see what other intelligent people are saying, on their own behalf, based on their own thought and experience. Take it or leave it. But as Heine said, "The tips of the mountains see each other."

For Liberty,

  
Stephen Cox

# Reflections

**Paul keeps pulling** — On April 22, in the Pennsylvania primary, Ron Paul won 16% of the Republican vote. It was double the highest percentage he had won previously in a primary election — 8% in the District of Columbia.

I don't know that it meant Paul was gaining in any big way: the Republican turnout in Pennsylvania was low because the Republican race was already decided, and the big fight was between Hillary and Obama. My guess is that the 16% shows once again that Paul supporters, though they are in a minority, are more deeply committed than the average McCain supporter.

That was also the case in the caucus states, where Paul came in with 25% in Montana, 22% in Washington state, and 21% in North Dakota. Paul supporters did better because more of them showed up — and now and then I hear of Paul supporters showing up at follow-on meetings as well. Just the other day I heard a rumble from an elected Republican in Washington state about the surprising strength of the Paul people in his district. My sense was that the Paul people are not as welcome as ordinary conservatives, but that the Republicans are reluctant to shoo them away. They are not sure yet what to do with them. — Bruce Ramsey

**Tourist trap** — In the city of San Diego, hoteliers have successfully found a way to create their own \$30 million slush fund without a vote of the public.

In the wake of the devastating wildfires in Southern California in 2003, public safety proponents sought to increase the transient occupancy tax twice in 2004, with high-profile ballot measures in March and November. The industry spent thousands of dollars to campaign against the efforts, stating that the tourism market was so sensitive to changes in room rates that the tax hike would turn away major conventions and thousands of summer tourists. After having successfully thwarted these government grabs on economic pretenses, they began to quietly develop plans for a "Tourism Marketing District," a benefit assessment district that charges a 2% gross room revenue tax on lodges with 70 or more rooms to fund "marketing programs to increase tourism and promote the City of San Diego." Unlike the transient tax, which would have been allocated to the city's general fund, this tax is kept in the hands of major motel and hotel owners to spend as they please. Approved by the mayor and the city

council, the hoteliers have begun collecting their new slush fund this year, with estimated revenues at \$30.4 million this fiscal year, rising to \$37 million by fiscal year 2013.

In the meantime, city taxpayers will still continue to pick up a \$4.3 million subsidy for the downtown Convention Center to provide "competitive" below-cost rental rates to major conferences and trade shows, as well as \$8.8 million a year for the costs of the hotel industry's business association.

— Vince Vasquez

**Born to run** — By mid-April, nothing was going well in the Clinton campaign. Hillary Clinton had been using Bruce Springsteen songs, including "Land of Hope and Dreams" and "The Rising," to boost her campaign appearances. And then the liberal icon musician rocker announced he was endorsing Obama.

Being a good Democrat, Springsteen allowed her the use of "Glory Days" for the remainder of her campaign: "Glory days, well they'll pass you by . . ."

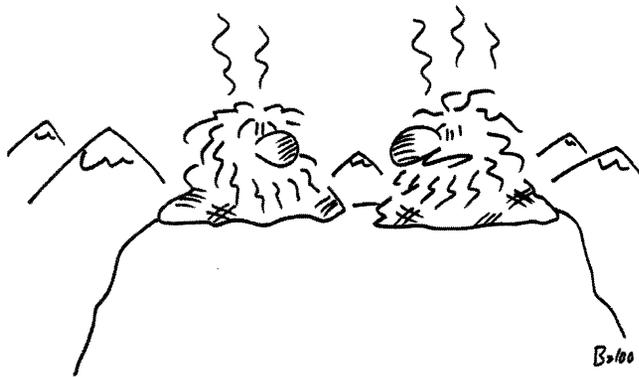
— Ross Levatter

**One for the road** — A recent ad from the American Beverage Institute used Lindsay Lohan's mugshot as a way to attack legislation requiring breathalyzer interlocks to be installed on cars. They used the picture of the famous repeat offender to stress that accidents are caused by drunks, not drinkers. In a time when the MADD mothers are often allowed to plow over civil rights without hesitation, it is refreshing to see an organization stand up for the rights of drinkers.

I have wondered in the past just how effective these interlocks would be. If a 16-year-old kid can hotwire a car in seconds, just how hard would it be to bypass these units? (I don't think car thieves will be required to be verifiably sober when they steal a car.) I imagine that valet parking will become very fashionable at upper end drinking establishments, and at blue collar shot-and-beer joints all across the rust belt, cars will be left idling in parking lots for extended periods.

— Tim Slagle

**Go fish** — We have all heard the saying that if you give a man a fish you feed him for a day but if you teach a man to fish you feed him for a lifetime. That's not actually true because there is an important missing ingredient. In order for a man to feed himself for a lifetime he must not only know how to fish but he must be free to fish. If, for example, the



"That's our third lightning strike this month —  
Maybe we aren't *meant* to attain enlightenment."

government prevents the man from starting a fishing business because he cannot get the proper license or if the tax burdens and other regulatory burdens are so high that the man cannot maintain his business, then he effectively lacks the freedom to fish and will still starve to death.

This is exactly the situation in many third world countries and, even in the United States, the burdens of government on the economy continue to grow. Our foreign aid is a dead-end street. Instead of simply giving fish (food) to foreign countries or even education (teaching them to fish), we should be pushing them to respect human liberty, property rights, and the rule of law. Furthermore, it is extremely important that we set an example here in the United States of how that freedom can work instead of allowing our own government burdens to continue to grow.

— Roy Miller

**The dismal campaign** — Before the Indiana-North Carolina primaries, Hillary Clinton was expected to

win Indiana by 5% and lose North Carolina to Barack Obama by only about 8%. But on Sunday before the election, Hillary made the mistake of offending a group of people who she thought were irrelevant.

You know the rest: Hillary barely won 1% more votes than Obama in Indiana and lost North Carolina by more than 14%. What seemingly innocuous group did Hillary offend? Economists! On ABC's Sunday morning show, George Stephanopoulos asked, in reference to her gas-tax holiday plan, "can you name an economist who thinks this makes sense?"

"I'll tell you what, I'm not going to put my lot in with economists," Hillary answered. "If we had a president who used all of the tools of the presidency, we would design it in such a way where it would be implemented effectively."

Apparently, economics is not one of the tools of the presidency, or at least of a Clinton presidency. Hillary proposed to "make the oil companies pay the gas tax." Yet most Americans

## Word Watch

by Stephen Cox

This column usually tries to look like a unified essay. But sometimes there's just too much stuff flying over the transom. It just won't sort itself into an essay; it has to become a list.

Now, the easiest way to write a list of stuff about words is to separate your items into Good Things and Bad Things. Maybe you'll also find a place for Things You're Just Not Sure About.

Let's begin with the Bad Things.

1. Electoral politics continues to be bad for the American language. "Politics isn't why we are here tonight," said Barack Obama, speaking to voters on election night in Pennsylvania. For a wonderful moment, I thought he had repented of his political misdeeds and was determined to turn his life around. But in the next sentence he was already urging his audience to throw out the Republicans and elect him president. That, to him, wasn't politics. It was something else, something much more spiritual, something that allows you to say anything that sounds good to you, without a second's worth of hesitation — and get away with it. Need I say more about this year's electoral politics?

2. The presidency continues to be bad for the American language. On April 29, wantonly disregarding everything that has been said in this column about a certain currently fashionable word, President Bush opined that recent actions of the government of Zimbabwe are "unacceptable." That was a bad thing to say. First of all, what happens in Zimbabwe, no matter how abhorrent it may be (and it certainly is abhorrent), is none of the president's official business. Second, unacceptable is the kind of word your second-grade teacher emitted when Johnny pulled Susie's pigtail: "Johnny, that is unacceptable!" But the president isn't a school-teacher, and Zimbabwe isn't a second-grader. Third, unacceptable is now used to mean everything from choosing the wrong fork to initiating thermonuclear war; it therefore conveys nothing except a general or random snottiness. Fourth, this is a word that Karen used to say on "Will and Grace" ("That's simply not acceptable!"),

but she was funny, and President Bush is not, or doesn't intend to be. Fifth, I'm waiting for the second shoe to drop. I mean, if something's not acceptable, it's impossible to accept. We cannot accept it. And therefore . . . what? What happens? What do we do about it? The answer in this case, as in virtually all cases in which that aloofly bureaucratic word gets used, is Nothing. Nothing will happen about Zimbabwe. So if the president meant nothing, why didn't he say nothing? Answer: Because he's president, and feels it's his duty to say meaningless things.

3. Children are becoming bad for the American language. Michelle Obama, asked about the Reverend Wright controversy, said something that goes far beyond the normal "It's for the children" clichés of American politics. "I don't think this conversation helps my children," she said. Well, maybe it doesn't. And neither did the Gettysburg Address.

The next item is Something I'm Not Sure About. Hillary Clinton actually appears to have said something good. I mean, she made a bon mot — she whose every previous mot has been, in my view, mauvais. (Remember Hillary on the vast rightwing conspiracy?) Recently, however, she responded to Barack's constant belittling of the 1990s — the era when she romped through Washington, grinding the faces of supposed inferiors — by posing the rhetorical question, "What is it he dislikes most about the 1990s: the peace, or the prosperity?" I'm not saying that this was an astute historical observation; I'm just saying that it was as good a piece of sarcasm as we can expect to hear in 2008. Good enough. The reason why I can't bring myself to give it final classification among the Good Things of this earth is simply that Hillary Clinton is the one who said it.

Proceeding, then, to the unambiguously Good Things on my list. . . .

1. Observers of Obama have picked up a good phrase. It's rapidly wearing out its welcome, but it's been nice to have it visit for

know enough economics to realize that the oil companies would simply pass that cost onto consumers, thus saving people nothing. Or, seeing their profits decline, that the companies will invest less in future energy supplies, thus making oil prices rise even more.

H.L. Mencken famously said that “no one ever went broke underestimating the intelligence of the American people.” But it is possible, just possible, that Hillary lost because she underestimates the intelligence of American voters. Maybe she should have pandered to economists. — Randal O’Toole

***Antitrust but verify*** — Supporting free markets does not mean supporting the political and financial agendas of big business. Years ago, Joseph Schumpeter made the case that Fortune 500 executives are as bureaucratic and welfare-hungry as the worst statist hacks. For these reasons, some libertarians support antitrust law as a check against big business manipulations of market forces.

Other libertarians — Milton Friedman and Richard Posner come to mind — have rejected antitrust law as a tool that corporate interests game and manipulate to their advantage.

The on-again/off-again acquisition of internet search pioneer Yahoo! by software monolith Microsoft could be the next test of how well (if at all) antitrust law helps markets stay free.

At press time, the acquisition was on hold; Microsoft had walked away from the negotiations. But many of the smartest people in Silicon Valley and Seattle and New York predict that the deal will be done, eventually. They say that Yahoo! will try to find some other big deal to boost its flagging stock price . . . but will eventually crawl back to Microsoft.

Any discussion of technology and antitrust invariably touches on Microsoft’s own history with statist prosecutors. This history includes the decade-long legal trainwreck known as *United States v. Microsoft*. The case was a consolidation of various civil actions filed against Microsoft by the Justice Department and its equivalent agencies in 20 states; it alleged that Microsoft abused monopoly power in its handling of operating system sales and internet browser sales.

Government lawyers claimed that computer software was different than other kinds of consumer products and should be regulated more closely because, once a person commits to buying a particular operating system, he has to spend a lot of time and money to get out. They claimed that Microsoft abused its strong position in the operating system market to force people to “migrate” to “bundled” products they didn’t necessarily want. They also claimed that Microsoft used the same tools to freeze other software companies out of the marketplace.

Microsoft countered that bundling Windows and Internet Explorer was the result of innovation and competition and that consumers benefited from essentially getting Internet Explorer for free. But Microsoft’s senior managers didn’t help themselves with the arrogant and uncooperative manner they displayed. The trial court judge would later write that Microsoft executives

proved, time and time again, to be inaccurate, misleading, evasive, and transparently false. . . . Microsoft is a company with an institutional disdain for both the truth and for rules of law that lesser entities must respect. It is also a company whose senior management is not averse to offering specious testimony to support spurious defenses to claims of its wrongdoing.

Who’s a free-market advocate supposed to root for here?

In November 1999, the trial court ruled against Microsoft, concluding that its dominance of the operating system market constituted a monopoly and that Microsoft had taken actions to prevent competition in violation of the federal Sherman Antitrust Act. After considering various options, its suggested remedy was that Microsoft be broken into two separate units, one to produce operating systems and the other to produce software applications.

The verdict and suggested remedies were overturned on appeal. The case was sent back for retrial. Then George W. Bush was elected president and his Justice Department decided not to pursue the case. It settled the case on terms generally favorable to Microsoft.

Andrew Chin, a law professor at the University of North

a while. When the Apostle of Hope made his Great Speech about “race in America,” the speech in which he equated his crackpot “former” pastor with his own kindly grandmother, both of whom, he suggested, had a slightly wrong take on the race question, although hers was obviously much wronger, he was said by some people to have thrown his grandmother under the bus. When he stopped slithering around and finally “denounced” Jeremiah Wright, everyone, even so traditional a journalist as Robert Novak, said that he had thrown his pastor under the bus. It’s a satisfying image, both graphic and appropriate, for a common political phenomenon. (But let’s not run it into the ground.)

2. As Liam Vavasour, a trusty friend of this column, has pointed out, it’s good to see the Chinese government being provoked into emphasizing its role as a creature out of 1984. The more violence it uses in Tibet, the more it calls for “calm.” The more truth is said about it (even on CNN, of all places), the more it denounces “lies.” The more antagonism it creates by whipping up nationalist fury among its citizens, the more it lauds the Olympics as a symbol of “friendship,” “tolerance,” and “globalization.” (Globaloney, they used to call this sort of thing.) Still better than these linguistic self-revelations is Liam’s suggestion for the revival of the ancient American term for the Chinese communists: Chicoms. The word not only says what they were, and still are (communists — imagine that!); it evokes the robotic spirit that they attempt to foster. I don’t care that China is currently more of a kommunist kleptocracy than a Leninist state. As long as that picture of Mao, who destroyed his own people by the tens of millions, hangs over the great square in Beijing, so long will his followers be worthy of the term Chicoms.

3. There is such a thing as the language of gesture. It was an exquisite moment in this language when European protestors went after the Olympic torch with fire extinguishers. A basic principle of good writing is to use as little language as you can, to get the effect you want. That was the principle of the torch protests. Here is an object — the torch — that with immense expenditure of time and effort is being paraded through cities on six continents. It’s supposed to establish the Chicoms’ legitimacy as free and tolerant rulers. Rationally considered, either it means nothing, or it’s a lie. Question: what to do? Answer: go after it with fire extinguishers. Literal or metaphorical, they have their use . . .

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**IQ, Race, and Gender:** Charles Murray and David Friedman pull no punches and respect no taboos.

**Eco-Crazies and Energy:** Randal O'Toole, Doug Casey, and others explore energy policy: what's good, what's bad, and what's just plain nuts.

**Killing for Public Health:** Bruce Ramsey, Jo Ann Skousen, and others expose just how far government nannies go in their fervor to banish personal freedom.

**Schools Against Education:** Gary Jason, David Friedman, and Jo Ann Skousen explain why public schools don't care about educating children, and debate the proper remedy.

**The Housing Market — Bubble and Bailout:** Policy analyst Randal O'Toole, journalist Bruce Ramsey, investment guru Doug Casey, and author Jim Walsh discuss careless homebuyers . . . and the politicians who can be counted on to clean up their mess at your expense.

#### Talks

**Future Imperfect:** David Friedman analyzes the technologies that will be used to control the populace — and the tools that will enable you to fight back.

**Teaching in Sing Sing:** (Jo Ann Skousen)

**Legal Systems Very Different From Ours:** (David Friedman)

**Learning from the Socialists: An Action Plan for Promoting Liberty:** (Randal O'Toole)

#### Schedule

*Friday* — 9:00 a.m.: Teaching in Sing Sing. 10:30 a.m.: Learning from the Socialists. 11:30 a.m.: Schools Against Education. 1:30 p.m.: Future Imperfect. 2:30 p.m.: Killing for Public Health. *Saturday* — 9:00 a.m.: Eco-Crazies and Energy. 10:30 a.m.: Legal Systems Very Different From Ours. 11:30 a.m.: Housing Market, Bubble and Bailout. 1:30 p.m.: IQ, Race, and Gender. 2:30 p.m.: Who I'm Voting For, and Why. There is a coffee break and a lunch break both days. As with any event-packed conference of this size, this schedule is subject to change.

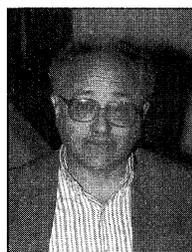
#### Speakers



**Charles Murray** is a scholar at the American Enterprise Institute and author of such controversial books as "The Bell Curve" and "Losing Ground." His most recent book is "In Our Hands."

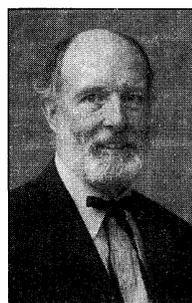
← **Bruce Ramsey** is a journalist in Seattle and a senior editor of Liberty.

**Doug Casey** is Chairman of Casey Research, LLC. He is a bestselling author, international investor, and entrepreneur, and a contributing editor of Liberty.



← **David Friedman** is a professor of law at Santa Clara University and an academic economist. He is the author of "The Machinery of Freedom," "Law's Order," and other books. His latest book is "Future Imperfect." The paperback edition of his novel "Harald" has just been released, and the first two chapters of his newest novel, "Salamander," are online at [www.DavidDFriedman.com](http://www.DavidDFriedman.com).

**Jo Ann Skousen** is an adjunct professor of English at Rollins College and is the entertainment editor of Liberty.



← **Randal O'Toole** is a Cato Institute Senior Fellow who specializes in transportation, land-use, and environmental policy. His latest book, "The Best-Laid Plans," calls for the repeal of "planning" laws and regulations, and offers specific reforms for social and environmental problems.

**Gary Jason** is an adjunct professor of philosophy, a writer, and a businessman. He is the author of "Critical Thinking" and "Introduction to Logic," and has written approximately 200 articles, opinion editorials, book reviews, and movie reviews. His company, Global Access Telecom, is an independent telecom agency. He teaches at Cal State University, Fullerton.



← **James Walsh** is an assistant editor at Liberty, and the author or co-author of several books on politics and popular economics. His latest books are "Scams & Swindles" (co-author) and "Libertarian Nation: The Call for a New Agenda" (scheduled for release in Fall 2008).

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- John Mackey (Whole Foods) and John Goodman (National Center for Policy Analysis) debate Marxist economist Michael Perelman (UC Chico) and David Himmelstein, MD (Physicians for a National Health Program) on universal health care.
- "Was the Civil War Necessary?" Jeff Hummel (San Jose University) takes on Harry Jabba (Clermont Institute) about Abraham Lincoln, slavery, and the Civil War.

#### Offbeat Topics

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- Michael Shermer (Scientific American): "The Mind of the Market: The Darwinian Case for Free-Market Capitalism."
- Tyler Cowen, George Mason University: "Culture Wars: Does Western Capitalism Destroy Eastern Cultures?"
- Chuck Muth (Citizen Outreach): "Freedom in Education: Give Choice a Chance!"
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Carolina who assisted in drafting the trial court's original ruling, has written that the settlement gave Microsoft "a special antitrust immunity to license Windows and other 'platform software' under contractual terms that destroy freedom of competition." And Chin isn't alone in his opinion.

Milton Friedman warned that the antitrust case against Microsoft foreshadowed increasing government regulation of the tech industry. In early 1999, he told a group of technology executives:

When I started in this business, as a believer in competition, I was a great supporter of antitrust laws; I thought enforcing them was one of the few desirable things that the government could do to promote more competition. . . . I have gradually come to the conclusion that antitrust laws do far more harm than good and that we would be better off if we didn't have them at all. . . .

[Y]ou will rue the day when you called in the government. From now on the computer industry, which has been very fortunate in that it has been relatively free of government intrusion, will experience a continuous increase in government regulation. Antitrust very quickly becomes regulation.

If Yahoo! crawls back to Microsoft, watch out for increases in government antitrust activity and regulations. And the claims that "software is different" and needs to be managed more closely by the feds will be echoing around the Beltway.

— Jim Walsh

**Father knows best?** — Christopher Hitchens, in a Slate.com column, has pointed out that Reverend Jeremiah Wright is not Sen. Barack Obama's only spiritual mentor. The senator told the Chicago Sun-Times that another spiritual mentor is Father Michael Pfleger.

Pfleger, a very liberal, politically-active priest in Chicago's Southside, is known, among other things, for leading a crowd of people to "Chuck's Gun Shop" and announcing that the owner-manager was destroying the people of the neighborhood and needed to be "snuffed out." (Later, representatives for Pfleger explained that the good father was not aware that to "snuff out" was a synonym for kill.)

I'm thinking Sen. Obama is about ready to issue a press release clarifying that he is actually an atheist. Probably less flak that way.

— Ross Levatter

**Pretty, empty words** — The Obama campaign has occasioned many proofs of the proposition that in contemporary American politics, words may matter, but ideas and facts do not.

Obama himself is almost universally heralded as a master of words. The evidence is a lot of speeches about himself — his "audacity," his "hope," and so on. This stuff is apparently very easy to dish out. It's "I have a dream," without the dream — just the "I have," with a big "I want" thrown in. When there are specifics about the great public issues that Obama claims he wants to talk about, if people would let him alone about Jeremiah Wright, they're not very specific, and they're as dull as "Meet the Press." Duller.

But Obama's commentators are much worse than he is. You can blame a guy for talking incessantly about himself (although you have to concede that there's a natural reason for his prejudice). What, however, do you think about professional analysts of our political life, conservative as well as liberal, who simply start from the premise that Obama is a wonderful speaker and writer, and go on from there? Even when they admit that he has nothing to say, they claim he's one hell of a sayer. Here's a political science professor, solicited for her opinion by the Associated Press: "While it [Obama's message] is incredibly motivating and passionate and compelling, it lacks content." I understand that words can be passionate, though lacking in "content," but how can they be motivating and compelling when they have no meaning? Motivating in what way? Compelling toward what end? This is literally incredible.

Now let's consider the commentators' own grip on facts. During Obama's "Reverend" Wright crisis, I listened to a lot of talking heads, left, right, and center, babbling about Wright, his views, and his associations (as with "Minister" Farrakhan). Every one of these people loudly assumed that Farrakhan is an important figure, because, 13 years ago, he brought a million men to a demonstration where they listened

#### News You May Have Missed

## McCain To Stress Human Wrights

PHOENIX — In a surprise move, Sen. John McCain has named the Rev. Jeremiah Wright as his running mate on the Republican ticket this Fall. The move is seen as a way to make sure Wright's firebreathing rants and crackpot theories are kept in the national media spotlight and will continue to embarrass McCain's likely Democratic rival, Sen. Barack Obama, all the way to November. The fact that Wright was the pastor of the Chicago church Obama has attended for 20 years has become by far the biggest issue of the campaign, easily eclipsing the Iraq war, the collapsing economy, and the imminent end of

civilization in a nuclear Armageddon, a major policy objective of several pastors in McCain's camp.

McCain's appearance with Wright at a rally in his home state of Arizona particularly surprised Sen. Hillary Rodham Clinton, who had just named Wright her new campaign manager. But Clinton strategist Howard Wolfson said there would be no conflict of interest: "Sen. Clinton and Sen. McCain may have their differences, but they agree on one overriding national-security concern, which is that the chief threat to our American way of life doesn't come from the Rev. Jeremiah Wright, it comes from any and

all people who aren't incessantly watching clips of the Rev. Jeremiah Wright on TV news programs and YouTube."

Meanwhile, Obama, in a surprise move of his own, decided to further distance himself from Wright and to do something about the stubborn 15% of the public who continue to believe that he's a devout Muslim by converting to Zoroastrianism. But he is reported to be having second thoughts after his new Zoroastrian spiritual adviser, the Venerable Bridgette Hussein O'Shaunnessey, accused the United States government of having invented Paula Abdul.

— Eric Kenning

to him yap. Well, he didn't. He brought Obama, and he might have brought 400,000 others; but the Million Man March was considered a huge flop in its time, a time so distant that no one today can remember anything about it, or bother to look it up.

In commenting on Wright's rants about various things, and about Obama's San Francisco discussion of bitterness in small-town America, practically no one bothered to mention certain salient facts. For weeks, Wright's comments about AIDS were almost never mentioned; or his comments about the Supreme Court's identity with the KKK, or his coarse abuse of Condoleezza Rice. No wonder Obama supporters were able to spin the "reverend" as an old man who just got carried away for a moment and shouted "God damn America." Even now, Obama's accusation that small-town Americans are racists and immigrant-haters is routinely ignored, even by people who severely criticize his neighboring remarks about guns and religion. Naturally, the question of whether small-town Americans actually are bigots, a question on which a great many facts can be brought to bear, was never heard. Not on TV, although I suspect that it lit up a lot of brain cells in Pennsylvania and Indiana.

Another remarkable instance of the supremacy of words over facts has been the pundits' default position in regard to Wright's credentials. On all hands he is acknowledged as a "learned man" and an "important theologian"; on all hands his church is supposed to be "doing wonderful things" for the poor, or someone. I have yet to see any facts in support of these claims. I have yet to see any interest in finding the facts.

In short, in a television country in which religion and politics are constantly being debated, no one appears to be interested in knowing anything about either one of them. Even for polemical purposes, it's only words that count. And this, I believe, is a cultural phenomenon that is much more interesting, and much more dangerous, than all the Jeremiah Wrights in the world.

— Stephen Cox

**Tech tax fever** — In this election year, many political leaders in America are preparing themselves for an occupational change. In the Golden State, an alarming number of city and county officials seem to be preparing to shift their employment to that of technology toll booth operators.

From Oakland to Los Angeles, at least eleven municipal governments are pushing ballot measures to expand their local taxation power over cable, internet, and telecommunications services. Prompted by recent court challenges that put city utility taxes in legal limbo, local lawmakers have taken drastic action to save their cash cows, and create new ones. In many cases, these ballot box initiatives are disguised as minor tax cuts on "utility user taxes" or "communications services taxes," but the stock ordinance language adds surcharges on popular cutting-edge technologies such as Voice over Internet Protocol (VoIP) and Internet Protocol Television (IPTV). The legal definitions of taxable telecom services are so loose that city and county politicians can, in effect, try to reserve the authority to tax technologies that don't even exist yet.

With a Democrat-controlled Congress, and a new occupant in the White House, the national struggle to prevent iPod taxes and internet access taxes may finally collapse, instantly

allowing mayors and county supervisors to nickel-and-dime consumers. Of course, penalizing innovation isn't the route to take, especially at this time of a national economic downturn. Voters will be wise to short-circuit technology taxes and their elected proponents.

— Vince Vasquez

**Getting hosed** — Does the state violate a prisoner's rights if prison employees force-feed him by shoving a tube up his nose? In April the Washington Supreme Court said it did not. All the justices accepted force-feeding except Justice Richard Sanders, the court's lone libertarian.

The State of Washington has no law authorizing the force-feeding of prisoners. Its Department of Corrections employees did it to a prisoner near Spokane in 2004 after the prisoner had refused to eat for several weeks and said he intended to die.

The state's constitution, ratified in 1889, says: "No person shall be disturbed in his private affairs, or his home invaded, without authority of law." That means, Sanders wrote, that the question is in two parts. First, does putting a tube up someone's nose disturb him in his private affairs?

Yes.

Second, is there a law that says the Department of Corrections can do this with a prisoner?

No, he said. There isn't.

Then they can't.

That was too simplistic for the court's majority, which ruled that the answer should be reached after a balancing test. The court had to balance the prisoner's interest in his bodily integrity and the state's interest in preventing him from killing himself and thereby disrupting his orderly incarceration. And the state's interests, the court ruled, "outweighed" the prisoner's interest.

So there is really two parts to the Washington state constitution. There is a part that is legible and a part that is hidden. If you read the two together, in this case, here is what it says. "No person shall be disturbed in his private affairs, or his home invaded, without authority of law or an assertion of public need."

— Bruce Ramsey

**Falling behind** — Three recent reports again raise the case for vouchers in the schools.

The first is a study of the economic importance of education conducted by a team of economists ("Education and Economic Growth," by Eric Hanushek, Dean Jamison, Eliot Jamison, and Ludger Woessmann, in *Education Next* [Spring 2008] 62–70). They begin by noting that a few years after "A Nation at Risk," the 1983 report documenting the pervasive mediocrity of the American K-12 educational system, the National Governors Association promised that by the year 2000 we would be the world leader in math and science. To that end the country jacked up funding for K-12 education, at both the state and federal levels. But the economists have shown that the result has been worse than nil.

Hanushek's group looked at international test scores. These provide a more objective measure of student cognitive skill level than mere years of schooling, because national school systems vary so widely in quality and length of school year. The scores reveal that America has not moved to the top, but over the past 40 years has dropped in comparison with a large group of countries, including all our major trad-

ing partners. U.S. students scored in 14th place in the 1960s and '70s, dropped to 19th in the '80s, then down to 21st in the '90s, and have slipped to 24th in the first decade of the 21st century. These results were not surprising — any number of other studies document the continuing decline of the miserable American public school system.

What was unusual is that the Hanushek group calculated the rough economic costs of this deepening mediocrity. They found that if country A had a 0.5 standard deviation higher average test scores than country B 40 years ago, then A would have had a roughly 1% higher annual growth rate than B over the ensuing years.

In particular, the economists found that had America made it to the top in math and science scores in 2000 (as was promised by the National Governors Alliance), we would have a 4.5% higher GDP by 2015 than what we will actually have. Put into perspective, that difference in GDP is roughly what we spend in toto annually on K-12 education at all government levels today.

The researchers conclude by making a point I've made often: America's relatively strong economic growth is attributable to a historically high level of education and freedom of enterprise compared to other nations, but those advantages are being fast eroded as other nations get with the program.

The second report was recently covered in USA Today (Greg Toppo, "'Crisis' Graduation Gap Found Between Cities, Suburbs" [April 1, 2008]). It's about the findings of a study commissioned by the nonpartisan group set up by Gen. Colin Powell, the America's Promise Alliance. It highlights another aspect of the disaster that is American K-12 education: grotesquely high dropout rates.

Specifically, the study found that in our biggest urban public school districts, students have only a 50% likelihood of graduating from high school. Indeed, in cities as diverse as Atlantic City, Dallas, Denver, Los Angeles, New York, Oklahoma City, Milwaukee, and Minneapolis, the graduation rate is in the mid-40% range. The Baltimore, Cleveland, and Indianapolis public schools have only a mid- to low-30% graduation rate. Most ludicrous is the Detroit system, which has a wretched 25% graduation rate.

This, mind you, after literacy standards have been dumbed down for decades, and massive amounts of money-have (again) been thrown desperately at the schools. Clearly, there is a systemic problem here.

In that regard the third report is enlightening. It is from perhaps the preeminent free market thinktank in Britain, the Adam Smith Institute ("Open Access for UK Schools: What Britain Can Learn from Swedish Education Reform" [London: Adam Smith Institute, 2007]; report downloadable in full from the institute's website). It's a report by an economist, Marek Hlavac, on the Swedish voucher system.

Sixteen years ago Sweden adopted a nationwide open access (read: voucher) scheme. Hlavac reviews the success of this system. Under the 1992 original plan, the National Agency of Education (NAE) took 85% of the average cost of educating a child in the public schools and gave it to an NAE-approved independent school on behalf of each student enrolled in it. Later the amount was dropped to 75%, but then quickly raised to a full 100%. The NAE-approved institutions include private schools, religious schools, teacher co-op schools, and schools

run by nonprofit charities.

The results have been impressive. A 1993 poll showed that 85% of Swedes liked the new freedom of choice in schooling, and 59% felt that the teachers were putting in more of an effort than before the voucher system was introduced. When the voucher system was first passed, there were only 90 independent schools. By 2005, there were 585, about 12% of the total number of schools. The number of students in independent schools rose from less than 2% in 1992 to 7.5% in 2005. And Hlavac mentions a review of the empirical data, written by two eminent Swedish economists, which shows that competition did indeed improve the quality of education (Mikael Sandstrom and Fredrik Bergstrom, "School vouchers in Practice: Competition Won't Hurt You!", Working Paper no. 578, Research Institute of Industrial Economics, 2002).

Hlavac discusses the problems faced by the UK public school system — which, bad as it is, produces students who outscore our own — and advocates open access for the UK also. He reviews and refutes the most common canards about vouchers: that they drain money from the public schools; that they skim off the cream, leaving only the dregs; that so many parents will want to choose the best schools that there won't be room; that private schools won't promote public spirit; and that vouchers lead to segregation.

All the reports I've mentioned reinforce the point that the world is moving from an industrial to a knowledge-based global economic system. America is clearly in danger of losing out in this transition. While our trading partners are working hard to free their markets and educate their citizens, we are moving rapidly in the opposite direction. We are sweeping ourselves into the dustbin of history.

When America transitioned from an agricultural economy to an industrial one just after the turn of the 20th century, there was an excrescence of populism. People frightened by rapid social, economic, and demographic change demanded protection from competition at home and abroad. These are the twin horns of populism: a hatred of immigration (which appeals to the political Right) and a demand for protectionism (which appeals to the political Left). The result was a choking off of free labor mobility and free markets in the late 1920s, which helped to produce the Great Depression.

Similarly, as America faces the challenge of transitioning from an industrial to an epistemic economy at the turn of the 21st century, we see a virulent outbreak of populism. But the fault, dear populists, lies neither in our immigrants nor in our trading partners, but in our teachers' unions. — Gary Jason

***Dime for your time?*** — According to a recent AP article, drivers are slowing down to conserve gas. Actually, only two drivers in the article are slowing down, to save gas on their annual trip to Florida. The author suggests the rest of us should follow suit. This may be the first salvo in an attempt to get the 55 mph federal speed limit reinstated.

The article states that slowing a car from 70 to 60 miles per hour will give you a 2 to 3% gain in efficiency. That paltry benefit is precisely the reason Americans refuse to slow down. It is simple economics; if gas costs \$3.33 a gallon, a 3% savings amounts to around a dime a gallon. If your car burns gas at a rate of three gallons an hour, the 30 cents you save by driving 10 mph slower will take ten minutes out of your life. Very

few people in America are willing to sell their time for three cents a minute.

Raising fuel taxes is one method proposed for conserving gas. Since time is money, you can imagine how much gas is going to have to cost before people decide that the money saved by driving slowly is worth their wasted time. My speculation is that gas would have to be around \$10 per gallon, so that the cost of speed is at least ten cents a minute — the amount a minimum wage worker earns. — Tim Slagle

***Cuba libre enterprise*** — Rarely is a photograph worth a thousand words, but one that knocked me out showed Fidel Castro, visibly aged, clutching a copy of a new book in English by none other than Alan Greenspan. Find it here: <http://tinyurl.com/6n7ty6>, and note that in his hands is AG, not Martha Stewart, Carl Woodward, or, heaven forbid, Ayn Rand. No one could have imagined this photo-op before the fact — not even Greenspan's mainland publisher.

Since "The Age of Turbulence" had only recently appeared, the photograph, made during an interview on Cuban television, was meant to illustrate that Fidel was not only alive and well in the autumn of 2007 but lucid enough to read not just his native Spanish but also English. Did it also illustrate that Fidel, a monumental economic dummy, had finally wised up?

As I've written before, so dumb is Castro that he never conned celebrity-conscious American book publishers into giving him a whopping advance for "How To Survive as a Dictator for Nearly Fifty Years." For ghostwritten revelations in English, he could have gotten millions (in very hard currency) that, in another photo-op, he could have donated to his cheering country. — Richard Kostelanetz

***Washing away the tyrants*** — Myanmar (still known as "Burma" in most circles) is run by a long-standing military junta so cartoonish in repressiveness that it seems more like a throwaway from an episode of Rocky and Bullwinkle than a real regime.

The junta has been known mostly for its ham-fisted treatment of political opposition leader Aung San Suu Kyi. More recently, it's joined the ranks of totalitarian dictatorships playing on the developed world's humanitarian impulses to compensate for their inadequacies in the wake of natural disaster.

In early May, Tropical Cyclone Nargis came ashore near Burma's Irrawaddy River delta. The damage was considerable; the storm pushed a 12-foot tidal wave through the region and literally washed away the mid-sized town of Bogalay. Early estimates of the dead hovered around 12,000. A few days later, they were 50,000; a few days after that, they were up to 100,000.

Burmese government officials described the damage in graphic terms, including stories of rice paddies littered with corpses. At the United Nations, the government formally appealed for humanitarian and financial assistance. According to Newsweek magazine, UN Office of Humanitarian Affairs director Rashid Khalikov said the request was a diplomatic "breakthrough" but the situation on the ground sounded troubling:

We have no reason to believe that anything has been done in terms of preparedness, so we'll probably see a lot of people sitting in their houses who were directly

hit when the cyclone happened. . . . It's quite warm there this time of year. You have a lot of water that can become stagnated, and that becomes a recipe for all kinds of disasters. . . . access to clean water won't be easy . . . and we're not talking about a population that has very strong mechanisms [for food access] to begin with.

As ever, the days after a natural disaster can be a deadly as the disaster itself. In places where the people are accustomed to being self-sufficient, the aftermath can be hard but manageable.

In places where the people have been infantilized to count on the state to provide life's essentials, the aftermath can be apocalyptic.

With apocalypse looming, the Burmese junta *still* insisted that all totalitarian proprieties be observed. Although its representatives in New York had asked for help, the bureaucrats in Yangon have a history for refusing entry to aid groups that they consider religious proselytizers or otherwise inclined against the junta. So, UN aid workers in Thailand and Geneva had to wait for proper visas to be issued.

It's a tragedy that tens of thousands of people in Burma have died — or will die — because of a storm and tyrannical bureaucrats. The silver lining may be that tragedy may help end the reign of a totalitarian regime. The Burmese junta has been allowing limited democratic reforms; so the people may have enough leverage to claim independence and force a more open society.

Too bad the human cost of reform is so high. These days, natural disasters seem to be the most effective argument for limited, locally focused government in the developing world.

— Jim Walsh

***Ding, dong, the witch is dead*** — Is it really over? I'm shocked. I sit here in dumbfounded amazement, unable to accept it.

By all appearances, Hillary Clinton will not run in the presidential general election, this year, or any other. With Obama being coronated by the media, and partisan support for Hillary evaporating like steam from a cauldron, it appears that her presidential aspirations are now just a chapter for Women's History 101. I don't know who will win in November, but I do know that the conundrum of what we should call the president's husband, has been postponed, for at least another four years.

I find this moment bittersweet. As someone who looked at the Clinton Administration as arguably the worst threat to civil liberties in my lifetime; I can breathe a sigh of relief. On the other hand, I wonder if a revolution can survive without a nemesis.

Hillary's Universal Health Care proposals were so restrictive that they drove a lot of people to become ardent supporters of free market alternatives. Her 1994 cross country promotional bus tour was derailed by protesters and never made it to Washington. That November, Democrats were tossed out of Congress in droves, and replaced with people who (at least) claimed to support a more constitutional government. Her ineptitude spared this nation from the anticapitalist burden of single-payer healthcare for at least a couple of decades. (I pray that her successor will be equally inept in this department.)

Her recommendation of Janet Reno to the head of the Justice Department was an error in judgment of epic proportions, and literally went up in flames, inspiring the formation of militias in several states. The reinvigorated gun rights movement eventually led to the lapse of the assault weapons ban, and concealed carry laws were passed in 48 states. So successful was the NRA during the Clinton years that every candidate since has been required to don hunting gear and do a photo op out in the woods. Even Hillary now claims to be a supporter of sportsmen's rights, and reminisces about going duck hunting with her father.

Hillary Clinton, champion of irony, will shortly return to her kitchen in Chappaqua to bake cookies for her philanthropic husband, and toss a few lamps in honor of her failed presidential bid. Eventually she will retire, on a generous U.S. senate pension. Like the many Democrat senators before her, she will retire fat, grey, and senile; but not one inch closer to the big red button.

— Tim Slagle

**Jimmy does Damascus** — Former president Jimmy Carter was in Damascus in April, where he met with the slimy little Syrian dictator, Bashar al Assad, as well as Khaled Meshal, the leader of Hamas.

Nobody objected to Carter's meeting with Assad, although the latter permits jihadists to transit his country on their way to kill Americans in Iraq. However, everybody was up in arms over Carter's tête-à-tête with Meshad. Hamas won power in Gaza in a free election, but it refuses to recognize Israel's right to exist, and thus is anathema to the U.S. and Israeli governments.

Hamas undoubtedly employs terrorist tactics. But so did Menachem Begin and Ariel Sharon (each of whom eventually became prime minister of Israel) back when they were fighting to establish the state of Israel. It is unclear to me why we would offer total support to the likes of Begin and Sharon, yet refuse even to talk with Meshad.

Not that Carter would be my choice for the task. Back in 1976, presidential candidate Carter told the American electorate, "I will never lie to you." Listening to him then, I felt the man was either a fool or a very bold liar indeed. The evidence of his single term as president plainly showed that the man from Plains was in many ways a fool.

But is he a liar, too? After he came under fire for talking to Meshad, Carter asserted that the State Department had not tried to stop the meeting. On April 22, Secretary of State Rice contradicted Carter, saying that the Bush administration had explicitly warned Carter against talking to Hamas. A statement issued the next day by the Carter Center in Atlanta called Rice a "truthful person" who was nevertheless "continuing to make a statement that is not true." Carter escaped this conundrum by speculating that Rice had fibbed "inadvertently." This made Carter look both foolish and mendacious.

Whoever is telling the truth, the bottom line is that if the United States is going to be involved in the Middle East, it needs to talk to everybody — especially those with proven popular support. It just should've been Rice rather than Carter doing the talking.

— Jon Harrison

**Are you going to eat that?** — I live in "Blue" America. It is a strange place — at least, it must seem so to the people who don't live in it. Here citizens have to have a

license to cut down a tree, or have a cat. They may not burn garbage, or really anything, in their yards.

These are old rules, and officials are constantly coming up with new ones. At the moment, my city council is considering the menace of disposable plastic shopping bags. They are a scourge of the poor nations of the earth, where they blow about like tumbleweeds. I rarely see one blowing about in Seattle, but they are said to be an environmental calamity. San Francisco thought so, and banned the disposable plastic shopping bag. Our civic leaders looked into the matter and concluded that the paper bag is four times worse, environmentally, even though it is a local product. We would do the San Franciscans one better. Our mayor and city council president are proposing a 20-cent tax on all disposable plastic and paper bags for groceries and delicatessens.

The money is to go to environmental education. I know what that means. It means make-work jobs. And I will not want to pay the tax. Paying it will make me feel like a sucker. It will make my neighbors feel like environment-rapers. They will stuff plastic bags into their cars and their pockets. They will have to plan ahead, and buy no more than they can stuff into the bags they have. At the checkstand they will watch the checker with jaded eye, ready to accuse him of using bags too generously. They will stuff beer bottles and carrots into their pockets.

Another change comes. In Seattle, we will be required to put waste food into the yard-waste can. Because waste food stinks, the garbage company will pick up the can every week rather than every two weeks. The doubled service will require an increase in garbage rates. But the percentage of waste that we recycle will go up toward the city's goal of 70% — which is even better than in Madison, Wisc.

All this started years ago with aluminum cans. Well, you recycle waste aluminum and you get new aluminum. You recycle waste paper and get new paper. There is some sense in that. But you recycle waste food and you get — dirt. And to produce this dirt, the garbage company will have to send a fleet of trucks through my city, burning diesel, employing men that have to have days off and health plans and all that, and my garbage rates will go up. Will the dirt be worth the cost of the men and the trucks? Don't ask. It is an antisocial question, and in Blue America it is not welcome.

**Who's happy?** — A couple of recent news items caught my eye, feckless philosopher that I am. They concern a topic of truly antique concern: what makes people happy? After all, as Aristotle said, happiness is the goal of every person and every state. What struck me was how much these stories appear to debunk two shibboleths of the Left.

The first is a piece by the eminent sociologist Arthur Brooks in *The Wall Street Journal* (April 17). Brooks has made a nice career for himself debunking liberal bromides. A couple of years back he published a book called "Who Really Cares," in which he looked at the data on charitable giving and found that the religious are far more generous than the secular, and the conservative more generous than the liberal. Now he considers the latest brilliant observation by America's New Messiah, Barack Obama. The Messiah declared that the hoi polloi of Pennsylvania (and presumably elsewhere in this hoi polloi infested nation) are bitter because they are losers,

clinging pathetically to their guns and their Christian religion for what meager solace these afford.

This statement had at least one good result: we all got a hearty laugh out of hearing Hillary Clinton bashing Obama for — elitism! The sight of the Queen of Diamonds in a Pennsylvania bar quaffing a boilermaker was simply delectable. Presumably, we will next see her deer hunting with the boys, then dragging the deer's carcass to church. God, how I love American politics! To filch a phrase from Professor Higgins, it's so deliciously low.

But Brooks adduces data that refute the notion, so prevalent among the elitist left, that it's unhappy losers who own guns. He cites data presented in the 2006 General Social Survey, which show that over a third of American households have guns. (Of course, even in the 66% of American homes that don't contain guns, there are probably many people who support the right to own guns.) The data also reveal that, on average, gun owners have the same amount of schooling as everyone else, and that they actually outearn non-gunowners by a wide margin (almost a third). They had higher reported rates of happiness. And they gave more to charity than non-gunowners.

The second piece is by David Leonhardt, published in *The New York Times* (April 16). It reports the results of research by two young economists, Betsey Stevenson and Justin Wolfers, which cast doubt on a longstanding sociological dogma, the Easterlin paradox.

The paradox is named for economist Richard Easterlin, who published a study in 1974 purporting to show that a country's economic growth doesn't automatically increase happiness. His thesis is that happiness rises as people emerge

from extreme poverty, but once they reach the level of having life's basic necessities, increases in personal wealth don't result in increases in personal happiness. The data typically cited are the results of polling done of the Japanese from the 1950s to the 1970s. In that period, the economic output per capita increased 700%, but the percentage of people who said they were extremely happy actually fell. Easterlin concluded that a high level of wealth was less important than relative wealth in determining a person's happiness.

But availing themselves of the plentiful data from more recent public surveys of happiness, Stevenson and Wolfers looked at surveys from all over the world. These data show that self-reported happiness is highest in the richest countries. The authors even reviewed the old survey data from Japan, and found that the survey questions had changed over the years. When they adjusted for that, even those data show increasing happiness with increasing wealth.

For example, in U.S. households with \$30,000 or less in yearly income only 42% of the respondents report being very happy, but in households earning \$250,000 or more, the figure rises to 90%.

The *Times* reporter conceded that apparently, yes, people seek wealth, because while it doesn't guarantee happiness, it can contribute to it. Money, it would seem, allows people to live healthier lives, with more travel and less drudge work. Amazing, no?

The two studies I've mentioned are relevant to a distinctive feature of leftist thought: the tendency to characterize beliefs or actions that seem incomprehensible to leftists as ipso facto strange or neurotic. To typical leftists, guns are bad (except in the hands of the government). Since it is inconceivable to

### *News You May Have Missed*

## **Hillary: "Phantom Snipers On the Run"**

CHAPPAQUA, N.Y. — Senator Hillary Rodham Clinton donned a flight suit yesterday and stood on the deck of her suburban home in front of a banner proclaiming "MISSION ACCOMPLISHED" as she announced the end of major combat operations in her imagination.

"It isn't easy," she said, wiping away tears, "but I have decided to completely withdraw all antisniper maneuvers from my memory, unilaterally declare a truce, and put an end to the long, bloody occupation of my mind by stuff that never happened." Speaking without the assistance of notes or facts, she continued, "I've had to take a lot of flak for not actually having taken any flak, and I've been under heavy fire for not having been under heavy fire, but that hasn't stopped me from running for cover, ducking hostile questions and old CBS news footage coming at

me from all sides, and against the odds I have brought my dangerous one-woman mission to a successful conclusion. I hereby proclaim that I no longer remember a damn thing, especially airport greeting ceremonies and any and all votes to authorize stupid wars."

While Clinton frankly admitted she has, like Dick Cheney, no combat experience whatsoever and has never been shot at, and that, unlike Dick Cheney, she has never so much as shot a lawyer, even when they are in season, she argued that she would very soon acquire such experience, as she expects to meet heavy resistance when she and her remaining campaign advisers and pollsters storm the convention hall in Denver in August with the object of overrunning the heavily fortified Obamaist position and taking some 796 superdelegates hostage.

Referring to the military-style

flight suit she had on, she said she had decided military outfits do more for her than those canary-yellow and fire-engine-red pantsuits. "They make me look thinner," she pointed out, "whereas before only my explanations about misspeaking and sleep deprivation were looking thinner." Campaign officials told reporters that Clinton would appear from now on in a rapid, dizzying succession of uniforms, including Revolutionary War and Civil War and buckskin outfits and a comic-opera general's uniform bedecked with epaulettes, ribbons, and medals, taking as her model Groucho Marx in the battle scene at the end of "Duck Soup." Her husband, meanwhile, will be encouraged to wear a bell around his neck so that young campaign interns and seasoned reporters will know he's coming and can safely run someplace and hide.

— Eric Kenning

them how anyone could truly believe that guns are an effective tool for self-defense, they see gun owners as paranoids, the products of a cowboy culture.

Again, to the leftist, it couldn't be that people believe in a religion because they find it intellectually and emotionally fulfilling — no, they must be fools, addicted to a metaphysical drug. And to the leftist, it couldn't be that people routinely want a better life, materially, because it is basic human nature to want such a life — no, they must be deluded hedonists, conditioned to want material things by corporate advertising.

But the statistics are on the side of the "deluded."

— Gary Jason

**Judge this!** — This being a presidential election year, we will hear a lot about federal judges. When it comes to naming judges, both establishment party candidates will portray themselves as common-sense moderates and their opponent as an extremist out of sync with the will of the people. Consider some excerpts from a speech on judicial philosophy that John McCain gave recently at Wake Forest University:

For decades now, some federal judges have taken it upon themselves to pronounce and rule on matters that were never intended to be heard in courts or decided by judges. With a presumption that would have amazed the framers of our Constitution, and legal reasoning that would have mystified them, federal judges today issue rulings and opinions on policy questions that should be decided democratically. Assured of lifetime tenures, these judges show little regard for the authority of the president, the Congress, and the states. They display even less interest in the will of the people.

Sen. McCain is quite right about federal judges taking it upon themselves to make law from the bench. But he's mistaken to peg this to the last few decades. The problem started more than 200 years ago, when Chief Justice John Marshall (a shaky judicial mind . . . but an effective politician) used the ruling *Marbury v. Madison* to take powers for the Supreme Court — and himself — that the Constitution does not describe.

Back to McCain:

The moral authority of our judiciary depends on judicial self-restraint, but this authority quickly vanishes when a court presumes to make law instead of apply it. A court is hardly competent to check the abuses of other branches of government when it cannot even control itself.

He then mentioned several recent precedents, including 2005's *Kelo v. New Haven*, as examples of judicial excess. Good for him; *Kelo* was a really bad decision.

The sum effect of these capricious rulings has been to spread confusion instead of clarity in our vital national debates, to leave resentment instead of resolution, and to turn Senate confirmation hearings into a gauntlet of abuse. Over the years, we have all seen the dreary rituals that now pass for advice and consent in the confirmation of nominees to our Supreme Court. We've seen and heard the shabby treatment accorded to nominees, the caricature and code words shouted or whispered, the 20-minute questions and 2-minute answers.

Another fine point. The Senate's hearings on judicial nominations have become kangaroo courts.

Here, too, Senators Obama and Clinton have very different ideas from my own. They are both lawyers themselves, and don't seem to mind at all when fundamental questions of social policy are preemptively decided by judges instead of by the people and their elected representatives. Nor have they raised objections to the unfair treatment of judicial nominees. . . . Somehow, by Sen. Obama's standard, even Judge Roberts didn't measure up. Apparently, nobody quite fits the bill except for an elite group of activist judges, lawyers, and law professors who think they know wisdom when they see it — and they see it only in each other.

McCain concluded his speech by saying that surest way to restore fairness to the confirmation process is to restore humility to the federal courts. But there's only one way to restore that humility: get rid of lifetime tenure for federal judges. There are many models that could replace the status quo. One might be to use the system that several states have: the president names judges, who serve for a reasonable term and then must stand for reelection. A reasonable term might be eight years. If more people vote against a judge than for him, the president must name a replacement.

McCain hints at this kind of solution, mentioning the trouble with "lifetime tenures" and judicial disregard for the will of the people. He could make the coming election a real referendum on the judiciary (and both more substantive and more interesting) by following the logic of his complaints.

— Jim Walsh

**Double standard** — Liberalism has taken on new dimensions, and Barack Obama is today's neoliberal's liberal. Obama is likely to lose the presidency — not because he's black, or because he's a bad guy, but because he is a liberal in favor of big, punishing government, and because he has not transcended race at all — he is mired in it. He's going to be rejected because he's a racist — which in simplest terms means a double standard of expected behavior based on the color of one's skin.

This campaign has given us a chance to see Obama for what he is, as opposed to what he wants to be. He wants to be a uniter, but as president a man with his worldview would be a consummate divider. He doesn't understand the disproportionality, or recognize the unfairness of advocating the end of the radio and television career of a white man who makes a racist joke, while simultaneously tolerating the most repetitive racist rants coming from black rappers, black preachers, or civil rights activists. Rev. Wright was not always like that, says Obama. The preacher did a lot of good things. Well, so did Don Imus and a lot of others punished by the civil rights communities, but since when did good deeds matter when it comes to handing out punishments to civil rights offenders?

Obama overlooks the racism of Wright and Farrakhan, but argues for the elimination of Imus from the airwaves for an off the cuff joke about "nappy-headed hos." The reality of how Obama has conducted himself racially has demonstrated how he might govern — with a double standard that is bad for whites and also bad for blacks.

Many who left the Democratic Party, during the Reagan years and since, left for that very thing — the double standard

*continued on page 36*

# Salesmen, Stalwarts, and Old Pols

*by Bruce Ramsey*

In Washington state's run-up to the Libertarian Party convention, the candidates made their cases. The LP will pick a nominee from these.

On April 19, at its convention in Tacoma, the Libertarian Party of Washington State hosted five candidates for the presidential nomination: Mike Gravel, Michael Jingoian, George Phillies, Wayne Allyn Root, and Mary Ruwart. There was a stand-in for Bob Barr. What ensued was something like the "debates" in the major parties: a kind of panel show in which the candidates could distinguish themselves.

And they did. One might divide them into three groups: the Stalwarts, the Salesmen, and the Old Pols.

The Stalwarts are longtime LPers active in selling the party's ideological message. Several such candidates were not at Tacoma; one of these was Steve Kubby, whose web page ([www.kubby2008.com](http://www.kubby2008.com)) states, "I believe in 80-proof, straight up, gut-burning freedom."

Christine Smith ([www.christinesmithforpresident.com](http://www.christinesmithforpresident.com)) was represented only by a statement, which was down-the-line libertarian. In Tacoma, the closest breathing person to that position was Mary Ruwart ([www.votemary2008.com](http://www.votemary2008.com)), author of "Healing Our World" (1992). Ruwart is a soft-spoken advocate of the hard core: she had the faintest voice and, in some ways, the hardest positions of any of the six on the dais. She said, "I would have trouble with someone who would soft-sell our message."

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When asked about air pollution, she said the answer is restitution for its victims. On immigration she would "do away with the welfare system, then open the borders."

Ruwart, who lives in Detroit and sells her books and DVDs on the internet, was a research scientist for Upjohn Pharmaceuticals for 19 years. She particularly opposes the regime of pharmaceutical regulation and state-mandated universal medical coverage.

She said she knows Rep. Ron Paul and that he told her on the phone that he plans to continue running for the Republican nomination (not the Libertarian one).

Ruwart has been an LP activist for more than 25 years, having tried for its presidential nod in 1984. She ran for U.S. Senate from Texas in 2000, when she polled 1% of the vote. Concerning the 2008 campaign, she said, "I'm pretty good

at the sound bites. If you don't know how the news media will handle you as a Libertarian, you can be in for some surprises."

George Phillies ([www.choosegeorge.org](http://www.choosegeorge.org)) is professor of physics at the Worcester Polytechnic Institute in Worcester, MA. He was an LP candidate for Congress in 1998 and got

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*According to Ruwart: "If you don't know how the media will handle you as a Libertarian, you can be in for some surprises."*

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1.5% of the vote. He is state chairman of Mass. LP and head of the local chapter of the American Civil Liberties Union. Appearing in a dark suit, vest, and red tie, the white-haired professor looked the most like an old-time candidate and spoke in a stentorian voice.

"I am a middle-of-the-road libertarian," he said. "I'm not a Republican lite, and I'm not an anarchist. I'm a realistic libertarian."

On Social Security and Medicare, Phillies suggested giving workers an option to leave the system at age 30, when they were old enough to make such a decision and be held to it. He is for allowing interstate competition in health insurance and allowing the sale of drugs approved by the European Union. On immigration, he would end limitations on H1-B work visas but would not open the border as long as there was a welfare system.

"I have \$100,000 in the bank ready to go if I get the nomination," Phillies said. "Make me the nominee and I'll give you the campaign of your dreams." He admitted that he was not going to be elected, and said the purpose of the campaign was "to build a strong Libertarian Party for the future."

Next, the Salesmen: younger, verbally aggressive men from the world of business, first-time candidates, one leaning left and the other leaning right.

Michael Jingoian ([www.resetamerica.com](http://www.resetamerica.com)) is founder and president of AngelVision Technologies, a Portland, Oregon, company that produces internet "impact movies" to sell products. He says he offers "a national multimedia campaign to attract the youth of the Ron Paul Revolution."

Jingoian's stump speech had a populist edge. He attacked the oil companies and the military-industrial complex; and he bemoaned the decline of the middle class. He denounced the occupation of Iraq, subsidies to business, and a national ID card. He said he was for an end to birthright citizenship.

In a different forum, he has said, "The two parties I support are the Libertarians and the Greens." In Tacoma, he said that for vice president he would like to run with "someone from the liberated Left."

Jingoian affirmed the concept of human-caused global warming, a stand he shares with rival Mike Gravel. Like Phillies, he admitted that he was not going to win the presidency but said he would aim for 5 to 7% of the vote.

The best showing for the LP was 1% in 1980.

The other Salesman was Wayne Allyn Root ([www.rootfor-america.com](http://www.rootfor-america.com)), a short and intense-eyed blond who calls himself a Jewish libertarian. Root likes to repeat his slogan "my friends call me WAR."

A resident of Las Vegas, Root is founder and chairman of Winning Edge, a sports gambling site. He has also produced a TV show called "King of Vegas" on Spike, the cable channel aimed at young men.

Like many libertarians, Root is an author of books — and *what* books: "Betting to Win on Sports," "The Joy of Failure: How to Turn Failure, Rejection, and Pain into Extraordinary Success," "Millionaire Republican," and "The King of Vegas' Guide to Gambling."

Root wore a dark suit with brilliant purple tie. "I am Ron Paul on steroids," he roared. "How many of you think I have energy?" he said. "How many think I have *passion*?"

On immigration, Root said, "We have to *seal* the border." He did not say he opposed the Iraq occupation, as all the others did, though his web page shows he wants to get out gradually while "supporting the troops." His issue in Tacoma was economic freedom and self-reliance. In his stump speech, he asks people to take out their wallets and look into them. Then he says, "Vote for me and I promise to stay the hell out of there."

Root said that his father, a butcher, had been a founder of the Conservative Party of New York and that Barry Goldwater had long been his hero. He said that what the Libertarian Party needs is a good communicator, like Ronald Reagan.

"You need a *great messenger*," he said. "I get media on the national level like no other libertarian."

Then came the Old Pols. Bob Barr ([www.bobbarr2008.com](http://www.bobbarr2008.com)), who represented suburban Atlanta in the House of Representatives from 1995–2003, was not in Tacoma. His

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*Root asks people to take out their wallets and look into them. Then he says, "Vote for me and I promise to stay the hell out of there."*

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stand-in, Bob Jackson, had the task of explaining Barr's political pilgrimage. Barr had voted for the Patriot Act, he said, in order to get a sunset clause on some of its provisions.

Jackson didn't know Barr's position on all the issues that came up. Two responses that stick in the mind: he said that Barr would have Ron Paul in a "cabinet-level position in constitutional review" and that he favors the development of fusion power.

He also said Barr is looking to get 4 to 6% of the national vote.

Mike Gravel ([www.gravel2008.us](http://www.gravel2008.us)) represented Alaska in the U.S. Senate from 1969–1981. During that time, he opposed the draft and leaked the Pentagon Papers. In Tacoma he said he had been "a classic liberal" long before there were libertarians (which he pronounced "libbatarians").

*continued on page 61*

# Libertarian Like Me: The Search for the Libertarian Brain

*by Sandy Shaw*

Recent studies confirm evolved minds prefer liberty.

To change the world into a more libertarian one, it would be helpful to understand how the libertarian brain works as compared to the non-libertarian brain. This knowledge might lead to products (such as targeted designer foods and dietary supplements) that nudge the human brain in a libertarian direction. Marketing such products is a separate problem, but might be at least partially solved if they also improve cognitive or emotional function.

It is good news, therefore, that several studies published recently provide insight into the libertarian brain and how people with that kind of brain function in various types of societies. Hopefully, this will lead to a molecular pathways chart to the creation or maintenance of a libertarian brain.

## **A Model for the Evolution of Libertarian Traits Tolerance and Non-altruism**

The most remarkable study ("The Coevolution of Parochial Altruism and War" by Choi and Bowles) was published in the Oct. 26, 2007 *Science*. The conclusion these researchers reached, through simulations using a genetic evolution model, was that war drives the coevolution of hostility to outsiders and (local) altruism. The model simulates the evolution of tolerance and altruism by assuming, for simplic-

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ity, that there are two alleles, one representing tolerance (T) or non-tolerance (P, for parochial) and the other representing altruistic behavior (A) or non-altruistic behavior (N).

The commentary on the paper ("The Sharp End of Altruism"), published in the same issue of *Science*, set the scene very nicely with its first sentence: "Which would you prefer: a society of selfish but tolerant freetraders, or a warrior society in which people help one another but are hostile to outsiders?"

In this study, libertarians (not called that in the study) were clearly represented by the TN (tolerant, non-altruistic) genotype. As the researchers explain, there were two types of selection at work in the model. "Within-group selection favors tolerant non-altruists and tends to eliminate parochial altruists (intolerant to outsiders, altruist to the in-group) as

well as tolerant altruists and parochial non-altruists. By contrast, the second process, selective collective extinction resulting from intergroup conflict, may favor parochial altruists despite the fact that they risk death even in victorious bat-

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*I am inclined to think that the negative response to inequality has degenerated into an inappropriate pathological response in large human groups that hinders cooperation.*

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ties." (For example, the authors report that in early human societies there was a "markedly higher reproductive success of predominantly parochial altruist groups when interacting with groups with fewer parochial altruists.") Under nonhostile conditions, however, tolerant nonaltruists do best because they are able to receive a mutual benefit from tolerant members of outsider groups and also benefit from altruistic contributions to the in-group.

The bottom line was that "high levels of parochialism promote frequent conflicts, the victors being those groups with many parochial altruists" while, "when tolerant non-altruists are prevalent, hostilities are rare." As the authors note, their study explained how "Homo Sapiens could have become a warlike yet altruistic species [b]ut there is no evidence that the hypothetical alleles . . . exist." They carefully note that, "Thus, we have not shown that a warlike genetic predisposition exists, only that should one exist, it might have coevolved with altruism and warfare in the way that we have described." As the commentary author points out "[e]vidence that intergroup violence killed a nontrivial proportion of our ancestors has fueled interest in war as a force for robust group selection." The commentary sums up by noting that the evolutionary process (as developed in the simulations) showed "war as both the engine of the coevolutionary process and its legacy."

Using the terminology developed in the model, political liberals would probably best fit in the NP (nonaltruistic, non-tolerant) category, while many conservatives would best fit in the AP (altruistic, non-tolerant) category. I call political liberals non-altruistic because, despite their frequent call for money to be spent on others, it is other people's money rather than their own that they propose be used for this purpose. "Volunteering" other people's money to charitable causes is hardly altruistic. In fact, the commentary describes a study in which 15 small-scale societies played a donation game; the "average generosity correlated with the amount of market exchange and economic cooperation typical in the society."

### Resistance to Social Defeat

A second study (Krishnan et al, Cell 131: 391-404 [2007]) reports finding molecular adaptations in the brain of mice

that lead to resistance to social defeat. This could be important in humans, where similar resiliency has been reported under adverse conditions, by supporting indifference to social subordination. I do not propose that libertarians are more resistant to social defeat than non-libertarians, as I have no data other than my knowledge of libertarian friends and acquaintances, but I would like to see more libertarians who have such resistance in an inherently non-libertarian, hostile society.

Briefly, the authors found that in an inbred population of mice, where animals were exposed to ten consecutive incidents of social defeat (being put into the cage of a resident stranger), 40-50% of the defeated mice did not display the behavioral effects of defeat (e.g., depression, social avoidance, anhedonia, weight loss) that the other mice displayed. As the authors explained, their main goal was to identify genetic differences between the resistant and the vulnerable mice.

One of their findings was that after chronic defeat, there was augmented firing of dopaminergic neurons in a particular brain area (the ventral tegmental area [VTA]) in the vulnerable mice, whereas in the resistant mice, there was significant upregulation of genes whose proteins would be expected to reduce such neuronal excitation. This finding might suggest that dopamine (an important signal in the reward areas of the brain) was depleted by the chronic defeat.\* Dopamine levels can be increased in the brain by its amino acid precursors, tyrosine or phenylalanine. (In fact, studies by the Army on tyrosine supplements have shown it to be a potent reliever of stress in soldiers under battlefield conditions. Phenylalanine has also been shown to have antidepressant effects in humans.) Hence, the "crash" in dopamine levels from exposure to chronic defeat can be, I believe, modulated by taking appropriate supplements to increase brain dopamine levels.

The vulnerable mice exhibited a deficit in reward seeking activity, such as sucrose ingestion, and also showed an increased reward from cocaine (which, among other things, stimulates increased dopamine release in the brain until dopamine supplies are depleted, after which the cocaine "crash" takes place). Hence, chronic social defeat may be a factor leading people to become hooked on cocaine, helping to explain why cocaine users tend to be losers.

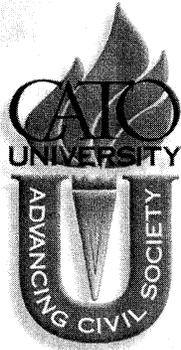
The authors propose that there is an increase in dopamine release by neurons in the VTA because "in the context of social defeat, [increased dopamine release] may promote alertness during a potentially harmful situation." They conclude by noting that resilient humans "display a striking ability to preserve optimism in the face of adverse situations, a characteristic that may reflect reward substrates that are either especially plastic or insensitive to change."

### Response to Inequality

There have also been recent scientific studies published on the negative response (reduced willingness to cooperate) to inequality of reward for equal (perceived) effort in experi-

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\*This hypothesis was not discussed by the authors, who were focused on the increased brain-derived neurotrophic factor, BDNF, induced in that brain area in the vulnerable mice.



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ments in small groups of humans, chimps, and various monkeys.<sup>1,2</sup> As was suggested in one such paper on monkeys,<sup>1</sup> a genetic predisposition to carefully examine the distribution of the results of cooperative efforts (e.g., group hunting expeditions) and to have a negative response to inequality of distribution (all other things being equal) is an unsurprising evolutionary adaptation. However, what is not discussed in the papers I've seen is an explanation of how one can extrapolate from such behaviors in small groups (where they support cooperation) to individuals' behaviors in societies of millions where no one knows what the "group hunt" has produced, who contributed and to what extent, or how the spoils have been distributed. I am inclined to think that the negative response to inequality, supported by genes that evolved in and helped promote cooperation within small groups, has degenerated into an inappropriate pathological response in large human groups that actually hinders cooperation by fostering widespread negative responses to ubiquitous unequal outcomes of individual effort, luck, and natural ability.

In one study, monkeys were less willing to work together if their expected payoff was less than their partner's (a piece of cucumber rather than a grape).<sup>1</sup> The authors reported that equality of reward had a major effect on the monkeys' willingness to cooperate, as "by far the lowest level of performance in the entire study occurred in subjects required to expend a large effort while at the same time seeing their partner receive a better reward." The authors conclude that "[t]hese effects are as expected if the inequity response evolved in the context of cooperative survival strategies." The monkeys did not have a negative response to getting a better reward than their partner, while interestingly, humans did.

In a human study, researchers used magnetic resonance imaging to detect blood-oxygenation level dependent (BOLD) responses in the ventral striatum<sup>†</sup> to differences in monetary rewards in subject pairs performing the same work under the same conditions.<sup>2</sup> As the authors note, understanding how

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*Chronic social defeat may be a factor leading people to become hooked on cocaine, helping to explain why cocaine users tend to be losers.*

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humans respond to unequal rewards has far-reaching economic implications including the "design of optimal taxation and redistribution schemes" and "the optimal provision of incentives in firms."

The authors tested the hypothesis that activity in the ventral striatum and the midbrain-prefrontal dopaminergic pro-

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<sup>†</sup>The ventral striatum is an area of the brain engaged in the prediction and registration of reward via dopaminergic projections.

jections would increase with higher relative payments (i.e., a higher BOLD signal in subjects receiving more than their partner) and, in fact, that was what was observed. Moreover,

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*It is important to understand the basis for reactions that stem from neurobiological mechanisms evolved under conditions that may not reflect current conditions.*

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the subjects reacted with a higher BOLD signal when large amounts of money were unequally paid regardless of which of the subjects received more.

People are weird animals and it is important to understand the basis for reactions that stem from neurobiological mechanisms evolved under conditions that may not reflect current conditions.

### **Punishment as a Form of Altruism**

There have been a number of recent papers on the fact that humans are often willing to punish free-riders and violators of social norms even when the act of punishing imposes costs upon the punisher. I think libertarians are less likely to engage in this type of activity, but it is widespread. One paper that reported on this phenomenon<sup>3</sup> notes that "[c]ostly punishment seems to be an altruistic act, given that individuals who contribute [to joint enterprises] but do not punish are better off than the punishers."

The authors examined a model of situations involving a joint enterprise. The participants include defectors (free-riders, who do not contribute but benefit from the contributions of others), cooperators (who contribute but do not punish), and punishers (who contribute, and also punish the free-riders). When participation in the joint enterprise is mandatory, the authors indicate that "punishers are often unable to invade, and the population is dominated by . . . [free-riders]. This means that if participation in the joint enterprise is voluntary, cooperation-enforcing behavior emerges. If participation is obligatory, then the . . . [free-riders] are more likely to win." Hopefully, this result has captured your attention, as it did mine!

One of the most widely studied models of punishment behavior is the ultimatum game, in which participants are paired and one member of each pair is offered a sum of money. That partner in each pair decides how the money will be divided, and the other partner decides whether to accept or reject the offer. If the offer is rejected, neither individual gets anything. Logically, any portion of the offered money is better than nothing and should seemingly be accepted. However, suggested distributions more

*continued on page 61*

# Housing Bubble and Bust

*by Edmund Contoski*

The recent trouble in the sub-prime mortgage market is just the first step in a slide for the U.S. dollar. Buy gold; everyone else is.

The popular definition of “inflation” is a general increase in the level of prices. But what causes the price level to rise? It is an increase in the money supply without a corresponding increase in goods and services; there is more money with which to bid up the prices of available goods and services. Inflation used to mean an increase in the money supply without an increase in physical assets, namely gold or silver. Higher prices are the result. Replacing the traditional meaning of inflation with the popular one, which refers to the effect rather than the cause, has obscured the fact that government is the cause since it controls the money supply. “Inflation,” writes economist Kelley L. Ross, “does *not* occur because of a ‘wage-price spiral,’ an ‘overheated’ economy, excessive economic growth, or through any other natural mechanism of the market. A government debasing the currency would not have fooled anyone a century ago. Now, through deception, a government can try to blame inflation on anything but its own irresponsible actions.”

The money supply can be increased by simply printing more paper currency — unbacked by gold or silver — or by increasing bank credit, which is the method used in the United States and other developed countries today.

Every period of “easy money” — loose credit — is inevita-

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bly followed by a correction that wrings the excess credit out of the system. The result is the familiar “boom-and-bust” cycle in the economy. It is commonly called the “business cycle,” but it is basically a monetary cycle. The initial economic stimulus of excess monetary credit is followed by an offsetting loss of value in the currency and an economic slowdown as markets readjust from the credit distortions. While some people may gain from inflated prices, everyone else — particularly the common people — loses because of the depreciating value of the currency. It is reminiscent of an old Russian proverb: “The shortage will be divided among the peasants.”

The central bank — in our case the Federal Reserve — attempts to fine tune the economy by tightening or loosening credit in order to control inflation and prevent the economy from sliding into recession or depression. This is a tricky task

because of external factors over which the Fed has no control and an unpredictable time lag between Fed actions and their consequences. Nobel Prize-winning economist Milton Friedman said this time lag may range from 3 to 18 months, a range so large that Fed timing is difficult. As a result, the Fed is always subject to criticism that it acted too soon or

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*The difficulty of timing Fed actions led Milton Friedman to declare that the Fed shouldn't try to fine tune the economy at all.*

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not soon enough, or that its measures were too strong or not strong enough at a particular time. The difficulty of timing Fed actions led Friedman to declare that the Fed shouldn't try to fine tune the economy at all. He said this was more disruptive of economic growth than a fixed policy. He proposed that a steady but moderate growth of the money supply would be a major contribution to the avoidance of either inflation or deflation. "I've always been in favor," Friedman said, "of replacing the Fed with a laptop computer, to calculate the monetary base and expand it annually, through war, peace, feast and famine, by a predictable 2%."

Now, interestingly, the world's gold supply has typically increased 1.5 to 3% annually, which is right in line with Friedman's recommended figure. So, why do we need a gold standard? Why not just increase the money supply steadily by the same fixed amount without tying it to gold? Because gold never becomes worthless; paper currencies can and do. The supply of gold never decreases. And only on very rare occasions, such as the major discoveries of gold in California in the 1850s and in South Africa and Australia in the 1890s, has it increased annually by over 4%. Those increases were very modest compared to the price increases caused by governments inflating the money supply. Moreover, while increased gold production did push up prices, this was because of the increase in material value, not arbitrary paper value. The world really was richer. On the other hand, there has never been a paper money unredeemable in a material asset that did not eventually become worthless. Obviously, no government can be trusted to increase the supply of fiat money at a fixed rate. Sooner or later, political expediency combined with monetary ignorance and shortsightedness — not to mention "good intentions" — will result in the first small steps down the inflationary road. The first few steps will seem harmless enough, and so the process will be repeated. And broadened. More and more "good intentions" will be found. And they will be more and more expensive.

Of course, governments do not want a fixed monetary policy. The Fed board of governors does not want to be replaced by a laptop computer. Nor do politicians want to give up the power to be expedient and irresponsible with other people's

money — all in the name of good intentions, of course. They have a vested interest in inflation. They do not want a system that would restrain the lavish spending that buys voter support for their reelections. They do not want to give up playing god with the economy and the populace. Their good intentions for both can be financed in only two ways: 1) by taking money away from the people (taxation), or 2) by taking value away from the money (inflation). Taxation is not sufficient; there is no way the voters would accept taxes high enough to equal what they lose through inflation that finances the politicians' schemes.

The gold standard produced remarkable price stability. The Bank of England, founded in 1694 as a private company (nationalized in 1946), acted responsibly in issuing paper money. Its banknotes were "as good as gold" and led to Great Britain adopting the gold standard in 1816. Research by David Ranson and Penney Russell shows the stabilizing effect of this monetary policy. Their research shows prices were lower in Great Britain at the beginning of World War II than in 1800. In the United States, cumulative consumer-price inflation from 1820 to 1913, when the Federal Reserve Act was passed, was zero. According to the inflation calculator on the U.S. Bureau of Labor Statistics website, the dollar has lost more than 95% of its purchasing power since 1913.

In the 1920s (and even prior to 1920), the Fed rapidly expanded credit. This produced an enormous boom in the economy and a growing wave of optimism about continued prosperity. The result was a bubble in prices, most notoriously in the stock market. In the 1920s, stocks could be bought on margin for only 10%, the remainder being on credit from the brokerage houses. By 1926, they could be bought on 5% margin. In September 1922, brokers' loans totaled \$1.7 billion; by December 1926, they were \$4.4 billion. And by September 1929, they were \$8.5 billion.

The credit bubble of the 1920s was also evident in real estate. Henry Hoagland, a Federal Home Loan Bank board member, later wrote: "After a prolonged period of insufficient home construction during the World War, a tremendous

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*More and more "good intentions" will be found. And they will be more and more expensive.*

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surge of residential building in the decade of the twenties turned villages into cities and added tremendous acreage to our urban centers . . . [There was] a demand for modern homes greater than had ever been experienced before. This demand was matched by an ever-increasing supply of homes on easy terms.

"The easy-terms plan has a catch in it. It usually accompanies high prices and small ownership equities, giving super-

ficial covering to a mountain of debt. When the crash came in 1929, a large proportion of homeowners had but a thin equity in their homes. Only a small decline in prices was necessary to wipe out this equity. Unfortunately, deflationary processes are never satisfied with small declines in values. They feed upon themselves and produce results all out of proportion to their causes." Sound familiar?

After the crash of 1929, stock market margins were never that low again. Since 1974, the margin rate has been 50%. But we should not be surprised by the recent price bubble in residential real estate. For several years it was possible to buy a home for as little as 5% down, then 3%, and finally in many instances with no money down at all. According to a National Association of Realtors survey of first-time buyers in late 2004 and early 2005, a stunning 43% had put no money down.

The Great Depression led to greater involvement by the government in the economy as it tried to alleviate problems its monetary policies had caused. As a remedy for the disaster in the housing market, in 1932 the government created the Home Loan Bank system, patterned after the Federal Reserve system, with twelve regional banks. That proved insufficient. Banks were still failing, and people were still losing their homes through foreclosures. So the government decided another agency was needed to make more credit available on easier terms. The result, in 1934, was the Federal Housing Administration (FHA), which originally required 20% down payment. Then more agencies were added to make even more mortgage credit available. In 1938 the Federal National Mortgage Association (Fannie Mae) was created. Freddie Mac (Federal Home Loan Mortgage Corp.) was created in 1970 to supplement Fannie Mae's role.

FHA, Fannie Mae, and Freddie Mac met with public approval but planted the seeds of future problems. Vernon L. Smith, a Nobel Prize-winning economist and professor of law and economics at George Mason University, says the government "set the stage for housing bubbles by creating those implicitly taxpayer-backed agencies, Fannie Mae and Freddie Mac, as lenders of last resort."

John Berlau, a scholar at the Competitive Enterprise Institute, says, "The collapse of whole segments of the housing market can be traced to FHA-subsidized mortgage products. Despite its decreasing market share, the FHA appears to have played a significant role in the current mortgage 'melt-

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*Taxation is not sufficient; there is no way the voters would accept taxes high enough to equal what they lose through inflation.*

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down' attributed to subprime loans. For the past three years, [FHA] delinquency rates have consistently been higher than even those of the dreaded subprime mortgages . . . [and] nearly twice as high as the rate for all mortgages."

Berlau also notes: "FHA-insured loans have also been at the center of some of the worst excesses of the housing boom, including mortgage fraud, loans made without income verification, and property 'flipping' with inflated appraisals." These allegations have been documented by congressional probes and investigative newspaper reporting. Sen. Susan Collins of Maine, who headed a 2001 Senate investigation of mortgage fraud, said, "The federal government has essentially subsidized much of this fraud." Over the years, FHA's

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*According to a National Association of Realtors survey of first-time buyers in late 2004 and early 2005, a stunning 43% had put no money down.*

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down payment requirement of 20% was gradually whittled to 3%. That was a result of the agency trying to compete for market share by making its own standards even more "subprime" than those of the private sector.

Fannie Mae and Freddie Mac own or guarantee 45% of all U.S. home-loan mortgages. These giant agencies don't make loans. They are forbidden from doing so. Instead they buy mortgages from banks, bundle them into securities, and then resell these to investors. This "securitizing" of mortgages doesn't require Fannie or Freddie to hold a mortgage on its books any longer than it takes to package and resell it. Once a mortgage is off the books, the agency's capital is freed up to do the same thing all over again. Hence the potential for a credit bubble in the housing market. Fannie and Freddie have grown explosively since 1990. In 1990 their combined holdings of mortgages and related securities was \$136 billion. In 2004 it was \$1.6 trillion. Three years later it was \$4.8 trillion.

In May 2006 the Office of Federal Housing Enterprise Oversight (OFHEO) announced a \$400 million civil penalty against Fannie Mae for accounting manipulations. The agency discovered "a wide variety of unsafe and unsound practices." Its report shows "Fannie Mae's faults were not limited to violating accounting and corporate governance standards, but included excessive risk-taking and poor risk management as well." Fannie was ordered to restate its earnings from prior years by an estimated \$11 billion.

In 2003, Freddie Mac was fined \$125 million by OFHEO for accounting irregularities and ordered to restate its earnings for 2000-2002 by \$5 billion. In September 2007 Freddie was fined \$50 million, this time by the SEC, for accounting fraud that deceived investors, and four former officials including a CFO, COO and two senior vice presidents, who profited from the scheme, were required to repay ill-gotten gains.

In the housing boom following the tech-stock bubble in 2000, Wall Street investment firms started dominating the lucrative business, pioneered by Fannie and Freddie, of bundling mortgages into securities. But Wall Street was selling them worldwide, spreading the credit bubble far beyond our

shores. By the end of 2006 the total U.S. residential mortgage debt was \$10.3 trillion, almost double the level of just six years earlier.

Fannie Mae and Freddie Mac are not government agencies. They are private corporations established by federal charters, implicitly backed by the U.S. government. Government-backed financial institutions have been known to fail. In the savings-and-loan debacle in the 1980s, more than 1,000 S&Ls collapsed. The Federal Savings and Loan Insurance Corporation, which had been in existence since 1934 to guarantee depositors' funds, became insolvent. Though recapitalized several times by Congress with multi-billion dollar infusions of taxpayer money, the FSLIC by 1989 was deemed too insolvent to save and was abolished. Overall, the S&L bailout cost taxpayers an estimated \$124 billion. For a brief period in the 1980s, Fannie Mae was losing about \$1 million a day and was technically insolvent.

The feeling that mortgages are backed by the federal government undoubtedly led investors to be less circumspect than they otherwise would have been. "Unsafe and unsound practices" and "excessive risk taking and poor risk management" escaped scrutiny behind the government guarantee. Inadequate recognition of risk coupled with the explosive growth of Fannie and Freddie produced the potential for a gigantic financial disaster. Even though the mortgages were sold to other investors, Fannie and Freddie for a fee still guaranteed that payments would be made on the loans. So when the banks divided the securitized mortgages and repackaged them in SIVs (structured investment vehicles) and CDOs (collateralized debt obligations), the mortgage payments were still federally guaranteed. And the banks would collect a fee for imaginatively repackaging and selling the SIVs and CDOs.

The situation was made worse by home-equity loans, which exploded during the housing boom. Homeowners took advantage of rising home values and tapped their equity to

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*The feeling that mortgages are backed by the federal government undoubtedly led investors to be less circumspect.*

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fund spending or leverage other investments. Some took out "piggyback loans," which allowed them to borrow as much as 100% of a home's value by combining a mortgage with a home-equity loan. The value of home-equity loans stood at \$1.1 trillion in the third quarter of 2007.

It was a boom time for the home building industry. With easy credit terms available, many people bought homes they couldn't afford and would eventually lose to foreclosure. Others, who were better off, were buying second and third homes as investments, with little or no money down. Home buying was stimulated by people's experience of seeing homes appreciate over the years while the dollar lost purchas-

ing power through inflation. Money is a medium of exchange, but it is also store of value; in fact, it must be a store of value before it can be a medium of exchange. It is often lamented that the United States has a low rate of saving, but why should people save dollars that will be worth less in future years? A significant threat of inflation, in any country, is an incentive for people to try to get out of the currency, to spend

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*It is often lamented that the U.S. has a low rate of saving, but why should people save dollars that will be worth less in future years?*

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now before the money loses value, or to find an alternative asset which will serve as a store of value. Home ownership was regarded in this manner. Home buying was viewed as a "safe" investment and one likely to appreciate with inflation rather than be eroded by it. Certainly the real estate market, within the memory of most Americans, was much more stable than the stock market. For all these reasons, money poured into the homebuilding industry until the supply of housing outstripped the demand. Then prices started coming down. And the mountain of debt started to topple.

Banks have been blamed for creating the subprime mortgage crisis by making risky loans to borrowers who did not meet standards of creditworthiness. But the federal government forced them to do so. Boston Globe columnist Jeff Jacoby explains (March 9, 2008):

The crisis has its roots in the Community Reinvestment Act of 1977, a Carter-era law that purported to prevent "redlining" — denying mortgages to black borrowers — by pressuring banks to make home loans in "low- and moderate-income neighborhoods". . . . The CRA [was] made even more stringent during the Clinton administration. . . . Banks nationwide thus ended up making more and more "sub-prime" loans and agreeing to dangerously lax underwriting standards — no down payment, no verification of income, interest-only payment plans, weak credit history. . . . Trapped in a no-win situation entirely of the government's making, lenders could only hope that home prices would continue to rise, staving off the inevitable collapse. But once the housing bubble burst, there was no escape. Mortgage lenders have been bankrupted, thousands of subprime homeowners have been foreclosed on, and countless would-be borrowers can no longer get credit. The financial fallout has hurt investors around the world. And all of it thanks to the government, which was sure it understood the credit industry better than the free market did, and confidently created the conditions that made disaster unavoidable.

Homeowners with little equity found themselves "upside down" with their mortgages: they owed more than the homes were worth. So, many simply walked away, leaving the banks to swallow the losses. Those defaults reduced bank reserves,

which further reduced capital to support credit of all types. The same thing was happening with Fannie and Freddie, which were called upon to make good on their mortgage guarantees. When borrowers fall behind on their loan payments, Fannie and Freddie must buy those loans and recognize a loss on any drop in market value below the amount they paid for

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*Banks have been blamed for creating the crisis by making risky loans, but the federal government forced them to do so.*

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them. At the end of the third quarter 2007, Freddie had marked down its assets by \$3.6 billion to match current market levels. In addition, it took \$1.2 billion in credit losses. These losses left the company with core capital of \$34.6 billion, a mere \$600 million above the minimum requirement of OHFEO. Freddie estimates its losses for 2008 and 2009 will be \$1.5 billion and \$2.1 billion respectively.

Banks have been trying to keep as much cash as possible as a cushion against further writedowns and credit losses. Banks are also wary of lending to each other because, knowing how bad their own assets are, they don't trust each other's balance sheets. Consequently, they have been charging each other higher interest rates. Those rates, in turn, affect monthly interest payments on millions of credit cards and mortgages in Europe and the United States.

Research suggests consumer spending drops nine cents for every dollar decline in home equity. A decline of \$2.1 trillion in U.S. residential values has already occurred, implying a decline of \$200 billion in consumer spending. Consumer spending accounts for two-thirds of U.S. economic activity.

Alan Greenspan recently stated, "After more than a half-century observing numerous price bubbles evolve and deflate, I have reluctantly concluded that bubbles cannot be safely defused by monetary policy before the speculative fever breaks on its own."

James Grant, long-time editor of Grant's Interest Rate Observer, neatly summarized Greenspan's current view: "The enlightened central banker will let speculation take its course. Following the inevitable blow-up, he will clean up the mess with low interest rates and lots of freshly printed dollar bills — thereby gassing up a new bubble."

That was the lesson from the savings and loan crisis. Under Greenspan, the Fed became a kind of first responder to financial distress following the 1987 stock market crash, the Mexican peso crisis in 1994-95, and the Long-Term Capital Management crisis of 1998. Following the tech-stock bubble in 2000, Greenspan steadily brought interest rates down to 1% in June 2003 and kept them there until mid-2004. Many economists now blame those low interest rates for contributing to the housing bubble that burst in 2007.

The Fed, of course, hopes to pick the optimum rate for increasing the money supply, but it will always prefer to err on the side of being a little too loose rather than a little too tight. Everyone on the Fed board is aware of the role of tight money during the Great Depression and wants to avoid a similar outcome at all costs. The danger of just a little more inflation will always seem preferable to the risk that an economic correction will slide dangerously further than expected. The latter can pose a far more difficult problem for the Fed. The leverage which was so attractive to investments on the upside now works in reverse, accelerating the decline. Sharp losses in the stock market, real estate, and elsewhere can wipe out assets rapidly, and on a colossal scale that monetary policy cannot quickly replace. Moreover, the Fed can make credit available, but it can't make people use it. Its actions have been compared to "pushing on a string." People have to want to "pull" on the available credit for the Fed policy to have effect. When an economy gets so bad that pessimism pervades society, businesses are afraid to hire new workers or invest in plants or equipment, and consumers are afraid to spend. Then central bank policies are ineffective. A case in point is Japan after the collapse of its stock market in 1989. During the 1990s, even an interest rate of *zero* percent couldn't revive the economy. Japan still has not fully recovered. Its stock market (Nikkei Index) is barely one third of its 1989 peak. Trillions of dollars (or yen) of assets were wiped out and have not been recouped.

Another factor favoring continued inflation in the United States is the growing national debt, which has ballooned wildly under President George W. Bush. Congress has increased the debt limit five times since he took office in January 2001. At that time, the national debt stood at \$5.6 trillion. Now it is \$9 trillion. The \$3.865 trillion increase is the largest of any administration ever, despite the fact he ran for office as an economic conservative.

A growing portion of our national debt is held by foreigners, particularly foreign governments. Foreign investors own only about 13% of U.S. equities, but they own 44% of U.S.

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*The Fed is aware of the role of tight money during the Great Depression and wants to avoid a similar outcome at all costs.*

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Treasury debt. And it is likely to get worse. As Peter Orzag, director of the nonpartisan Congressional Budget Office, recently testified on Capitol Hill, "Under any plausible scenario, the federal budget is on an unsustainable path — that is, federal debt will grow much faster than the economy over the long run."

Our government finances its deficits by auctions of U.S. Treasury securities. It deposits the proceeds from the sale of

the securities into its own checking account, against which it writes checks for employee salaries, federal contracts, government grants, goods and services. The recipients of these checks deposit them in their own accounts at commercial banks. Those banks then are required to set aside a percentage (currently 10%) as a reserve — but can loan out the remaining 90%. For example, if someone receives a government check for

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*The depreciating value of the dollar gives oil-exporting countries an incentive to try to keep oil prices high.*

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\$1,000 and deposits it in his bank account, his bank sets aside \$100 as the required reserve and can then loan out the other \$900. When someone else borrows that \$900 and deposits it in his account, his bank sets aside \$90 and loans out \$810. The next time around, the amount loaned out will be \$729. The cycle repeats until there is nothing left to loan. At that point it will be seen that the total amount of deposits is \$10,000, which consists of the original \$1,000 plus \$9,000 in credit created by the banks. That's how the increase to our money supply can be ten times the amount borrowed to finance our debt. Is it any wonder we have price inflation?

It should be noted that the tenfold increase in the above example increases the money supply only when treasury securities are purchased by foreigners. If those securities are purchased by Americans, no new credit is created, because the money that the government receives has already been part of the U.S. money supply; it is simply transferred from the private sector to the government, with the multiplier being the same for both. But when foreigners buy treasury securities, the proceeds are *added* to the previous money supply.

In 1971 President Nixon severed the last link between the dollar and gold by declaring that the U.S. government would no longer allow foreign central banks to redeem their dollars in gold. Prior to this, the dollar had been a "reserve currency" because of its gold convertibility, and foreign banks held their reserves in both dollars and gold. But as they accumulated more and more dollars, they knew the United States had nowhere near enough gold to back the outstanding dollars. So they wanted to get gold while they could. The U.S. paid out several billion dollars in gold but could not stem the tide of demands. It was obvious that further redemptions would soon exhaust our reserves. So Nixon simply declared that no more gold would be paid out.

The system of fixed exchange rates broke down, and currencies were set free to float against each other. But the dollar was still a reserve currency. Central banks had large quantities of them, and have been accumulating more. More than 60% of foreign exchange reserves are still kept in U.S. dollars, which have been losing value rapidly. Priced against a basket of major currencies, the U.S. dollar has lost 38% of its value

in the last six and a half years. It lost 7.5% in 2007 alone. It lost 17% last year against the Canadian dollar, falling to its lowest level in well over a century, and nearly 17% against the Brazilian currency. It lost more than 10% last year against the Turkish, Thai, and Indian currencies. And it lost 9.5% last year against the euro, the common currency of 15 countries in the European Union. At one point in 2000, a dollar would buy 1.176 euros; now it will buy only .6250 euros, a decline of more than 47%.

Foreign governments are alarmed that the large and growing percentage of their monetary assets in U.S. dollars is rapidly losing value. They have been buying U.S. treasury securities, for which they collect interest, but the interest is clearly no longer keeping pace with the loss of value in the currency. So they are looking to reduce their risk by diversifying into assets that will better retain their value.

It is the oil-producing countries and China that find themselves with mountains of dollar reserves. The Persian Gulf nations originally pegged their currencies to the dollar to stabilize oil revenues, because oil was priced in dollars. But this forces them to accept U.S. inflation and monetary stimulus. It also makes their imports from countries with stronger currencies more expensive. Now the Fed is cutting interest rates to fight the slowdown in the U.S. economy. This policy is exactly opposite to the interests of the oil producers who are fighting inflation and overheated economies. An official spokesman for Qatar has stated that pegging its currency to the dollar has "many disadvantages, especially if [the United States] adopts monetary policies that clash with ours." In November, Nasser al-Sulweidi, governor of the United Arab Emirates central bank, while acknowledging that the dollar peg has "served the economy . . . very well in the past" ended by saying: "However, we have reached a crossroads." Kuwait severed its peg with the dollar in May 2007, linking it instead to a basket of currencies. Since then, its currency has strengthened about 5% relative to the dollar.

Since oil is priced in dollars, the depreciating value of the dollar gives oil-exporting countries an incentive to try to keep oil prices high, by restricting production, to avoid eroding their own purchasing power. It also gives them another

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*Russian Prime Minister Putin would be only too happy to advance his ambitions at the expense of the United States.*

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incentive to move away from the dollar, with the euro being the most attractive currency for pricing oil. Beginning in 2003, the oil price tripled in U.S. dollars but only a little more than doubled in euros.

Thus far Saudi Arabia, though it is struggling with inflation, has said it will retain its link to the dollar. Its foreign minister, Saud al-Faisal, said severing its link to the U.S. dollar

would damage the U.S. economy. Other countries, however, are not so considerate of U.S. interests; they do not have the long relationship that Saudi Arabia has with the United States, which includes military protection. Russian Prime Minister Vladimir Putin, who has visions of restoring his country to its former stature as a world power, would be only too happy to advance his ambitions at the expense of the United States. He would like to see the ruble become a global currency and has expressed interest in a Russian stock exchange pricing oil and gas in rubles. That is not realistic now — though Russia is the world's second largest exporter of oil — but in 2005 he severed the ruble's link to the dollar and aligned it with the euro.

Russia has \$475 billion in reserves, but China has \$1.7 trillion, with which it could do a lot of damage to the U.S. dollar if it so chose. Deng Xiaoping, who turned China away from Mao's communism, urged the country to "bide time" and "seek cooperation and avoid confrontation." His successor Jiang Zemin had big ambitions for his country, but he continued Deng's approach because he saw the benefits of cooperation with the United States and its allies. Current President Hu Jintao has changed directions. In the words of China scholar G.G. Chang, he "appears to see his country working *against* the U.S." (italics Chang's). Last year China refused to provide shelter for two U.S. minesweepers seeking refuge from a storm. In November, a long-arranged port call for the carrier *Kitty Hawk* was denied at the last minute. A routine flight to resupply the American consulate in Hong Kong was denied. Willy Lam has noted that Mr. Hu and the party leadership structure have decided "to make a clean break with Deng's cautious axioms and, instead, embark on a path of high-profile force projection."

In October 2006 a Chinese submarine surfaced for the first time in the middle of an American carrier group. In January 2007, China "in an unmistakable display of military power," said Chang, "destroyed one of China's old weather satellites with a ground-based missile." Its military exercises last

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*China's mountain of dollars continues to grow, and it is becoming an ever more potent weapon to use against the United States at some future date.*

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August "were remarkable in scope and sophistication" and were "apparently rehearsals to take Taiwan and disputed islands in the South China Sea." Hong Yuan, a military strategist at the Chinese Academy of Social Sciences, says China's new posture shows it intends to project force in areas "way beyond the Taiwan Strait."

So don't expect China to do us any favors in regard to the U.S. dollar. It will use its dollars against the United States when it considers it most advantageous to do so. It continues

to fund our deficits by buying U.S. treasury securities because actions destructive to the dollar would also be destructive to its own hoard of dollars. That hoard, however, continues to lose value anyway because of U.S. inflation. As the value of the dollar continues to slide, not only China but other countries, too, will demand higher interest rates on U.S. treasuries to compensate for inflation. Those rates, in turn, will slow the

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*As the value of the dollar continues to slide, China will demand higher interest rates on U.S. treasuries to compensate for inflation.*

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growth of the U.S. economy, making us more dependent on foreign financing of our debt and at odds with our own monetary objectives for economic growth. China's mountain of dollars continues to grow, and it is becoming an ever more potent weapon to use against the United States at some future date. Meanwhile, China also seeks to mitigate its own growing risk by diversifying out of dollars.

Various other countries, even those not hostile to the United States, also seek to reduce their risks by reducing their dollars. Over a year ago Italy, Russia, Sweden, and the United Arab Emirates announced they would reduce their dollar holdings slightly. Sweden's 90% dollar foreign reserve went to 85%. The UAE said it would convert 8% of its dollar holdings to euros. Friendly Japan, the largest holder of U.S. treasuries, was a net seller of \$46 billion in U.S. treasuries in the last 12 months, and has reduced its holding by 3% in three years. South Korea sold \$19 billion this past year.

U.S. citizens, like foreign governments, have been diversifying out of depreciating dollars. In the last two years, more than 200 internationally focused mutual funds have been launched in the United States. When the dollar is weak, overseas gains are worth more when translated back into dollars. This is part of the reason these mutual funds gained 16.3% last year compared with 5.2% for U.S. counterparts. In 2007 more than 95% of net inflows of money into mutual funds went into internationally focused funds, compared to less than 10% five years ago. This net outflow of capital adds to the underlying weakness of the dollar: mutual funds and other institutions sell increasing amounts of dollars to buy increasing amounts of currencies in which the foreign stocks are denominated.

An increasingly popular way for governments to diversify out of dollars is through so-called sovereign wealth funds. These are state-owned entities that invest central bank reserves in stocks, real estate, bonds, and other financial instruments. They are typically created when central banks have reserves massively in excess of needs for liquidity and foreign exchange.

Back in 1971 the United States said foreign governments couldn't exchange their dollars for gold. Now they have been

told they can't exchange them for certain other things either. The United States prevented the sovereign fund of oil-rich Dubai from buying a company that operates six U.S. ports. It also prevented a Chinese government-controlled company from buying Unocal, an oil company. The Chinese company withdrew its offer of \$18.5 billion, "saying it could not overcome resistance from politicians in Washington," according to the Washington Post.

Countries have to question the value of accumulating a currency they can't spend in the country that issued it. Fortunately for them, the credit crisis gave them another opportunity. Massive losses by U.S. banks and other financial institutions created a need for cash. In January 2008, Citigroup (formerly Citibank), the nation's second largest bank, reported a fourth quarter loss of \$18.1 billion, in addition to a \$6 billion loss in the third quarter. Merrill Lynch, a 94-year-old firm that is the world's largest brokerage, reported a fourth quarter loss of almost \$10 billion after \$16.7 billion in write-downs from subprime mortgages and CDOs. Morgan Stanley reported a \$9.4 billion loss for the fourth quarter. UBS reported a fourth quarter loss of \$14.45 billion, primarily from U.S. subprime mortgages. Sovereign wealth funds from China, Singapore, South Korea, and other nations jumped at the opportunity to buy into these companies. Merrill Lynch obtained \$6.6 billion in January from South Korea, Kuwait, and Japan, and \$6.2 billion the previous month from Singapore. UBS received \$9.75 billion from Singapore. China now owns 9.9% of Morgan Stanley.

Mindful of the earlier problems of Dubai and the Chinese attempt to buy Unocal, foreign governments are well aware they may encounter further political obstacles to investing in the United States, particularly if the current banking crisis abates. In any case, they are looking for other ways of diversifying out of dollars. Think gold. It is something they can buy without any government's permission. It has an unrivaled record of 5,000 years as a store of value. And it surely is more valuable than unredeemable paper currency. Last year Qatar tripled its reserves of gold in one month. That still was a small amount, but what if other countries with far larger dollar reserves start trading them for gold?

For more than a century, South Africa has been the world's leading producer of gold. For most of those years, it produced

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*Countries have to question the value of accumulating a currency they can't spend in the country that issued it.*

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three-fourths of the world's output. But last year it was in second place. The number one gold producing country in 2007 was (are you ready for this?) China!

Through centuries of political and economic turmoil, people in China and India have hoarded gold and silver jewelry and bars as a means of storing wealth. There were no large, organized markets; prices were determined by the haggling of local buyers and sellers. All that has changed. New oppor-

tunities have greatly expanded commerce in gold and made it much more convenient for the public, which has responded with enthusiasm. Investors can now trade in physical gold on the Shanghai Gold Exchange. Some new Chinese gold issues are traded over the internet. On Jan. 9, 2008, China's first gold futures contract was launched, attracting thousands of investors. A spokesman for China International Futures said "about 90% are individual investors, most of whom were moving

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*If Social Security, Medicaid, and similar obligations are included, the U.S. national debt is \$59 trillion.*

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assets after turning bearish on the stock markets." As China's economy grows, people have higher incomes that raise the appetite for gold.

The State Bank of India plans to launch an exchange traded fund (ETF) this year that will enable investors to trade gold like a regular stock. Dubai also hopes to launch an ETF in gold this year. In August, the Osaka Securities Exchange in Japan began offering a gold-linked bond aimed at smaller investors. In January the Hong Kong Exchanges & Clearing Ltd. announced plans for ETFs and other gold-related investments.

Gold buying in the United States used to be a clumsy process. For decades, thanks to President Franklin Roosevelt's prohibition on owning gold, U.S. citizens could not even own the metal except for jewelry and coins classified as collector's items. After gold became legal again, the investment process was small-scale and cumbersome. Investing in gold became more convenient and efficient with the advent of ETFs. These allow investors to buy or sell shares of stock tied to the value of the underlying commodity. When people buy shares of stock in such a fund, the fund buys an equivalent amount of gold, which is stored in vaults. When shares are sold, the fund sells an equivalent amount of gold. The ease and simplicity of the process has resulted in investors pouring billions of dollars into these funds on stock exchanges in the United States, Paris, London, Australia, South Africa, Mexico, Singapore, and some other countries. The most active gold ETF is streetTRACKS-GoldShares, which trades on the New York Stock Exchange. It holds more gold than the European Central Bank or China's Central Bank. Meanwhile, gold futures are trading robustly on the world's most important gold market, the Comex division of the New York Mercantile Exchange, and on the London Metal Exchange. Other gold plays include a five-year gold bullion CD from Everbank Financial, common stocks in gold mining companies, and mutual funds specializing in those stocks.

Both foreign governments and individuals are turning away from the dollar as it loses value. The dollar is in danger of losing its status as a reserve currency. The international

*continued on page 60*

# How to Think About Pollution

*by David Friedman*

Economics has undergone a revolution in the theory of “externalities,” such as pollution, though you wouldn’t know it if you listened only to the regulators and politicians.

*David Friedman’s explanation of the correct method for assessing the costs — and true victims — of “externalities” such as pollution ran in Liberty’s January 1992 issue. Politicians continue to regulate and blather about externalities while studiously avoiding learning their true nature. — Mark Rand*

When the Swedish Academy awarded the 1991 Nobel Prize in Economics to Ronald Coase, it surprised two different groups of people. The larger group consisted of people who had either never heard of Coase, or heard of him only as the author of something called the “Coase Theorem,” generally presented as a theoretical curiosity of no practical importance. The second and much smaller group consisted of people who were familiar with the importance of Coase’s work — and assumed that the Swedish Academy was not.

Some people get the Nobel Prize for doing a large amount of complicated and technical work that is difficult for an outsider to understand. Coase is at the other extreme. His contribution to economics has largely consisted of thinking through certain questions more carefully and correctly than anyone else, and in the process demonstrat-

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ing that answers accepted by virtually the entire profession were false. One side effect of his work was a new field of economics: economic analysis of law, the attempt to use economic theory to understand legal systems. While there would probably be something called economic analysis of law if Coase had not existed, it would be a very different field.

One of Coase’s important contributions to economics was to rewrite the theory of externalities — the analysis of situations, such as pollution, where one person’s actions impose costs (or

benefits) on another. His ideas are sufficiently simple to be understood by a layman, as I will try to demonstrate in the next few pages, and sufficiently deep so that they have not yet been entirely absorbed by the profession; to a considerable extent what is still taught in the textbooks is the theory as stated prior to Coase.

To understand Coase's contribution, it is useful to start with the theory of externalities as it existed before Coase published "The Problem of Social Cost," the 1960 essay that first introduced the Coase Theorem to economics. The basic argument went as follows:

In an ideal economic system, goods worth more than they cost to produce get produced, goods worth less than they cost to produce do not; this is part of what economists mean by economic efficiency. In a perfectly competitive private property system, producers pay the value of the inputs they use when they buy them from their owners (wages to workers in exchange for their labor, rent to land owners for the use of their land, etc.) and receive the value of what they produce when they sell it. If a good is worth more than it costs to produce, the producer receives more than he pays and makes a profit; if the good is worth less than it costs to produce he takes a loss. So goods that should be produced are and goods that should not be produced are not.

This only works if producers must pay all of the costs associated with production. Suppose that is not the case. Suppose, for example, that a steel producer, in addition to using iron ore, coal, etc., also "uses" clean air. In the process of producing a ton of steel he puts ten pounds of sulfur dioxide into the air, imposing (say) \$100 worth of bad smells, sore throats, and corrosion on people downwind. Since he does not pay for that cost, he does not include it in his profit and loss calculations. As long as the price he sells his steel for at least covers his costs it is worth making steel. The result is inefficient: some goods may be produced even though their cost, including the resulting pollution, is greater than their value.

It is inefficient in another respect as well. The steel producer may be able to reduce the amount of pollution by various control devices — air filters, low sulfur coal, high

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*Some goods may be produced even though their cost, including the resulting pollution, is greater than their value.*

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smokestacks — at a cost. Calculated in terms of the net effect on everyone concerned, it is worth eliminating pollution as long as the cost is less than the pollution damage prevented — in our example, as long as it costs less than \$10 to prevent a pound of sulfur dioxide emission. But the steel producer, in figuring out how to maximize his profit, includes in his calculations only the costs he must pay. So long as he does not bear the cost of the pollution, he has no incentive to prevent

it. So the fact that air pollution is an external cost results in both an inefficiently high level of steel production (it may be produced even when it is not worth producing) and an inefficiently low level of pollution control.

There are two obvious solutions. One is direct regulation — the government tells the steel company how much it is allowed to pollute. The other is emission fees — referred to by

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*That analysis was accepted by virtually the entire economics profession prior to Coase's work in the field, and still is accepted by a good deal of the profession. It is wrong.*

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economists as Pigouvian taxes (named after A.C. Pigou, the economist whose ideas I am describing).

Under a system of Pigouvian taxes, the government charges the steel company for the damage done by its pollution — \$10 per pound in this example. By doing so it converts the external cost into an internal cost — internalizes the externality. In deciding how much steel to produce and what price to sell it at, the company will now include the cost of its pollution — paid as an emission fee — along with other costs. In deciding how much pollution control equipment to buy, the company balances the cost of control against its benefits, and buys the optimal amount. So a system of emission fees can produce both an efficient amount of steel and an efficient amount of pollution control.

In order to achieve that result, the government imposing the fees must be able to measure the cost imposed by pollution. But, unlike direct regulation, the use of emission fees does not require the government to measure the cost of preventing pollution — whether by installing air filters or by producing less steel. That will be done by the steel company, acting in its own interest.

I have just described the theory of externalities as it existed before Coase. Its conclusion is that, as long as externalities exist and are not internalized via Pigouvian taxes, the result is inefficient. The inefficiency is eliminated by charging the polluter an emission fee equal to the damage done by his pollution. In some real world cases it may be difficult to measure what the damage is, but, provided that that problem can be solved, using Pigouvian taxes to internalize externalities produces the efficient outcome.

That analysis was accepted by virtually the entire economics profession prior to Coase's work in the field, and still is accepted by a good deal of the profession. It is wrong — not in one way but in three. The existence of externalities does not necessarily lead to an inefficient result. Second, Pigouvian taxes, even if they can be correctly calculated, do not in

general lead to the efficient result. Third, and most important, the problem is not really externalities at all — it is transaction costs.

I like to present Coase's argument in three steps: Nothing works. Everything works. It all depends.

### Nothing Works

The first step is to realize that an external cost is not simply a cost produced by the polluter and borne by the victim. In almost all cases, the cost is a result of decisions by both parties. I would not be coughing if your steel mill were not pouring out sulfur dioxide. But your steel mill would do no damage if I (and other people) did not happen to live downwind from it. It is the joint decision — yours to pollute and mine to live where you are polluting — that produces the cost.

Suppose that, in a particular case, the pollution does \$100,000 a year worth of damage and can be eliminated at a cost of only \$80,000 a year (from here on, all costs are per year). Further assume that the cost of shifting all of the land downwind to a new use unaffected by the pollution — growing timber instead of renting out summer resorts, say — is only \$50,000. If we impose an emission fee of a hundred thousand dollars a year, the steel mill stops polluting and the damage is eliminated — at a cost of \$80,000. If we impose no emission fee the mill keeps polluting, the owners of the land stop advertising for tenants and plant trees instead, and the problem is again solved — at a cost of \$50,000. In this case the result without Pigouvian taxes is efficient — the problem is eliminated at the lowest possible cost — and the result with Pigouvian taxes is inefficient.

Moving the victims may not be a very plausible solution in the case of air pollution; it seems fairly certain that even the most draconian limitations on emissions in southern California would be less expensive than evacuating that end of the state. But the problem of externalities applies to a wide range of different situations, in many of which it is far from obvious which party can avoid the problem at lower cost, and in some of which it is not even obvious which one we should call the victim.

Consider the question of airport noise. One solution is to reduce the noise. Another is to soundproof the houses. A third is to use the land near airports for noisy factories instead

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*The first step is to realize that an external cost is not simply a cost produced by the polluter and borne by the victim.*

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of housing. There is no particular reason to think that one of those solutions is always best. Nor is it entirely clear whether the "victim" is the landowner who finds it difficult to sleep in his new house with jets going by overhead or the airline forced by a court or a regulatory agency to adopt expensive

sound control measures in order to protect the sleep of people who chose to build their new houses in what used to be wheat fields — directly under the airport's flight path.

Consider a simpler case, where the nominal offender is clearly not the lowest cost avoider. The owner of one of two adjoining tracts of land has a factory, which he has been run-

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*Whichever party the blame is assigned to, by government regulators or by the courts, the result is likely to be inefficient.*

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ning for 20 years with no complaints from his neighbors. The purchaser of the other tract builds a recording studio on the side of his property immediately adjacent to the factory. The factory, while not especially noisy, is too noisy for something located two feet from the wall of a recording studio. So the owner of the studio demands that the factory shut down, or else pay damages equal to the full value of the studio. There are indeed "external costs" associated with operating a factory next to a recording studio — but the efficient solution is building the studio at the other end of the lot, not building the studio next to the factory and then closing down the factory.

So Coase's first point is that "externalities" are a joint product of "polluter" and "victim," and that a legal rule that arbitrarily assigns blame to one of the parties only gives the right result if that party happens to be the one who can avoid the problem at the lower cost. Pigou's solution is correct only if the agency making the rules already knows which party is the lower cost avoider. In the more general case, nothing works — whichever party the blame is assigned to, by government regulators or by the courts, the result is likely to be inefficient if the other party could prevent the problem at a lower cost.

One of the arguments commonly offered in favor of using Pigouvian taxes instead of direct regulation is that the regulator does not have to know the cost of pollution control in order to produce the efficient outcome — he just sets the tax equal to damage done, and lets the polluter decide how much pollution to buy at that price. But one of the implications of Coase's argument is that the regulator can only guarantee the efficient outcome if he knows enough about the cost of control to decide which party should be considered the polluter (and taxed) and which should be considered the victim.

### Everything Works

The second step in Coase's argument is to observe that, as long as the parties involved can readily make and enforce contracts in their mutual interest, neither direct regulation nor Pigouvian taxes are necessary in order to get the efficient outcome. All you need is a clear definition of who has a right to do what and the market will take care of the problem.

To see how that works, let us go back to the case of the steel mill and the resorts. Suppose first that the mill has a legal

right to pollute. In that case, as I originally set up the problem, the efficient result occurs immediately. The lowest cost avoiders are the owners of the land downwind; they shift from operating resorts to growing timber.

What if, instead, the legal rule is that the people downwind have a right not to have their air polluted? The result will be exactly the same. The mill could eliminate the pollution at a

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*When we observe market failure, we should ask not merely where the problem comes from, but what transaction costs prevent it from being bargained out of existence.*

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cost of \$80,000 a year. But it is cheaper to pay the landowners some amount, say \$60,000 a year, for permission to pollute. The landowners will be better off, since that is more than the cost to them of changing the use of the land, and the steel mill will be better off, since it is less than the cost of eliminating the pollution. So it will pay both parties to make some such agreement.

Now suppose we change the numbers in the example, to make pollution control the more efficient option — say lower its cost to \$20,000. In that case, whether or not the mill has the right to pollute, it will find that it is better off not polluting. If it has the right to pollute, the landowners will pay more than the \$20,000 cost of pollution control in exchange for a guarantee that it will not exercise its right. If it does not have the right to pollute, the most the steel mill will be willing to offer the landowners for permission to pollute is \$20,000, and the landowners will turn down that offer.

The generalization of this example is straightforward:

If transaction costs are zero — if, in other words, any agreement that is in the mutual benefit of the parties concerned gets made — then any initial definition of property rights leads to an efficient outcome.

It is this result that is sometimes referred to (by people other than Coase) as the “Coase Theorem.” It leads immediately to the final stage of the argument.

### **It All Depends (On Transaction Costs)**

Why is it, if Coase is correct, that we still have pollution in Los Angeles? One possible answer is that the pollution is efficient — that the damage it does is less than the cost of preventing it. A more plausible answer is that much of the pollution is inefficient, but that the transactions necessary to eliminate it are prevented by prohibitively high transaction costs.

Let us return to the steel mill. Suppose the mill has the right to pollute, but that doing so is inefficient — pollution control is cheaper than either putting up with the pollution or changing the use of the land downwind. Further suppose that there are a hundred landowners downwind.

With only one landowner, there would be no problem — he would offer to pay the mill for the cost of the pollution control equipment, plus a little extra to sweeten the deal. But a hundred landowners face what economists call a public good problem. If ninety of them put up the money and ten do not, the ten get a free ride — no pollution and no cost for pollution control. Each landowner has an incentive to refuse to pay, figuring that his payment is unlikely to make the difference between success and failure in the attempt to bribe the steel mill to eliminate its pollution. If the attempt is going to fail even with him, then it makes no difference whether or not he contributes. If it is going to succeed even without him, then refusing to contribute gives him a free ride. Only if his contribution makes the difference does he gain by agreeing to contribute.

There are a variety of ways in which such problems may sometimes be solved, but none that can always be expected to work. The problem becomes harder the larger the number of people involved. With many millions of people living in southern California, it is hard to imagine any plausible way in which they could voluntarily raise the money to pay all polluters to reduce their pollution.

This is one example of the sort of problem referred to under the general label of transaction costs. Another would occur if we reversed the assumptions, making pollution (and timber) the efficient outcome but giving the landowners the right to be pollution-free. If there were one landowner the steel mill could buy from him the right to pollute. With a hundred, the mill must buy permission from all of them. Any one has an incentive to be a holdout — to refuse his permission in the hope of getting paid off with a large fraction of the money the mill will save from not having to control its pollution. If too many landowners try that approach the negotiations will break down, and the parties will never get to the efficient outcome.

Seen from this perspective, one way of stating Coase’s insight is that the problem is not really due to externalities at all, but to transaction costs. If there were externalities but no

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*Bees may not respect property rights but they are, like people, lazy, and prefer to forage as close to the hive as possible.*

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transaction costs there would be no problem, since the parties would always bargain to the efficient solution. When we observe externality problems (or other forms of market failure) in the real world, we should ask not merely where the problem comes from, but what transaction costs prevent it from being bargained out of existence.

### **Coase, Meade, and Bees**

Ever since Coase published “The Problem of Social Cost,” economists unconvinced by his analysis have argued that the

Coase Theorem is merely a theoretical curiosity, of little or no practical importance in a world where transaction costs are rarely zero. One famous example was in an article by James Meade (who later received a Nobel Prize for his work on the economics of international trade).

Meade offered, as an example of the sort of externality problem for which Coase's approach offered no practical solution, the externalities associated with honey bees. Bees graze on the flowers of various crops, so a farmer who is growing crops that produce nectar benefits the beekeepers in the area. The farmer receives none of the benefit himself, so he has an inefficiently low incentive to grow such crops. Since bees cannot be convinced to respect property rights or keep contracts, there is, Meade argued, no practical way to apply Coase's approach. We must either subsidize farmers who grow nectar rich crops (a negative Pigouvian tax) or accept inefficiency in the joint production of crops and honey.

It turned out that Meade was wrong. In two later articles, supporters of Coase demonstrated that contracts between beekeepers and farmers had been common practice in the industry since early in this century. When the crops were producing nectar and did not need pollination, beekeepers paid farmers for permission to put their hives in the farmers' fields. When the crops were producing little nectar but needed pollination (which increases yields), farmers paid beekeepers. Bees may not respect property rights but they are, like people, lazy, and prefer to forage as close to the hive as possible.

### Coase, Property, and the Economic Analysis of Law

"The Problem of Social Cost" provides more than merely a revolutionary rethinking of the question of externalities. It also suggests a new and interesting approach to the problem of defining property rights.

A court in settling disputes involving property, or a legislature in writing a law code to be applied to such disputes, must decide just which of the rights associated with land are included in the bundle we call "ownership." Does the owner have the right to prohibit airplanes from crossing his land a mile up? How about a hundred feet? How about people extracting oil from a mile under the land? What rights does he have against neighbors whose use of their land interferes

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*It seems simple to say that we should have private property in land, but ownership of land is not a simple thing.*

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with his use of his? If he builds his recording studio next to his neighbor's factory, who is at fault? If he has a right to silence in his recording studio, does that mean that he can forbid the factory from operating, or only that he can sue to be reimbursed for his losses? It seems simple to say that we should

have private property in land, but ownership of land is not a simple thing.

The Coasian answer to this set of problems is that the law should define property in such a way as to minimize the costs associated with the sorts of incompatible uses we have been discussing — factories and recording studios, or steel mills and resorts. The first step in doing so is to try to define rights

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*Coase demonstrated that what everyone else thought was the correct analysis of the problem of externalities was wrong.*

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in such a way that, if right A is of most value to someone who also holds right B, they come in the same bundle. The right to decide what happens two feet above a piece of land is of most value to the person who also holds the right to use the land itself, so it is sensible to include both of them in the bundle of rights we call "ownership of land." On the other hand, the right to decide who flies a mile above a piece of land is of no special value to the owner of the land, hence there is no good reason to include it in that bundle.

If, when general legal rules were being established, we somehow knew, for all cases, what rights belonged together, the argument of the previous paragraph would be sufficient to tell us how property rights ought to be defined. But that is very unlikely to be the case. In many situations a right, such as the right not to have noises of more than X decibels made over a particular piece of property, may be of substantial value to two or more parties — to the owner of the property and the owner of the adjacent factory in my earlier example. There is no general legal rule that will always assign it to the right one.

In this case, the argument underlying the Coase Theorem comes into play. If we assign the right initially to the wrong person, the right person, the one to whom it is of most value, can still buy it. So one of the considerations in the initial definition of property rights is doing it in such a way as to minimize the transaction costs associated with fixing, via private contracts, any initially inefficient definition.

An example may make this clearer. Suppose that, in the pollution case discussed earlier, damages from pollution are easy to measure and the number of people downwind is large. In that case, the efficient rule is probably to give downwind landowners a right to collect damages from the polluter, but not a right to forbid him from polluting. Giving the right to the landowners avoids the public good problem that we would face if the landowners (in the case where pollution is inefficient) had to raise the money to pay the steel mill not to pollute. Giving them a right to damages rather than giving each landowner the right to an injunction forbidding the steel mill from polluting avoids the holdout problem that the mill would face (in the case where pollution is efficient) in buying

permission from all of the landowners.

A full explanation of how Coase's argument can be applied to figuring out what the law ought to be (more precisely, what legal rules lead to the best outcome from the standpoint of economic efficiency) would require a much longer article — perhaps a book. I hope I have said enough to make clear the basic idea, and enough to show the unique and extraordinary nature of one of Ronald Coase's principal contributions to economics. He started with a simple insight, based in part on having read cases in the common law of nuisance — the branch of law that deals with problems such as noisy factories next door to recording studios. He ended by demonstrating that what everyone else in the profession thought was the correct analysis of the problem of externalities was wrong, and, in the process, opening up a whole new approach to the use of economics to analyze law.

There is at least one more thing worth saying about "The Problem of Social Cost." Economists, then and (to some degree) now, tend to jump from the observation that the market produces an inefficient result in some situations to the conclusion that the government ought to intervene to fix the problem. Part of what Coase showed was that, for some problems, there is no legal rule, no form of regulation, that will

generate a fully efficient solution. He thus anticipated public choice economists, such as James Buchanan (another Nobel winner), in arguing that the real choice was not between an inefficient market and an efficient government solution but rather among a variety of inefficient alternatives, private and governmental. In Coase's words: "All solutions have costs and there is no reason to suppose that government regulation is called for simply because the problem is not well handled by the market or the firm." □

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## Reflections, from page 16

of behavior and the punitive actions of government based on it. I am a feminist who left the Democratic Party over, among other things, the treatment by feminists of Clarence Thomas — a black man who allegedly harassed Anita Hill with a sexist joke, and was reduced by compassionate civil rights activists to lying on the floor in a fetal position. And I left the feminist-Democrats behind because of a trial in Pittsburgh of a bar owner who was victimized beyond belief because a waitress was harassed in his business, and it was decided that the owner "should have known" — never mind that he had no way to have known.

I was a civil rights activist who left the Democratic Party because of its indulgence of black crime — which is what Willie Horton meant to us disaffected ones. I recently read Paul Krugman's book "The Conscience of a Liberal," and he blames the red-blue division in this country on a single factor: race. He uses the Horton episode as an example of racist propaganda without ever looking at why Horton became such an icon. The reason was the seeming tolerance of black criminals by liberals, civil rights activists, and feminists. Black anger is viewed by liberals as acceptable, while white anger at blacks such as Horton and O.J. Simpson is viewed as racist.

When Obama talks about slavery and gun manufacturers who "dump guns into our cities" and which white guys should be fired for their sins, we hear the same old civil rights harangues, as performed by Al Sharpton and Jesse Jackson, the same old shakedown, the same expected apologies and demands. For the young who think that this is new or that Obama represents change — they just haven't been around long enough to hear it all before. If Obama transcended race, what in the world was he doing in Rev. Wright's church?

— Sarah J. McCarthy

*To the confessional* — Left-leaners in the main-

stream media think supporters of the market are religious zealots. You can tell it in their choice of words. They use terms like "free-market gospel" with a kind of rhetorical giggling, but they never say "regulatory gospel" or "universal-coverage gospel" or "welfarist gospel." To them, Ron Paul offers a "gospel"; Barack Obama offers "hope" or a "new face," or some such. But not a gospel.

An example of this rhetoric came on April 13 in *The New York Times* in a piece by Peter S. Goodman entitled, "A Fresh Look at the Apostle of Free Markets." Its thesis was that the subprime-mortgage meltdown dethrones the belief in markets.

First there was the religious word, "apostle," in the title. Probably it was an editor's word, responding to the rhetorical aroma of the reporter's story. High up in the story were the religious words "commandments," "evangelist," and "keeper of the flame." The story called Milton Friedman a "godfather" and recalled when he had been "in the wilderness." It called Alan Greenspan an "acolyte." It talked about the belief in market "magic." It did not use the word "gospel," but others have made much of the phrase, "free-market gospel."

These are sneer words, from an implicitly antireligious view. Basically the reporter is saying, in an ostensibly non-editorial news feature, that he thinks belief in the value of free markets is a superstition.

— Bruce Ramsey

**Free Susan LeFevre!** — On April 24, U.S. marshals arrested Marie Walsh, a resident of San Diego's Carmel Valley, on a Michigan escape warrant. It seems Ms. Walsh is one Susan LeFevre, a fugitive for no less than 32 years. The facts of her case are as follows.

In 1974, when she was 19 years old, Walsh-LeFevre was convicted of heroin possession and sentenced to 10–20 years in prison. According to Ms. Walsh's account, she became

*continued on page 52*

# The American Revolution: Right or Wrong?

*by Ronald Hamowy*

Among the intellectuals, the American  
Revolution was often a very hard sell.

Libertarians ordinarily recognize the American Revolution as a great intellectual as well as a great political event. It may be hard for us, however, to put ourselves in the position of the original witnesses of the Revolution and understand the complexity of their reactions. Even in Scottish intellectual circles, which had long been favorable toward ideas of liberty and had, indeed, helped to inspire American revolutionary thought, the Revolution found opposition as well as support.

An exploration of the various ways in which the Revolution was viewed in these circles shows the challenge it presented to political and moral thought.

For some time following the end of Britain's war with France in 1763 and the increasingly comprehensive claims leveled by the colonists against the Crown, the Scottish public was riveted by the news from the American colonies, especially after the first shots of the Revolution sounded on Lexington Green in 1775. A substantial proportion of Scots were involved in and benefitted from the Atlantic trade,<sup>1</sup> and wished for nothing better than a continuation of smooth relations with the colonies, on which the economic welfare of many Scots depended.<sup>2</sup>

Once hostilities broke out, newspaper circulation in Scotland increased dramatically. The success or failure of

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a periodical often depended on its coverage of events in America.<sup>3</sup>

The economic relationship between Scotland and America in the last quarter of the century was such that a good proportion of Scots supported the British government in its attempt to reestablish connections with the colonies. This held for almost all Scottish members of Parliament<sup>4</sup> and most, but by no means all, of Scotland's prominent intellectuals. But while the general population identified continued prosperity with a continuation of the status quo in America's relations with Great Britain, intellectuals held more diverse ideas, reflecting their distinct political philosophies.

Scottish members of Parliament appear to have been close to unanimity in endorsing the government's proposals to tax the colonies and impose conditions under which Americans

could engage in trade. The one crucial exception was George Dempster, who represented Perth Burgh from 1761 to 1790. He was an outspoken defender of the American position throughout the crisis and concluded that the colonists' claims

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*Dempster concluded that the colonists' claims were both "just and well-founded."*

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were both "just and well-founded." He opposed the closing of the Port of Boston and was outraged that the government had embarked on a policy of transferring Americans to England for trial, maintaining that this constituted a clear breach of the traditional rights of Englishmen.

By 1778, he regarded reconciliation with the colonies as impossible and became a firm adherent of American independence. What is surprising about Dempster's views is not their radicalism — in this he was joined by a not inconsiderable number of Britons — but that he was and remained a close friend of Adam Ferguson and Alexander Carlyle, both of whom endorsed measures sufficiently harsh to bring America to heel.

My chief concern, however, is with the views of three of Scotland's greatest thinkers, Adam Smith, David Hume, and Ferguson himself, on the justice of American separation. I should emphasize that any support they might have had for the validity of the position of the Crown and Parliament in their arguments with the colonists by no means entailed support for all decisions of the British government in its conduct of the war. All three thinkers opposed specific policies and became increasingly critical as the war progressed and as British forces were incapable of achieving a decisive victory. Indeed, Smith, Hume, and Ferguson held a variety of opinions about the proper relation between the Crown and its colonies from the start.

Of the three, Hume was most favorable to the colonial cause. He strongly opposed passage of the Stamp Act (1765) and supported William Pitt's call for repeal. Yet he feared, with some justification, that Pitt's speech in Parliament on behalf of the colonists in January 1766 would only encourage the Americans to push their demands even further. Nor did he embrace Pitt's sweeping conclusion that as subjects the American colonists were entitled to representation in Parliament and could not be impelled to pay taxes without their consent.<sup>5</sup> By 1768, however, his views on American independence had hardened. He is reported to have said that he longed to see America totally in revolt.<sup>6</sup>

By 1775, he had so identified with the American cause that he maintained that he shared the same principles and wished for nothing more than that "we would leave them alone either to govern or misgovern themselves as they think proper."<sup>7</sup>

When assessing Hume's political judgments we would do well to keep in mind that his support for the colonial cause was in no way predicated on the natural law arguments put forward by so many American writers and most eloquently by Thomas Jefferson in the Declaration of Independence. He

firmly rejected the notion that men possessed rights prior to the establishment of civil society and that government was the product of a social contract and universal consent, principles that by 1776 had been fervently embraced by most Americans.

While some of the founders, particularly James Madison, who had studied Hume when a student of John Witherspoon's at the College of New Jersey, continued to esteem Hume's political works as both discerning and profound, Hume's rejection of Lockean principles was regarded with a measure of bitterness by Jefferson. Indeed, Jefferson's animus toward Hume appears to have grown as he got older.<sup>8</sup> In writing of Great Britain in 1807, Jefferson noted that "there is . . . no general history of that country which can be recommended. The elegant one of Hume seems intended to disguise and discredit the good principles of the government, and is so plausible and pleasing in its style and manner as to instill its errors and heresies insensibly into the minds of unwary readers."<sup>9</sup> Jefferson was particularly exercised by what he took to be Hume's characterization of the depredations of the Tudor monarchs as "genuine samples of the constitutional power of the crown."<sup>10</sup>

Jefferson's assessment is to some degree unfair. It is true that Hume describes Charles I's efforts when he ascended the throne in 1625 as aimed at avoiding a confrontation with Parliament, nor was he prepared to paint the Stuarts as reviled tyrants bent on enslaving their subjects. But he was by no means an unconditional supporter of the Crown. For example, he closes his discussion of the Stuarts with these words:

Through the course of four reigns, a continual struggle maintained between the crown and the people: Privilege and prerogative were ever at variance: And both parties, beside the present object of dispute, had many latent claims, which, on a favourable occasion, they produced against their adversaries. Governments too steady and uniform, as they are seldom free, so are they, in the judgment of some, attended with another sensible inconvenience: They abate the active powers of men; depress courage, invention, and genius; and produce an universal lethargy in the people. Though this opinion may be just, the fluctuation and contest, it must be allowed, of the English government were, during these reigns, much too violent both for the repose and safety of the people.<sup>11</sup>

That Hume rejected the principal ideological arguments put forward by the American revolutionists did not stand in the way of his supporting the colonists' efforts to achieve independence. This should not surprise anyone familiar with his essays, since at one point he noted that despite how free the mother country might be, its treatment of its provinces will almost certainly be oppressive.<sup>12</sup> Nor did Hume believe that, in the unlikely event that Britain was successful in subduing America, it could effectively garrison the area or impose its will on the colonists without first establishing a tyranny.<sup>13</sup> He concluded:

Let us, therefore, lay aside all anger; shake hands, and part friends. Or if we retain any anger, let it only be against ourselves for our past folly.<sup>14</sup>

Like Hume, Ferguson opposed the Stamp Act as politically inept, but this was about as far as his sympathies with America went. His good friend James MacPherson had written

a pamphlet against America's claims in 1775,<sup>15</sup> and Ferguson wrote him that he never had any doubts about the rights of Parliament in its confrontation with the colonies.<sup>16</sup>

His opposition to the colonial cause, coupled with his reputation as a moral philosopher and his popularity among educated Americans, led the British government to approach Ferguson in January of the following year, asking that he publish in support of the government, in return for which service he would be awarded an annual grant of £200 for life. This was a very substantial sum. Apparently it was sufficient inducement for him to issue an immediate defense of the Crown in the form of an attack on Richard Price's justification of the American rebellion.

Price's "Observations on the Nature of Civil Liberty, the Principles of Government, and the Justice and Policy of War with America" made its appearance in February 1776 and was an immediate success. Several thousand copies were sold within a few days of publication, 60,000 by the close of the year. Price defended America in its controversies with the Crown since their inception. Indeed, he regarded the cause of the colonies as the cause of all free Englishmen and saw in colonial resistance the best hope that freedom would be preserved in Britain. He maintained that in fighting the English battle for liberty, the colonists were preserving a future asylum for people seeking freedom.<sup>17</sup>

Like John Locke, he held that political authority derived and, indeed, can only derive, from the people. Men have no more natural obligation to obey their government than they do their neighbor.

The obligation to conform to the dictates of the civil magistrate stems solely from the freely extended consent of the person governed, without which one cannot become the subject of another or be constrained by a law not of one's making. Price goes even further than Locke in maintaining that men, once having left the state of nature, retain ultimate sovereignty over the form and style of government, which is never surrendered and remains in the keeping of those who are governed.

Price's essay was regarded as so significant a challenge both to the government's position on America and to the arguments put forward by those who accepted the authority of Parliament to tax the colonies that it gave birth to a profu-

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*Ferguson believed that the colonists' arguments resulted from baseless political presuppositions.*

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sion of responses, among them Edmund Burke's "Letter on the Affairs of America"<sup>18</sup> and Adam Ferguson's "Remarks on a Pamphlet Lately Published by Dr. Price."<sup>19</sup> Ferguson regarded the American position on taxation as without merit. The notion that England should underwrite the costs of garrisoning an army in North America to protect the colonists while being blocked from taxing the beneficiaries of this policy struck him as nonsensical. Having received the benefits of

subjects, he argued, the colonists had the duties of subjects. It is true, he contended, that England had profited from its trade with America, but this held equally true of America in its trade with the mother country. Indeed, the laws of nature clearly provided that one body politic could legally submit itself to

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*Price saw in colonial resistance the best hope that freedom would be preserved in Britain.*

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the authority of and to contribute to the supplies of another, as was the case, Ferguson maintained, with the American colonies in their relation with the Parliament of Great Britain.

Despite his lack of sympathy for the colonial cause, the political philosophy that underpinned Ferguson's attack on Price was far closer to that put forward by Hume than to that of Locke. Ferguson rejected the notion that civil society and government are artifacts, creations of some original contract whereby free and equal beings living independently in some natural state devoid of political authority came together to confer their natural rights and powers on a newly-designated sovereign.

Committed to approaching the study of man and society scientifically, that is, to describing man as he is actually observed, Ferguson rejected the notion of "man in the state of nature," in the sense of man before the advent of society. "Mankind are taken in groupes," he wrote, "as they have always subsisted." The idea that society is coeval with man is confirmed by the fact that the individual is the bearer of social dispositions and that regardless of where we find man, we find him gathered together with others.<sup>20</sup>

Ferguson rejected the social contract theory as a valid account of the origins of government, using many of the same arguments earlier offered by Hume.<sup>21</sup> Formal rules, enforceable by a permanent political institution, emerge, claimed Ferguson, not from the desire to create a stronger social union, but in response to the abuses that arise from an imperfect distribution of justice. He held that a system of formal political arrangements did not rest on consent but was gradually shaped to meet the interests of justice with respect to securing private property.<sup>22</sup> It is a useless analytical tool, he claimed, to posit the idea of universal consent to what was, in fact, the gradual emergence of formalized rules of action that took their origin in earlier modes of behavior.

While Hume was prepared to support the American cause on prudential grounds, Ferguson believed that the arguments put forward by the colonists resulted from baseless political presuppositions and that their justifications of rebellion were dangerous. Ferguson was particularly agitated by Price's position on rights, which he regarded as especially pernicious.

Ferguson's position most clearly emerges when he juxtaposes Price's appeal to the concept of natural universal rights with the historical obligations and privileges that in law determine the relation of the colonists to Great Britain. "The Doctor is pleased to say," Ferguson writes, "that the question of right, with all liberal inquirers, ought to be, not what jurisdiction

over them, precedents, statutes, and charters give, but what reason and equity, and the rights of humanity give."<sup>23</sup>

Ferguson expressed amazement at this approach to politics, which, he felt, could only lead to expressions of private interest, depriving people of the landmarks provided by prec-

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*Ferguson wrote of his hope that the British forces would inflict on the colonists "a sound drubbing."*

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edents, statutes, and charters. In any case, Ferguson did not regard liberty as dependent on the presence of abstract rights. Rather, the crucial determinant of a free society was the stability of institutions that guarantee our ability to enjoy rights.

As the war continued, Ferguson's attitudes against America hardened. In October 1777 he wrote MacPherson of his hope that the British forces would inflict on the colonists "a sound drubbing." Despite this, he supported the ultimate removal of a victorious British army; the Americans simply were not worth the costs of garrisoning the colonies:

I protest that if we had news to morrow that Howe had beat Washington . . . the use I would make of it would be to leave America with contempt. For it looks as if no Calamity would force them to Submission & if it did their Submission is not worth haveing. Their whole resource for any Visi[ble] time to Come will not pay the Army that kel[eps] them in Submission. So I am partial enough to Great Britain to wish them to the bottom of the Sea.<sup>24</sup>

While Ferguson's political sympathies were decidedly Whiggish, it is likely that his views on American independence were shaped in part by considerations of the economic loss that would likely follow a change in Scottish commercial relations with the colonies. More important, Ferguson saw no diminution in the liberties of Scotsmen in the wake of the Act of Union of 1707, joining the Kingdom of Scotland with the Kingdom of England.

In this he reflected the votes cast by most Scottish members of Parliament, who regarded the arguments put forward by the British government as constitutionally correct. Though he agreed with Hume that the government's colonial policy was doomed to failure, he regarded the Americans' intellectual position as fallacious.

In the fall of 1777, General John Burgoyne, who had led an invasion force from Canada with the intention of linking up with the British army in New York City, suffered a decisive defeat at Saratoga. On October 17, Burgoyne and his whole army surrendered to General Horatio Gates. The news of Burgoyne's defeat caused a sensation across the Atlantic. The French government set in train formal diplomatic efforts to recognize America's independence. The British government, in an effort to be as conciliatory as possible, abruptly reversed its policies. In February, Lord North's administration introduced bills in Parliament repealing all acts passed since 1763 of which the colonies had complained. At the same time a commission was struck whose purpose was to enter into negotia-

tions with the Americans to grant the colonies anything they wished<sup>25</sup> provided they remain loyal to the Crown.

The commissioners were appointed by George III, who had little hope for their success. As the Commission's head, the Crown appointed Frederick Howard, fifth Earl of Carlisle; the membership comprised William Eden (later Lord Auckland), a close friend of Lord North, and George Johnstone, who had been appointed the first governor of West Florida in 1763.<sup>26</sup> It was Johnstone, an old friend of Ferguson's, who was responsible for inviting him to accompany the Commission to America.<sup>27</sup> Now the political thinker was on the scene.

Upon arriving at Philadelphia, which had been occupied by the British, in June 1778, the Commission appointed Ferguson its secretary and immediately attempted to enter into negotiations with several members of Congress.<sup>28</sup> These proved a complete failure, nor was the Commission any more successful in prevailing upon Washington to grant Ferguson a passport through the American lines to treat directly with Congress itself.<sup>29</sup> Having been defeated at reaching agreement with the colonies short of recognizing their independence and withdrawing all British troops, the Commission returned home in late 1778. Ferguson continued to occupy himself with Commission business until the spring of the following year, at which point he resumed his chair at the University.<sup>30</sup>

Ferguson's six months in the colonies had not softened his views. Indeed, if the Manifesto and Proclamation issued by the Conciliation Commission in October 1778, of which Ferguson was one of the authors,<sup>31</sup> is any indication, his animus toward the colonists had deepened after America's alliance with France — a nation, it was argued, that traditionally opposed freedom of conscience and held religious toleration, which Englishmen took for granted, in contempt.<sup>32</sup> A treaty with France, the Manifesto observed, would convert the existing hostilities between those sharing a common heritage into a world struggle. In light of this, it went on, self-preservation would justify England's destruction of the colonies.<sup>33</sup>

Thomas Paine was especially offended by the Manifesto's claim that France was the "natural enemy" of both England and America and devoted a good part of "The Crisis," no. 6, to criticizing Ferguson for his use of the notion "natural enemies," which Paine characterized as a meaningless barbarism.<sup>34</sup>

Unlike Ferguson, Adam Smith had sympathies with American demands, although as one historian has pointed

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*Adam Smith's views on the American colonies were intimately linked to his conclusions respecting free trade.*

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out, he was not "indifferent to the fate of the British Empire."<sup>35</sup> His views on the American colonies were intimately linked to his conclusions respecting free trade and the benefits of the international division of labor. He had outlined his position on the treatment of colonies in Part IV, chapter 7 of the "Wealth of Nations," which coincidentally appeared in the

same year as the Declaration of Independence. Despite the fact that he despaired of the British government's following his recommendations, he urged that Britain "give up all authority over her colonies, and leave them to elect their own magistrates, to enact their own laws, and to make peace and war as they might think proper."<sup>36</sup> Were the American colonies to be accorded their independence, he continued:

Great Britain would not only be immediately freed from the whole annual expence of the peace establishment of the colonies, but might settle with them such a treaty of commerce as would effectually secure to her a free trade, more advantageous to the great body of the people, though less so to her merchants, than the monopoly which she at present enjoys.

And, in what must be regarded as a particularly prescient observation respecting the relation between Britain and America, Smith concluded:

[Their independence] might dispose them not only to respect, for whole centuries together, that treaty of commerce which they had concluded with us at parting, but to favor us in war as well as in trade, and, instead of turbulent and factious subjects, to become our most faithful, affectionate, and generous allies.<sup>37</sup>

Smith's sentiments about America received a mixed reception, although on the whole favorable.<sup>38</sup> Hugh Blair, Regius Professor of Rhetoric and Belles-Lettres at Edinburgh, regarded them as reflecting too transient a concern to be included in a treatise on political economy,<sup>39</sup> but William Robertson, the noted historian and Principal of Edinburgh University, found that Smith's support for freeing the colonies from the restrictions imposed on them by Britain's mercantilist policies accorded with his own views.<sup>40</sup>

Despite Smith's recommendations, however, he despaired that the government would soften its policies after the outbreak of hostilities appears to have borne out his concerns. In June 1776 he wrote to the publisher William Strahan:

The American campaign has begun awkwardly. I hope I cannot say that I expect it will end better. England, though in the present times it breeds men of great professional abilities in all different ways, great lawyers, great watchmakers and clockmakers, etc., etc., seems to breed neither statesmen nor generals.<sup>41</sup>

Smith's attempts to influence government policy on colonial issues dated back to at least 1766, when Lord Shelburne, then Secretary of State for the Southern Department in the Pitt Administration, determined to alter the British policy that restricted colonial expansion west of the Alleghenies, on the ground that the increased resources that were likely to follow would benefit both America and Britain. Shelburne's arguments in support of freer trading policies and the removal of crippling controls on the colonial economy were heavily influenced by Smith. Yet his conciliatory policies were dismissed by the administration, and Shelburne himself later adopted an uncompromising position.<sup>42</sup>

Neither these early efforts to inspire a more conciliatory attitude nor the powerful arguments that Smith advanced in the "Wealth of Nations" appear to have had any immediate effect. When events in America turned decisively against the British in the fall of 1777, however, the North administration solicited Smith, among a number of others, to submit his

recommendations on future relations with the colonies. As a consequence, Smith wrote a brief memorial on "The State of the Contest with America," which appears to have been first uncovered in 1933.<sup>43</sup> He there notes that of the various ways in which the conflict between Britain and the colonies might end, the best conclusion for both parties would be a treaty under which the colonies would remain in the empire on the basis of equality. He writes:

If the complete submission of America was brought about altogether by treaty, the most perfect equality would probably be established between the mother country and her colonies; both parts of the empire enjoying the same freedom of trade and sharing in their proper proportions both in the burden of taxation and in the benefit of representation. No expensive military force would, in this case, be necessary to maintain the allegiance of America. The principal security of every government arises always from the support of those whose dignity, authority and interest, depend upon its being supported. But the leading men of America, being either members of the general legislature of the empire, or electors of those members, would have the same interest to support the general government of the empire, which the Members of the British legislature and their electors have at present to support the particular government of Great Britain. The necessary mildness of such a government, so exactly resembling that of the mother country, would secure the continuance of the prosperity of the colonies. They would be able to contribute more largely; and being taxed by their own representatives, they would be disposed to contribute more willingly.<sup>44</sup>

Smith's prescriptions came to nought, as did Ferguson's. Hume alone, having determined that independence was inevitable sooner or later,<sup>45</sup> appears to have understood that the American colonies had become a nation that could no longer endure colonial status. □

#### Notes

1. Much of Scotland's newly acquired wealth rested on the trade in tobacco, which was responsible for creating a group of wealthy merchants in Glasgow, known as the Tobacco Lords. So substantial was their control of the tobacco trade that in 1747 the French government awarded Glasgow a monopoly on the supply of tobacco to France. Scottish ships were heavily involved in a three-way trade, sailing from Scotland to Africa, where they loaded slaves bound for the West Indies and America, and returning to Scotland with sugar and tobacco. For an overview of the effects of the American Revolution on the Scottish economy, see John Butt, "The American War of Independence and the Scottish Economy," in O. Dudley Edwards and George Shepperson, eds., "Scotland, Europe and the American Revolution" (New York: St. Martin's, 1976) 57-65.
2. For a discussion of how extensive was the support for strong government measures against the the rebellious colonists, see Eliga H. Gould, "American Independence and Britain's Counter-Revolution," *Past and Present* 154 (1997): 107-141, and the bibliography cited in footnote 6 (p. 110).
3. Dalphy I. Fagerstrom, "Scottish Opinion and the American Revolution," *William and Mary Quarterly*, 3rd ser., 11(April 1954) 252.
4. One historian wrote of Scotland that it "perhaps came nearest to unanimity on the American issue" in its support for British attempts to suppress the rebellion in the colonies. Stephen Conway, "The British Isles and the War of American Independence" (Oxford: Oxford University Press, 2000) 133.
5. Pitt's speech is transcribed in full in John Almon, "Anecdotes of the Life of the Rt. Hon. William Pitt, Earl of Chatham," (London: 1792) I: 295-299.
6. John M. Werner, "David Hume and America," *Journal of the History of Ideas* 33 (July-September, 1972) 445.
7. Hume to Baron Mure of Caldwell of October 27, 1775 in J. Y. T. Greig, ed., "The Letters of David Hume" (Oxford: Clarendon Press, 1932) 303.
8. For a discussion of Jefferson's reaction to Hume, see Mark G. Spencer,

- "David Hume and Eighteenth Century America" (Rochester: University of Rochester Press, 2005) 251–259.
9. Jefferson to John Norvell of June 14, 1807, in "Thomas Jefferson: Writings," Merrill Peterson, ed. (New York: Literary Classics of the U.S., 1984) 1176–1177.
  10. Jefferson to William Duane of August 12, 1810, "Jefferson: Writings" 1228.
  11. David Hume, "The History of England from the Invasion of Julius Caesar to The Revolution of 1688" (Indianapolis: LibertyClassics, 1983): 6: 530–531.
  12. "Though free governments have been commonly the most happy for those who partake of their freedom; yet are they the most ruinous and oppressive to their provinces." David Hume, "That Politics May be Reduced to a Science," "Essays Moral, Political and Literary" (Indianapolis: LibertyClassics, 1987) 18–19.
  13. "Arbitrary power," he wrote, "can extend its oppressive arm to the antipodes; but a limited government can never long be upheld at a distance, even where no disgusts have intervened: Much less, where such violent animosities have taken place. We must, therefore, annul all the charters; abolish every democratical power in every colony; repeal the Habeas Corpus Act with regard to them; invest every Governor with full discretionary or arbitrary powers; confiscate the estates of all the chief planters; and hang three fourths of their clergy. To execute such acts of destructive violence twenty thousand men will not be sufficient; nor thirty thousand to maintain them, in so wide and disjointed a territory" (Hume to William Strahan of October 26, 1775, in Grieg, ed., "Letters of David Hume" 2: 300–301.)
  14. *Ibid.* 301.
  15. James MacPherson, "The Rights of Great Britain asserted against the Claims of America; being an Answer to the Declaration of the General Congress" (London: Printed for T. Caddell, 1775).
  16. Ferguson to John Home, Edinburgh, January 27, 1776 (No. 83), in Vincenzo Merolle, ed., "The Correspondence of Adam Ferguson" (London: William Pickering, 1995) I:134.
  17. Carl B. Cone, "Torchbearer of Freedom: The Influence of Richard Price on Eighteenth Century Thought" (Lexington, KY: University of Kentucky Press, 1952) 73.
  18. Edmund Burke, "A Letter from Edmund Burke, Esq., one of the representatives in Parliament for the City of Bristol, to John Farr and John Harris, Esqrs., Sheriffs in that City, on the Affairs of America" (Bristol: Printed by William Pine, 1777).
  19. "Remarks on a Pamphlet Lately Published by Dr. Price, Intituled Observations on the Nature of Civil Liberty, the Principles of Government, and the Justice and Policy of the War With America, etc., In a Letter from a Gentlemen in the Country to a Member of Parliament" (London: William Strahan, 1776).
  20. Adam Ferguson, "An Essay on the History of Civil Society," Fania Oz-Salzberger, ed. (Cambridge Texts in the History of Political Thought; Cambridge: Cambridge University Press, 1995) 4.
  21. Hume's critique of the state of nature and of a social contract can be found in his "Treatise of Human Nature," L. A. Selby-Bigge, ed. (2nd ed.; Oxford: Clarendon Press, 1978) 534–9.
  22. Ferguson, Essay, I: 22–6. The notion that government itself, far from being the product of conscious design, took its form gradually and without deliberate intent has led one commentator to refer to Ferguson's rejection of the social contract as the boldest attack on the contractarian theory of political obligation that had been made up to that time (Hermann Huth, "Soziale und Individualistische Auffas-sung im 18. Jahrhundert, vomehmlich bei Adam Smith und Adam Ferguson," Staats-und Sozialwissenschaftliche Forschungen [Leipzig: Duncker & Humblot, 1907] 46).
  23. Adam Ferguson, "Remarks on a Pamphlet Lately Published by Dr. Price, Intituled Observations on the Nature of Civil Liberty, the Principles of Government, and the Justice and Policy of the War With America, etc. . . ." (London: Printed for T. Caddell, 1776) 16.
  24. Ferguson to John MacPherson, October 27, 1777 (No. 100), in "Ferguson Correspondence" 156.
  25. The principal exceptions centered on responsibility for the redemption of colonial paper money and assuming the financial burden undertaken by the colonies in the war.
  26. It appears that Lord Shelburne had given serious thought to offering the post to Ferguson after Johnstone had returned to England in 1766. Jane Fagg, "Biographical Introduction," in "Ferguson Correspondence" I:xi.
  27. Johnstone had entered Parliament following his tenure as governor of West Florida and, over the course of the next decade, had been an outspoken defender of the American cause. Ferguson's biographer recounts that Johnstone was encouraged by others to choose Ferguson as a companion in part because of Johnstone's hotheadedness, which, it was felt, would be moderated by Ferguson's more temperate disposition. Jane Fagg, "Biographical Introduction," in "Ferguson Correspondence" I:ii.
  28. The Commission's official letter to Congress was accompanied by personal notes from both Eden and Johnstone warmly commending Ferguson. Eden referred to the favorable reception to which Ferguson was entitled by virtue of his eminence in the literary world (Eden to Washington, June 9, 1778, in Benjamin Franklin Stevens, ed., "Stevens's Facsimiles of Manuscripts in European Archives Relating to America, 1773–1783" [London: printed by Malby & Sons, 1889–1895] 5:401, facsimile 498), while Johnstone's letter was even more generous. "I beg to recommend to your private civilities my friend Dr. Ferguson," he wrote. "He has been engaged from his early life, in inculcating to mankind the virtuous principles you practise" (Johnstone to Washington, June 10, 1778, in Jared Sparks, ed., "Correspondence of the American Revolution . . ." [Boston: Little, Brown, 1853] II:136).
  29. There are good reasons to explain the colonists' refusal to treat with the Commission. The United States had just entered a treaty of alliance with France and it was clear that there were deepening divisions in Parliament regarding America. Washington was particularly adamant that the Commission's terms be rejected out of hand. Finally, with respect to the Commission's Secretary, one is tempted to speculate that Washington was familiar with Ferguson's rejoinder to Price's essay and, as a result, was especially ill-disposed towards the writer.
  30. Extensive discussions of the Carlisle Commission appear in Weldon A. Brown, "Empire or Independence: A Study in the Failure of Reconciliation, 1774–1783" (Baton Rouge, LA: Louisiana State University Press, 1941); 244–92, and Carl Van Doren, "Secret History of the American Revolution" (Garden City, N.Y.: Garden City Publishing Co., 1941) 63–116.
  31. Jane Fagg, "Biographical Introduction," in "Ferguson Correspondence" I: liii.
  32. The Commission sought to remind the clergy that "the foreign power with which the Congress is endeavouring to connect them has ever been averse to toleration." Van Doren, "Secret History" 112–113.
  33. Brown, "Empire or Independence" 284–285.
  34. Thomas Paine, "The Crisis," No. 6 [October 20, 1778], in Paine, "Collected Writings" (New York: Library of America, 1995) 186–190.
  35. E.A. Menians, "Adam Smith's Project of an Empire," Cambridge Historical Journal 1 (1925).
  36. Adam Smith, "An Inquiry into the Nature and Causes of the Wealth of Nations," W. E. Todd, ed., Glasgow Edition of the Works and Correspondence of Adam Smith (Oxford: Oxford University Press, 1976) 2:616.
  37. *Ibid.* 2:617.
  38. It is not surprising that one notable exception to Smith's views was that of Alexander Wedderburn, the Lord Chancellor and indefatigable opponent of colonial claims, who wrote Smith soon after the publication of the "Wealth of Nations" that "your reflections a month ago upon the bad advices from America are all confuted by the favourable accounts lately received, which prove that our preparations have been seasonable, our plans wise and the execution of them in all departments of government active and vigorous" — Letter to Adam Smith, June 6, 1776, in William Robert Scott, "Adam Smith as Student and Professor" (Glasgow: Jackson, Son & Co., 1937) 269. Wedderburn's letter was written after General Howe was forced to evacuate Boston and retreat to Halifax, Nova Scotia!
  39. Letter to Adam Smith, April 3, 1776, in Ernest Campbell Mossner and Ian Simpson Ross, eds., "Letters of Adam Smith," Glasgow Edition of the Work and Correspondence of Adam Smith (Oxford: Oxford University Press, 1977) 187.
  40. Letter to Adam Smith, April 8, 1776, in *ibid.* 192.
  41. Letter to William Strahan, June 3, 1776, in *ibid.* 196.
  42. John Derry, "English Politics and the American Revolution" (London: Dent, 1976) 151–152.
  43. G. H. Guttridge, "Adam Smith on the American Revolution: An Unpublished Memorial," American Historical Review 38 (1933) 714–720.
  44. *Ibid.* 716–717.
  45. John Rae, "Life of Adam Smith" (London: Macmillan and Co., 1895) 281.

# The Books of Summer

Each year at this time, Liberty invites a number of interesting people to recommend books that they find interesting, for pleasant or challenging summer reading. The invitation says, "You may recommend one book, or many, and on any subject. The only requirement is that the books you recommend must be available for purchase." The idea isn't just to review a book; it's to express an enthusiasm that may possibly become contagious. The idea is to let people know about a good book they might otherwise miss.

Here are the results.

My first pick for summer reading is "Simple Rules for a Complex World" (Harvard University Press), by Richard Epstein. Despite its title, this book is not an easy read; but it is worth the effort. It argues for a legal system built on six "simple" rules. The first four constitute the basic framework:

1. Individuals "own" themselves.
2. We need simple principles for how unclaimed property can be acquired.
3. Voluntary exchanges are allowed.
4. Individuals should be protected from aggression.

While these four "rules" form the core of the system, Epstein argues for two more: the fifth supports "limited privileges for cases of necessity" (in an emergency, the normal rights of property are altered), and the sixth supports "takings of property for public use on payment of just compensation" (i.e., eminent domain is allowed with compensation). These last two will be viewed skeptically by libertarians, but I found

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Epstein's discussion extremely interesting.

Epstein believes that a system can be constructed on the basis of these rules, that the system will work well in most cases, and that attempts to introduce improvements to the system lead to complexity and overhead that will rapidly erode overall utility.

If you do take the time to study this book carefully, I urge you simply to write the six rules on a piece of paper, try to gain an overview of what they imply, and continually relate Epstein's numerous insights to this basic framework. It is very easy to get caught up in details and to lose the basic idea of what each chapter in the book is intended to achieve. The work was published in 1995, and I deeply wish that I had seen it then. It is an important, well-written statement that serious students of liberty need to think about.

My second pick is "The Mind's I" (Basic Books), by Douglas R. Hofstadter and Daniel C. Dennett. This is a delightful book. It is a collection of short pieces that range from very serious to very playful attempts to get at what is meant by intelligence and consciousness. I found all of them very readable, often stimulating, and remarkably amusing. The book includes

Alan Turing's justifiably famous essay considering the question, "Can machines think?"; Hofstadter's "Prelude . . . and Fugue," which beautifully conveys some of the basic visions that underpinned research in artificial intelligence; Richard Dawkins' "Selfish Genes and Selfish Memes"; and gems by such people as Raymond Smullyan and Stanislaw Lem. It's a truly wonderful book.

*Ross Overbeek is a cofounder of the Fellowship for Interpretation of Genomes and a contributing editor of Liberty.*

Brian Doherty's "Radicals for Capitalism: A Freewheeling History of the Modern Libertarian Movement" is just out in paperback (published by Public Affairs). All 700 pages at half the price!

This is going to be the standard history of the libertarian movement for a long time. It moves smoothly from the great ideas of Mises, Rand, and Hayek to the growth of libertarian thinktanks to the factional feuds within the Libertarian Party.

Doherty organizes the story around five pivotal figures: the Nobel laureates F. A. Hayek and Milton Friedman; the economist Ludwig von Mises, Hayek's teacher; another Mises student, Murray Rothbard, who was a professional economist and also a movement builder; and the novelist-philosopher Ayn Rand. But he also delves into the lives and contributions and factional fights of some pretty minor characters, including some that I'd never heard of after 30 years steeped in libertarianism.

Every reader, no matter how well informed, will learn things from this book. You may think you know everything there is to know about Hayek's career and Rand's idiosyncrasies. But do you know who Red Miller was? Or how the congressional Buchanan Committee tried to shut down the incipient libertarian movement in 1950?

One conservative reviewer complained that the book is "lacking in theme and comprehensive thesis." When you try to cover as many people, organizations, and ideas as Doherty does — many of whom never had any intention of working with the others — that's certainly a risk. But I don't think the reviewer is right. I see two themes. And, as I wrote last year on the Britannica Blog, the two themes may seem to be in tension.

First, as the title proclaims, "the most significant thing about libertarianism, the element that distinguishes its unique place in modern American thought, is that it is radical. It takes insights about justice and order and the fight between liberty and power farther and deeper than most standard American liberals, patriots, or Jeffersonians."

But Doherty also says, "Libertarians can believe, with some justification, that we are in some sense already living in their world. . . . We are not living in Karl Marx's world. . . . We live in a world energized and shaped by the beliefs of Marx's political-economic rivals and enemies — the classical liberals, the thinkers who believed a harmony of interests is manifest in unrestricted markets, that free trade can prevent war and make us all richer, that decentralized private property ownership helps create a spontaneous order of rich variety."

And later: "It's hard not to see a world that is well worth celebrating — perhaps even reveling in — to the extent that it

runs on approximately libertarian principles, with a general belief in property rights and the benefits of liberty."

Can these two sentiments — libertarianism as radicalism and the modern West as an essentially libertarian society — be reconciled? I think so. After centuries of struggle, many of the aims of liberalism have been realized in the United States, Western Europe, and an increasing part of the rest of the world. Our world largely runs on the basis of property rights, markets, religious freedom, free speech, and the rule of law. But that "largely" remains a provocation to libertarians, who understandably focus on the ways in which governments fall short of liberal or libertarian ideals.

"Radicals for Capitalism" tells a fascinating story that libertarians can be proud of. Read it now.

*David Boaz is a contributing editor of Liberty and the author of "Libertarianism: A Primer" and "The Politics of Freedom."*

In last year's summer reading suggestions in "Liberty," David Boaz started with a surprise: he recommended a list of economics textbooks and treatises!

Surely you're joking, Mr. Boaz? Most economics books are pretty boring stuff. Imagine students trudging along to the beach or summer camp with copies of Ludwig von Mises' "Human Action" (containing chapters such as "The Formal and Aprioristic Character of Praxeology"), or Murray Rothbard's "Man, Economy and State" (the new "scholar's edition" is 1,441 pages long).

Admittedly, some of us nerds do like to read economics tomes during our spare time. Thirty-five years ago, I took my copy of Rothbard on my honeymoon. Needless to say, I didn't get much reading done.

David Boaz did mention one book of light reading: P.J. O'Rourke's "Eat the Rich." Despite its bawdy language, it's probably his best humorous work on economic issues.

Which brings me to a whole separate category of literature: economic fiction. Yes, fellow libertarians, such a literary genre does exist. Below are five economic novels that I've enjoyed. Most of my students are not majors in economics. If they ask me to recommend a "good book in the field," I start with these. More often than not, they report that they thoroughly enjoyed them. Some have even switched majors.

First on the list are three murder mysteries, all authored by Marshall Jevons, a pen name for William Breit and Kenneth G. Elzinga, free-market professors. The books solve murder cases by ingenious uses of basic principles of economics. Marginal utility, the law of demand, consumer surplus, opportunity cost, profit maximization, game theory, and Adam Smith's invisible hand all play a part in advancing the stories and catching the culprits. As Henry Spearman, the detective-hero, says to the local police investigator in "Murder at the Margin," "Elementary, my dear Vincent. Elementary economics, that is!"

Let me give you an example from each novel, without revealing the entire plot. In "Murder at the Margin" (Princeton University Press, 1978; paperback, 1993), Spearman is able to dismiss Mrs. Forte as a suspect in the killing of her husband because "a woman usually would be financially far better off by divorcing her husband than by killing him." Mrs. Forte's alimony payments over her expected lifetime would far

exceed the death benefits from an insurance policy. Clearly, someone else must have killed Mr. Forte.

In the second novel, "Fatal Equilibrium" (MIT Press, 1985; Ballantine Books paperback, 1986), Spearman uncovers a fraud in the research of a fellow Harvard professor. In reviewing the professor's book about prices of various commodities

*Economic writing has tended more toward abstract philosophy and mathematical apriorism than toward actual observation.*

in a remote island, Spearman discovers a statistic that violates the law of utility maximization. The sleuth quickly concludes that his colleague made up the figures . . . and therefore engaged in murder to hide his fictitious research.

In the third novel, "A Deadly Indifference" (Carroll & Graf, 1995), Spearman is led to suspect an individual who purchases an automobile even though another car in better condition is available at the same price. Obviously, Spearman reasons, the suspect values something in the first car enough to justify the monetary difference. That something leads to the murderer.

Another likable feature of the books is their free-market bias. Spearman consistently defends economic liberty and attacks socialist thinking. He supports free trade, economic inequality, imperfect competition, and private property rights. He takes on collectivists of all shades — anthropologists, sociologists, environmentalists, social democrats, Keynesians, and Marxoids.

Who is Henry Spearman, this remarkable proponent of free markets? Milton Friedman, Ludwig von Mises, Gary Becker? Read the three mystery novels and decide for yourself. (Note: Prof. Elzinga has informed me that he and Breit are working on a fourth murder mystery. Comment délicieux!)

Another amusing guide to sound economic ideas is "The Adventures of Jonathan Gullible" (Small Business Hawaii, 1995), by Ken Schoolland, a professor of economics at Hawaii Pacific University. It's been translated into more than 40 languages, and is destined to be a classic.

Imitating "Gulliver's Travels," Professor Schoolland tells the story of Jonathan Gullible, who is shipwrecked on the island of "Corrupto," where he faces a series of challenges. Examples: The government imposes a "tall tax" on tall people because they tend to be more successful on the island than short people. Politicians use the "Applause-a-Meter" to decide how to vote. They constantly search for the policy that best reflects voter support, as revealed by this machine that measures audience reaction. Their motto becomes, "We believe what you believe!" The question is posed: Should naturally growing "merry berries" be banned because they make inhabitants high when they eat them?

Finally, you might enjoy a novel by Russell Roberts, economics professor at George Mason University, called "The Invisible Heart: An Economic Romance" (MIT Press, 2001).

It's a romance novel that takes a provocative look at business, economics, and regulation through the eyes of Sam Gordon and Laura Silver, teachers at the exclusive Edwards School in Washington, D.C. who see the world differently from each other. Sam is a libertarian and Laura is a social democrat. Where Sam sees victors, she sees victims. She wants the government to protect consumers and workers from the excesses of Sam's beloved marketplace.

While Sam and Laura argue about how to make the world a better place, a parallel story unfolds across town. Erica Baldwin, the crusading head of a government watchdog agency, tries to bring Charles Krauss, a ruthless CEO, to justice. How are these two dramas connected? Why is Sam under threat of dismissal? Will Erica find the evidence she needs? Can Laura love a man with an Adam Smith poster on his wall? The answers in "The Invisible Heart" give the reader a richer appreciation for how business and the marketplace transform our lives. And Milton Friedman called it "a page-turning love story that also teaches an impressive amount of good economics."

If you read these books, I guarantee you too will maximize your marginal utility this summer.

Mark Skousen is a contributing editor of *Liberty*, compiler and editor of "The Completed Autobiography" by Benjamin Franklin, and producer of *FreedomFest*.

I would like to suggest two interesting new pieces of fiction to read this summer. Both may be a bit bleaker than the average beach fare, but by way of compensation, both will provide the reader with gripping stories that have the capacity to do more than simply entertain. The two novels are "Trauma" by Patrick McGrath (Knopf), and "Pharmakon" by Dirk Wittenborn (Viking).

McGrath grew up inside the confines of England's most famous, and infamous, hospital for the criminally insane, Broadmoor, where his father was the medical officer in charge. Perhaps that helps explain the madness and violence that lie at the heart of most of his novels. For many years, he has lived in New York, in an area that once lay in the shadows of the Twin Towers. His latest novel is narrated by a New



"What about all the crimes I am innocent of?"

York shrink who specializes in the treatment of post-traumatic stress disorder but is himself a man with plenty of trauma in his private life. McGrath's protagonist is a psychiatrist of a very old-fashioned sort, one who listens extensively to his patients and still believes that the mystery of mental illness is a predominantly psychological phenomenon, to be understood and treated by talk. But can he adequately comprehend even the tangles of his own personality? "Trauma" is a characteristically dark and disturbing tale, a powerful meditation on the uncertainties of the rule of reason and the frailties of those who claim to minister to minds diseased.

Dirk Wittenborn also grew up in a household deeply enmeshed in the mad business. His father was not a psychoanalyst but one of the pioneers of the modern psychopharmaceutical age. Wittenborn's novel "Pharmakon," which will be published by Viking in early August (and thus just about counts as summer reading) takes as its starting point the discovery in the early 1950s of a "happy pill," a distant ancestor of Prozac. It is an event that has deeply unsettling consequences, not just for the man who discovers the magic remedy, Dr. William Friedrich, but also for his prize patient (an awkward and impoverished Yale student named Casper), and for his extended brood of children, most notably his youngest son Zach. Like McGrath's novel, "Pharmakon" is as much about the mental peculiarities and failings of the mad doctors and their significant others as it is about those they purport to treat — though perhaps no longer to comprehend (for biochemicals are here a substitute for, and even an evasion, of attempts at psychological understanding). By turns funny, frantic, and frightening, Wittenborn's portrait of an unhappy family whose patriarch thinks he has uncovered the chemical keys to bliss is an entertainment both memorable and thought-provoking.

*Andrew Scull's two most recent books are "Madhouse: A Tragic Tale of Megalomania and Modern Medicine" and "The Insanity of Place/The Place of Insanity: Essays on the History of Psychiatry."*

"The Second World," by Parag Khanna, is an important new book on world politics. It was published by Random House in March. It discusses a coming tripolar world in which the United States, the European Union, and China will compete for influence and resources. I hope to write a full-length review of the book later this year, and so for the present will say only that I recommend it.

"Fusiliers" by Mark Urban (Walker & Co.) recounts the story of a British army regiment, The Royal Welch Fusiliers (immortalized by Robert Graves in "Goodbye to All That"), during the American Revolution. The Royal Welch, one of the most distinguished British regiments (equal to the Guards, many would say), fought throughout the American campaign, from Lexington to Yorktown. Urban, a Brit journalist, tells the story in smooth and informative prose. The book also contains some interesting illustrations.

Staying on the topic of British history, I just finished reading A.N. Wilson's "After the Victorians" (FSG), a social and political history of Britain between the death of Queen Victoria and the accession of Elizabeth II.

While an interesting and well written narrative of the age, the book contains many factual errors, particularly concern-

ing non-British matters. Wilson calls Harry Truman a lawyer, which he was not. He places Heinrich Himmler's notorious Posen speech concerning the extermination of the Jews in October 1942, a year early. More subtle errors include describing Cordell Hull, Franklin Roosevelt's secretary of state, as an intimate adviser to the president. Roosevelt actually excluded Hull from major foreign policy decisions. Referring to Oswald Spengler's "Decline of the West," Wilson tells us that the German philosopher coined the term "Magian" to describe Egyptian culture. In fact, Spengler used the term in reference to a mixed early-Christian-Islamic culture which, according to his perception (shared by virtually no other scholar), came into being at the time of Jesus, reaching its apogee in the reign of Harun al-Rashid. One is left to wonder not so much at the gaps in Wilson's knowledge as at those in his editor's. Rarely, if ever, have I read a book containing so many obvious mistakes.

Despite this, "After the Victorians" remains a good read. It's particularly strong on some of the major personalities of the time, such as the great press lords Rothermere and Beaverbrook. And it presents a surprising defense of Edward VIII (the king who gave up his throne for a waspish American divorcee).

Right now, I'm reading Deidre Bair's biography of C.G. Jung, ("Jung," published by Little, Brown & Co. in 2003). Jung, the founder of analytical psychology, remains endlessly fascinating for his contradictory personae. Scientist and occultist, humanist and egoist, he sought to reveal the hidden workings of the human mind while hiding his own inner self (selves?) behind various masks.

For scholarship, Bair's book, universally praised on its release, stands on a level with Richard Noll's two books on Jung, while for readability it rivals Frank McLynn's 1997 biography. At almost 650 pages, however (not to mention over 200 more of notes), it's not for the faint of heart. For Jung aficionados only.

*Jon Harrison is a contributing editor of Liberty.*

I want to notice three very different books, which appeal to me for very different reasons, yet remain three of my favorites.

"Divided Legacy, Volume III: Science and Ethics in American Medicine," by Harris L. Coulter (North Atlantic Books): I like to recommend this book to friends who think that conventional medicine is the result of rigorous scientific competition and the testing of theories, with the most effective therapies rising to the top. Harris Coulter recounts in painstaking detail how nothing could be farther from the truth.

The history of what we know as "modern medicine" is more a dramatic conflict between opposing philosophies of what medicine ought to be. At its center are homeopaths and allopaths (the latter being the people whom we now regard as conventional doctors). In the mid-19th century, allopathy consisted of little more than arsenic, mercury, and blood letting. Homeopaths offered more effective treatments and performed better in the marketplace. Perturbed by the unwanted competition, early allopaths teamed up with purveyors of patent medicines and sought help from politicians. The result was the AMA, licensing, and accreditation for medical schools.

Homeopaths soon found themselves largely shut out of officially sanctioned practice (along with schools for blacks and women), and the rest is history. In Coulter's hands it is fascinating history, filled with compelling heroes and villains, as well as early medical details that will make your skin crawl. If you think you know anything about "alternative" vs. "conventional" medicine, do yourself a favor and read this book.

"Characteristics of Men, Manners, Opinions, Times vol. II: An Inquiry Concerning Virtue and Merit," by Anthony Ashley Cooper, Earl of Shaftesbury (Liberty Fund): I would pay a lot of money to see a reincarnated Lord Shaftesbury duke it out with a reincarnated Ayn Rand. My prediction: they'd start off agreeing about "whim worshipping" and hedonism. Rand would quickly discover that Shaftesbury did not hold his own happiness to be the sole moral purpose of his life and denounce him; Shaftesbury would discover that Rand held an "extraordinary Hypothesis" about life and take pity on her; Rand would condemn Shaftesbury for taking pity on her; Shaftesbury would try to explain his position; and Rand would storm off to turn him into a sniveling political columnist in her next novel.

In "Characteristics," Shaftesbury sets out to prove that the interests of the individual are not at odds with those of society, that they are in fact aligned. There is something refreshing about this. Whether you are swayed by all of Shaftesbury's arguments or not, it is worth considering that maybe this whole individual vs. collective thing is a red herring: an imagined — or at least greatly exaggerated — conflict exploited by those who would wield power over others (Shaftesbury would call this a "vitious Affection"), and one with which libertarians should perhaps not play along.

"Kitchen," by Banana Yoshimoto (translation, Washington Square Press): This is not just another "food-as-metaphor-for-love-and-life" book. Yoshimoto's unassuming work brings to life something about Japanese sensibilities: a constant, sharp awareness of the impermanence of everything, and a willingness to taste every bit of it — even the pain. For Yoshimoto all of life is fragile, and this makes the smallest and most mundane details of the utmost importance, deserving of especially delicate care.

"Kitchen" is about the exquisite taste of food and of love against a backdrop of emptiness. It is even about the juicy flavor of that emptiness itself. It does not analyze life or try to fix the world, but shows us what it is like to live in it. And for those of us who tend to live far too much of it in our heads, it is an extraordinary treat.

*Bretigne Shaffer is a writer and filmmaker who spent many years as a journalist in Asia. She currently directs the Free World Media Center.*

At age 88, Thomas Szasz does not seem to be slowing down or turning mellow. He published two books last year, both as trenchant as his work of 50 years ago.

Szasz is a moralist. Nowhere is this more fully shown than in his examination of the Terri Schiavo case in "Killing as Therapy," from his newest collection of essays, "The Medicalization of Everyday Life" (Syracuse University Press). Directing well-deserved contempt at Michael Schiavo for his patently deceitful protestations of eternal love for his half-

dead wife, Szasz does not fail to point out that if the parents of the half-alive woman had agreed to pay for her care, rather than expecting the state to do so, the conflict over this unfortunate woman would have been moot.

But he saves his biggest ammunition for the therapeutic state:

To be sure, a person dying of a terminal illness is, ipso facto, considered a patient. However, dying is not a disease; it may, inter alia, be a consequence of disease . . . More importantly, killing (oneself or someone else) is not, and by definition cannot be, a treatment. Strictly speaking, the phrase "assisted suicide" is an oxymoron. Suicide is killing oneself . . .

[P]hysicians have always been partly agents of the state and are now in the process of becoming de facto government employees. Therefore, unless a person kills himself, we cannot be certain that his death is voluntary . . . We know that many persons who prepare advance directives requesting that physicians abstain from "heroic measures" to prolong their dying change their minds when the time comes to honor their own prior requests.

In short, conjoining the terms "assisted" and "suicide" is cognitively misleading and politically mischievous. . . . Words are important. We must be careful about what we call the persons who receive and deliver suicide-assistance services.

I quote extensively rather than paraphrasing, because I agree: words are important, and Tom Szasz's words precisely explain and define what our attitude should be toward the ritual of "patient-assisted suicide."

David Boaz is also a deft essayist, as his new collection, "The Politics of Freedom: Taking on the Left, the Right and Threats to Our Liberties" (Cato Institute) confirms. He examines economic, political, and moral issues, ranging from war (in Iraq and elsewhere) to school choice, from corporate statism to market economies to The New Yellow Peril. But after pondering dozens of major issues, he reassures us that:

In so many ways we are freer today than we were at various points in the past. Depending on just when you think was the golden age of liberty, I could counter by reminding you of oriental despotism, slavery . . . rigid class privilege, and so on. In the 20th century, fascism, communism, and national socialism. And even in our country in my own lifetime, we lived with military conscription, 90% income tax rates, wage and price controls, restricted entry to transportation and communications, indecency laws, and Jim Crow.

I think that, on balance, Americans today are more free than any people in history. . . . So take a moment to reflect on our history, have a glass of wine, and celebrate what we've achieved after centuries and millennia of hard work and political struggle.

And then, refreshed and rejuvenated, return to the struggle . . .

I raise my glass to these two dear friends, wise mentors, eminently practical men. Onward to battle!

*Andrea Millen Rich heads Stossel in the Classroom, John Stossel's project to develop critical thinking among high school students by introducing challenges to conventional wisdom.*

I found several books exceptionally commendable this year, especially when it comes to grappling with how you

view libertarianism and classical liberalism.

The first is Brian Doherty's delightful survey of libertarians and their views: "Radicals for Capitalism: A Freewheeling History of the Modern American Libertarian Movement" (Public Affairs). I suspect that most readers of "Liberty" have already read the book, but if they haven't, they should. Doherty gives a masterly survey of all the major (not to mention the minor!) libertarian thinkers, from thinkers of the early 19th century to those of the 20th and 21st: the Austrian economists (Mises and Hayek), the three women fiction writers who did much to popularize the movement (Isabel Paterson, Rose Wilder Lane, and Ayn Rand), such important individuals as Leonard Read, Murray Rothbard, Milton Friedman, and Robert Nozick; and many others.

Doherty discusses the thinking and the lives of these people in depth, as he does the political evolution of the movement. No wonder the book is hefty — 619 pages (plus 92 pages of endnotes!). But it never drags, and it enlightens the reader about the faultlines in the movement, especially the tension between anarchists and "minarchists," as well as that between libertarianism and mainstream conservatism.

The second book, just out this year, is by another first-rate writer, Michael Shermer. Shermer is well known as the head of the Skeptics Society and is the author of a number of excellent books, perhaps the most popular of which are in the general area of science versus pseudoscience. But, as he reveals in the prologue of his new book, "The Mind of the Market: Compassionate Apes, Competitive Humans, and Other Tales from Evolutionary Economics" (Times Books), he has been basically libertarian since his college days. The book is simply fascinating. It's written in his characteristic style — witty, engaging, and accessible. He is one of the best science writers around.

The work is a survey of the rapidly burgeoning field of evolutionary economics. Economists have long prided themselves on their status as empirical scientists, but in truth much economic writing has tended more toward abstract philosophy and mathematical apriorism than toward actual observation and experimentation. With the rise of behavioral economics over the last quarter century (and neuroeconomics over the last decade), that is changing — as evolutionary psychology and biology are brought to bear on economic issues. Ironically, Adam Smith, whose economic theory was anchored in a consideration of human biology, comes off well in contemporary evolutionary economics.

Along the lines of informing social science with evolutionary theory, I recommend a third book, one that has been out for nearly a decade but is still quite topical: "Crisis in Sociology: The Need for Darwin" (Transaction Books). Authors Joseph Lopreato and Timothy Crippen argue that academic sociology is in a crisis, the dominant paradigms within the field failing to explain ongoing observation about human social behavior.

Lopreato and Crippen provide a nice sketch of the history and current state of sociology, and an excellent survey of evolutionary theory from Darwin to recent evolutionary psychology. They then look at the implications of contemporary evolutionary theory for sociological studies of gender differences, family structures, social stratification, and dominance orders, as well as ethnicity and multiculturalism. They write in a very jargon-free, logically structured way that

makes the book compelling reading even for those who are not sociologists.

*Gary Jason is an adjunct professor of philosophy and a contributing editor of Liberty. He is the author of "Critical Thinking: Developing an Effective World View and Introduction to Logic."*

Most of my summer reading is reserved for the classics I was too stupid to enjoy in high school. But here I'd like to alert you to the most underrated great American writer alive, in hopes that one day you will thank me with a burnt offering. His name is Andrew Ferguson and he writes for "The Weekly Standard," where his byline is always worth seeking for the wiggle-quality pleasures sure to be found below it. Barack Obama, Fred Thompson, Alan Greenspan, and Bill Moyers are just a few of the notable subjects who have received his nonpareil literary treatment.

And now Ferguson, who looks like the love-child of Mark Twain and Samuel Clemens, has given us the 21st-century "Life on the Mississippi," in his first full-length book: "Land of Lincoln: Adventures in Abe's America." (Just substitute, for the river, a parade of myriad Lincoln obsessives, of whom Ferguson counts himself one.) As the title suggests, the book is more about America than it is about Lincoln, who can best be described by the phrase, "scholars differ." Ferguson ventures insightfully and hilariously into the many-splendored manifestations of Lincoln's influence: lovers, haters, collectors, curators, "realists," impersonators, worshipers, and more. Finally he makes his own poignant case in favor Lincoln the icon.

Ferguson's a first-rate wit and phrasemaker, but his most remarkable skill lies in narrative construction. He does his satirical work cleanly and quietly, leaving no traces, and he can sever a pound of flesh without drawing a drop of blood. (If he were around in the fictional Venice of 1500, Shylock might have died a Jew.) It's a humanizing satire which, rather than merely cutting its targets down to size, renders them more complex and interesting than they were when they began. And the subtlety of it all gives the punchlines more of that wiggle effect.

A review ought to quote examples from the book. But this isn't a review. It's an order. Follow it, and you'll have no trouble keeping in mind that I like mine medium rare, on the rare side. Thanks.

*Alec Mouhibian is an author based in Los Angeles.*

The ghost of liberty was a friend to Jorge Luis Borges, the Argentine intellectual who was promoted, during the fascist dictatorship of Juan Perón, to the position of "Poultry and Rabbit Inspector." But it isn't Borges' political attitude that recommends the parables and short stories you will find in his "Collected Fictions," which was anthologized by Penguin in 1998. His work endures because it inhabits the only realm uncontaminated by politics — the foggy, mythological world that Borges, even in blindness, could navigate with ease. It is no stretch to argue that Borges, who was born in the twilight of the 19th century, was the great mythmaker

*continued on page 61*

# Liberation Theology vs. McDonalds

*by Doug Casey*

El Salvador is a small country with unremarkable geography. But it's survived the Cold War, the Football War, a weak economy, and the "export" of a third of its people. What will the future bring?

For the first time in years, I recently spent time in a country I hadn't previously visited. There aren't many left on that short list. In the Western Hemisphere, only Bolivia. In the Old World, just India, Iran, plus an assortment of truly obscure places in Asia and Africa. Will I cover the last few bases in the next few years? Stay tuned.

I'm not always sure of the ultimate value of spending all that time traveling. In my more cynical moments, I think, "You've seen one, you've seen them all." The world is increasingly becoming a giant village, sewn together by subway stations called airports. People are people, everywhere. So I often quip that having spent time in 175 countries, plus \$10, will get you a cup of coffee in Tokyo. But that's too jaded a view, even for me.

If nothing else, travel gives one a good quota of experiences to relate at a cocktail party. And it's a necessary — though not sufficient by a long shot — qualification to comment on international markets.

So let's take a look at El Salvador. It's a country the size of Massachusetts and so obscure that, on the front of their passports, they have a map of Central America with El Salvador highlighted, probably for the benefit of immigration agents who don't have a clue it's a real country. One of my new

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Salvadoran friends had a laugh telling me how, in the days before direct dialing, he often had to spend time explaining to international operators that El Salvador isn't in Mexico.

There are other ways in which El Salvador is different from the rest of Central America. In San Salvador, the capital, there's a higher incidence of KFCs, McDonalds, and other American culinary delights than most anywhere outside of the U.S. More of the locals speak English than perhaps in any other part of Latin America. And, surprising to some visitors, the U.S. dollar is the national currency (as in Panama and Ecuador — more on this later).

The place has a huge American embassy. Like all those of recent vintage, it resembles nothing more than a federal penitentiary, built within a walled compound that must be half a square mile in size. Apparently it's the largest the U.S.

has, with the exception of the one in Paraguay. And, of course, the humongous new one in Iraq — which, I think, will never serve much purpose except to make for a somewhat safer exit

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*He often had to spend time explaining to international operators that El Salvador isn't in Mexico.*

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lounge where, in a couple of years, the last Marine will wait anxiously to jump aboard the last helicopter to lift off from the roof.

El Salvador's official exports are coffee, sugar, shrimp, and inexpensive clothing, amounting to \$3.4 billion annually — over 60% of which goes to the U.S. Its imports are \$6.8 billion, which results in a huge trade deficit. The way it survives is by exporting people who send back money.

There's a lot of uncertainty about how many Salvadorans there actually are, although the official number is 7 million. There's a lot more uncertainty how many are in the U.S., but guesstimates put *that* number at about 3 million, with a third of them in Los Angeles alone — plus at least one family I know in Aspen who run a nice little restaurant. These folks send billions of dollars back home each year to support those left behind, while doing their best to get the rest of the family to the United States.

Look at it this way: you're a poor peasant, but thanks to cheap electronics from Asia, you've seen videos and television programs portraying life in the United States that seem to imply that maybe you don't have to live in a dirt-floored shack with no plumbing, doing really hard field labor for the rest of your life. In fact, everybody on TV seems to have a car, a nice house, work that involves getting paid a lot of money for shuffling papers, and long lunches where you get to actually drink some of that coffee you're now paid about \$8 a day (if you're really good) to pick.

At a minimum, what you do is pack up and head for the capitol of San Salvador (which explains why about half the population lives there). If you're naive, you might spend a few days in line at the U.S. embassy before you figure out your chances of (legally) going to the promised land are roughly zero. So, at great personal risk, you scheme to get across Guatemala and Mexico in hopes of finally crossing into the United States. Somehow, about 3 million Salvadorans have done it so far.

Another striking thing about El Salvador is the people who enter. In every other country in Central America, the majority of the visitors are tourists, or even second-home owners. Not here. The foreigners aren't wandering around in shorts carrying cameras; they're striding purposefully about in suits, carrying briefcases. The hotels are full during the week, but empty on the weekends when everyone flies back to the U.S.

There is no tourism. And, I suspect, there won't be any for a long time to come. It's a nice country, with nice people. But

the mountains and rolling hills, though pleasant, aren't a particular draw; in fact, even though El Salvador has a reputation for overpopulation, the census in the countryside is actually *dropping* as peasants move to the cities.

The war in Iraq is just as unpopular in El Salvador as anywhere else. Perhaps even more so, since El Salvador has a battalion of troops in Iraq. Like soldiers everywhere, they don't have a clue why they're there, beyond the propaganda dispensed to them by their almost equally ignorant officers. It's amazing to think how the U.S. has managed to rope tiny, poor, isolated little El Salvador into joining the invasion of an almost equally tiny, poor, and isolated country on the other side of the planet.

Then again, it's not so strange, considering how badly El Salvador wanted to win the Millennium Challenge. If you were a government, might you not consider sending some peasants overseas if it might help you round up \$461 million of free foreign cash?

Few Americans know about the Millennium Challenge Corporation, created in 2004 — one of the worst of the many expensive boondoggles set up by the Bush regime.

The MCC is supposed to reform a portion of the foreign aid budget by, it seems, ensuring that it goes only to "deserving" governments, who will deploy it in "public/private partnership" projects with the objective of reducing poverty. This program is supposed to distribute about \$2.5 billion annually, a component of the \$20 billion in foreign aid already passed out annually.

It's not that this is a lot of money, not in the context of a \$2.47 trillion U.S. government budget. It amounts to less than a rounding error. The point is that none of it should exist at all. As far as I can determine, what distinguishes this program is that grants are approved by a supposedly independent board of directors, who will grant money supposedly based on how sound the recipient's economic policies are, and how much "the people" are helped.

This process stands opposed to the regular system of foreign aid administered by State Department bureaucrats, who

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*At great personal risk, you scheme to get across Guatemala and Mexico in hopes of finally crossing into the United States.*

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evidently pass it out based on how *unsound* the recipient's economic policies are, and how much temporary love and loyalty the money will buy.

The new foreign aid scam is, however, just as stupid and counterproductive as the existing one. It will actually hurt recipients in the long term by distorting their national economies. It will inevitably further enrich the politically well connected.

It encourages statism by putting more funds into the hands of the bureaucrats while corrupting the local private sector by encouraging them to “partner” with the state to get the money. It amounts to more corporate welfare for the U.S. companies that get contracts to implement it.

In any event, by virtue of winning the Millennium Challenge, Salvador will receive \$461 million over the next five years — most of it to be spent on a 200-mile transnational highway running through the poor northern part of the country.

My, roads have gotten expensive, even in low-cost third world countries. I remember how, when the Interstate Highway system was being built in the U.S., people were awed by the fact that a divided four-lane highway cost a million dollars a mile. This road is going to be a 30-foot-wide, two-lane blacktop, and 80% of it amounts to an improvement of existing roads; they must be paving it with dollars.

My Salvadoran friends had another laugh, trying to figure out who was going to make the most money padding the bills.

El Salvador is a bit of a hard luck story. It gets more than its share of hurricanes, floods, volcanoes, and earthquakes. The October 1986 earthquake killed 1,400 people. Hurricane Mitch in 1998 killed several thousand. In 2001, another quake killed about 1,300 people and did \$1.6 billion in damage, which is a lot for a country with a \$16 billion GDP. Hurricane Stan in October 2005 caused \$355 million of damage.

But the country’s real hard luck comes from its government. Wars, pogroms, inflations, regulations, taxations, confiscations, socialism, political intrigue — you name it. Salvador has always been the kind of place that could have been featured in a movie like “The Mouse that Roared,” or “The In-Laws.” Tragi-comic stuff seems to come naturally, like the Football War of 1969.

Football War? Yes. Tensions started building in 1967 between El Salvador and neighboring Honduras, where economic conditions were equally bleak. The 300,000 Salvadorans

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*El Salvador’s real hard luck comes from its government. Wars, pogroms, inflations, regulations, confiscations — you name it.*

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residing illegally in Honduras were convenient scapegoats. Most had just drifted across the border, squatting on unoccupied land, a perennial problem throughout the third world. The pot boiled over in June of 1969 when the soccer teams of the two nations were engaged in a three-game elimination match towards the World Cup. During the first game, in Honduras, Salvadorans were beaten up. In response, during the second match in San Salvador, Honduran fans were beaten up.

Back in Honduras, in counter-response, an unknown (but significant) number of Salvadorans were killed or brutalized — and tens of thousands began fleeing the country.

Tabloid newspapers in both countries incited the mobs, and, on June 27, 1969, Honduras broke diplomatic relations with El Salvador.

El Salvador launched a full-scale military attack early on July 14, 1969. The bigger and better equipped Salvadoran army pushed the Hondurans back over three miles, until they

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*From 1980 to 1992, an estimated 75,000 Salvadorans were killed — roughly equivalent to 2 million Americans today, as a proportion of the population.*

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started running low on ammo and fuel — the latter because, after the Honduran air force basically wiped out its counterpart in Salvador, it went on to destroy the country’s fuel reserves. So the war came to a truce four days after it began.

It was just a silly little war, but a disaster for both sides. Over 100,000 Salvadorans fled Honduras. Trade ended. The border was closed. Around 2,000 people, mostly Honduran civilians, were killed and many thousands made homeless.

You’d think after the Football War, Salvadorans might have sworn off armed conflict. But you have to remember that the ‘70s was a time when it looked like communism was the wave of the future. The Vietnam War was being lost. The Soviets and Cubans were running all over the world (financed by high oil and sugar prices) trying to stir up People’s Revolutions. The U.S. was experiencing high inflation and a rough economy.

And so-called “liberation theology” — an unlikely combination of Catholic social welfare ideals and Marxist doctrine — was stirring up the natives in much of Latin America.

In El Salvador, a number of violent leftist groups coalesced around the FMLN (*Frente Farabundo Marti para la Liberacion Nacional*) and, by 1980, with help from the Cubans and Nicaraguan Sandinistas, engaged in a truly nasty civil war against the establishment. It started with political assassinations and “death squads” from both sides, who did their best throughout the ‘70s to eliminate those deemed politically undesirable, or just unreliable.

Several juntas successively overthrew the government (and each other), producing chaos with various cockamamie “reforms.” Trouble really started in 1980 when a number of demonstrators were shot by police on the steps of San Salvador’s main cathedral, not long after the left-leaning Archbishop had been assassinated. Later, four American nuns, who were basically left-wing agitators, were murdered.

From 1980 to 1992, an estimated 75,000 Salvadorans were killed — roughly equivalent to over 2 million Americans today, as a proportion of the population.

During most of the 1980s, the U.S. Government supported

the rebels against the government in Nicaragua, while it was supporting the government against the rebels in El Salvador. It was hard for the average American to tell "Who's on first," even if he could find these places on the map.

Since the end of the Cold War, the rebels in El Salvador have been part of the government and things have been relatively peaceful. The country is essentially the same as it's always been, still controlled by a dozen or so families who all know one another. I found it interesting that when I asked a new friend if he knew a Salvadoran girl I went to Georgetown with in the '60s, he said, to my surprise, "Sure, she's my second cousin." Naturally, she's living in the U.S. . . .

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## Reflections, from page 36

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involved with drugs after her high school sweetheart died in Vietnam. Her parents, strict Catholics, encouraged her to plead guilty, to save the family embarrassment. She did so, expecting to get probation. Instead, a judge sent her to the Detroit House of Corrections. In 1976, she managed to escape, eluding authorities until her capture in California.

Ms. Walsh, now 53, has been married for 23 years, raising three children with her husband, Alan Walsh. She has lived a typical upper-middle class life without causing society any problems. Now back in jail, she told an AP reporter, "I hope there's some mercy."

I hope so, too. I have a lot of compassion for Marie Walsh. But more than compassion, I feel anger. Anger at the judge for sentencing a kid to so much hard time. Anger at the government for wasting taxpayer money pursuing this woman, more than 30 years after her crime was committed. Anger at a society that allows the government to crush an individual over a matter that should be none of government's business to begin with.

According to one news report, the authorities believe that Ms. Walsh-LeFevre knew Detroit's heroin kingpins, and that she was making thousands of dollars a week as a dealer. I have to suspect that they are exaggerating to justify their harsh treatment of the lady. But even if the accusation is true, the salient fact is that government ought not to be in the business of suppressing private behavior, including drug use.

Departing from the law is a slippery slope, no doubt about it. But even more slippery is the slope that our liberties have been sliding down the past hundred or so years. Government should not be regulating private behavior by consenting adults, whether it involves drugs, sex, or anything else. Its authoritarian impulses must be curbed. In the words of Alexander Hamilton (no, not Thomas Jefferson — in fact, Hamilton was referring to an assault by Jefferson on the freedom of the press), we ought to "resist, resist, resist until we hurl the demagogues and tyrants from their imaginary thrones."

Indeed. The main reason to be politically active today is to fight against the politicians, judges, and cops who want to turn us all into cookie-cutter versions of their concept of the "good citizen." — Jon Harrison

**An offer he couldn't refuse** — The more information that emerges about just how Obama won the support of the Teamsters a few months ago, the more it looks like a

The fate of El Salvador is highly dependent, in many ways, on that of the U.S. If things get as tough in the U.S. as we think they will, will Salvadorans in the U.S. still be able to send dollars south? Will the dollars themselves present an even more serious problem as inflation grows?

Will the Salvadoran gangs that have grown up in L.A., and have about 15,000 members here, become a really serious problem? Will Muslim extremists who previously had no beef with tiny El Salvador try to punish Salvadorans for joining the U.S. in Iraq? Will the country revert to its long tradition of juntas and coups, or will recent stability continue?

I don't know. And, in that, I'm certainly not alone. □

parody of a "Godfather" movie.

We knew from the early reports that, in exchange for Jimmy Hoffa Jr.'s support, Obama agreed to oppose all new free trade agreements. That just confirmed what we all knew: viz., that the Democrats have been moving to the far Left on protectionism. Both Obama and Clinton have opposed the free trade agreements with Colombia and South Korea that are currently awaiting congressional approval, and have bashed NAFTA shamelessly.

But a recent investigative report in *The Wall Street Journal* by Brody Mullins and Kris Maher (May 5) reveals a hidden, sordid underside to Obama's Teamster deal, and it stinks like last week's frutti di mare. Obama has agreed in private — if elected — to stop federal oversight of the Teamsters for mob infiltration.

The background here is important. For many decades, as you know, organized crime has intermittently penetrated organized labor. But no penetration has been deeper than with the Teamsters, especially under the elder Hoffa (may he rest in pieces, under whatever concrete structure he lies). For years, the Teamster pension fund has been a giant mobster ATM, funding development of Las Vegas and other resorts, from which the Mob benefitted far more than did the workers. Truckdrivers' sweat financed a lot of illicit activities.

To control that corruption, the Justice Department set up an independent review panel in 1992. Even Bill Clinton, arguably the most corrupt president, didn't try to pull the rug out from under the Justice oversight panel.

The Teamsters of course claim that they've cleaned up their act. And since their political action committee has donated \$25 million to Democrats over the last 18 years, they have a lot of clout. So they may get their way.

But given that the Teamsters have had connections with organized crime since their inception nearly a hundred years ago, that the types of businesses they have unionized (such as transportation companies) are very useful to organized crime, and that the sheer volume of assets they command can greatly empower organized crime, it would be utterly irresponsible to stop Justice Department oversight anytime soon.

Obama seems to have struck a deal with the Devil, and a dirty one at that. This is rather odd behavior for a Messiah.

— Gary Jason

**The fields of Eton redux** — My oldest daughter is in high school and a strong athlete. These days, kids whose

*continued on page 62*

# Reviews

**"Expelled: No Intelligence Allowed,"** directed by Nathan Frankowski. Premise Media, 2008, 90 minutes.

## When Theories Collide

Jo Ann Skousen

At a critical moment in our nation's history, the Founders were deadlocked on whether even to discuss the issue of revolution and independence. John Hancock, who held the deciding vote, is said to have declared, "I've never known an idea so dangerous that it couldn't be discussed." Debate was opened, and an entirely new form of government was adopted.

Ben Stein suggests in his documentary, "Expelled," that we are at such a crossroads in academia today, when professors are losing their jobs because they dare to talk about intelligent design as a possible answer to the question of how life began. Stein presents these researchers as modern-day Galileos, martyred for daring to suggest an alternative to spontaneous evolution as an explanation for the origin of life.

While Galileo focused on the world "out there," intelligent design scientists study the world "in there" as well, inside the single cell from which life springs. Modern science has discovered that cells are much more complex than Darwin ever imagined. A single tiny cell contains a blueprint — design, if you will — of the entire organism as it will eventually exist. Discoveries regarding DNA and RNA make it difficult to accept the idea that the original cell emerged by chance, "out of the

mud, on the backs of crystals," as one ID detractor suggests when pushed by Stein to explain how it all started.

How did it start? That's the big question. Intelligent design theory begins with the idea that certain features of the universe cannot be explained by evolution. That's all. This is similar to saying in a scientific article that certain features of the vertebra cannot be explained by reference to some current theory. This is useful. Knowing what we don't know leads us to investigate other paths until we do know.

Darwinians have already made adjustments to their theory to account for evidence of the Big Bang, and both theories now coexist peacefully. The fact that ID cannot be replicated does not make it false, any more than not being able to replicate the Big Bang makes it false; it just makes it unproven — and still open to debate. But because ID theory might possibly lead to theological speculations on the nature of the designer, the debate bangs shut. How scientific is that?

Had Stein devoted more of his documentary to the scientific foundation for intelligent design, his film might have received a warmer reception from the critics. But I doubt that anything would have made a difference; being a fellow traveler of intelligent design produces the same reaction today as being a supporter of evolution

did a hundred years ago. Like the scientific community, the liberal literati are skeptical of anything that "emerges with [creationism] clinging to its back."

Nevertheless, I sympathize with Stein's decision to include the mind-boggling possibilities suggested by the theory of ID — that design implies a designer, someone else "out there." Like Einstein imagining the time travel suggested by relativity, or physicists reveling in the implications of quantum theory, or a biochemist contemplating the healing powers of nano technology, ID proponents are understandably tantalized by the possibility of connecting with other intelligent beings in the universe. I suspect most scientists are tantalized by that idea too. It's just that ID comes too close to supporting the concept of a designer with a proprietary interest in his or her creation. But scientific atheists who smugly reject that possibility do so on an emotional level, not a scientific one.

Yet the theory of an intelligent designer does not necessarily imply a god that has to be worshipped. For that matter, the designer does not even have to exist anymore. As Robert Frost suggests in his sonnet, "Design": "What brought the kindred spider to that height,/ Then steered the white moth thither in the night?/ What but design of darkness to appall?/ If design govern in a thing so small."

Similarly, ID and evolution do not have to be mutually exclusive theories. Evolution explains how organisms adapt and change, but it does not explain how the first organism came to life. As long as we don't know, we should keep looking. But even ID scientists who shun theology are shunned by the scientific community. "Show us the peer-reviewed articles, and we'll consider taking you seriously," they sneer. But that's just the point: peer-reviewed journals are controlled by the academicians who refuse to consider ID. And if they won't even consider the articles, the articles can't be peer-reviewed.

Those who refuse even to consider the idea of a sentient being designing a helix or planting a seed are as closed minded as the intelligentsia of Galileo's time who mandated that the sun revolved around the earth simply because they did not have a current theory to explain the path that the sun made across the sky each day. Open your eyes! Is it utterly impossible to consider that someone from another planet may have visited Earth even once in its eons of existence and left behind a seed? It doesn't have to be a whole Garden. Even Richard Dawkins admits to this possibility of an alien Johnny Appleseed in "Expelled."

The folly of scientific closed-mindedness is also seen in another film released last month, "Horton Hears a Who!" (Jimmy Hayward and Steve Martino, directors. Blue Sky Studios, 88 minutes). When Horton is seen carrying around a little dandelion from which he claims to be hearing voices, his detractors and even his friends begin mocking him by carrying around dandelions and making the same claim. I think the directors intended this to be a slap at the "invention" of religion. But thousands of people making false claims about hearing a voice doesn't change the fact that one of those voices — the one belonging to a Who — is real. And if the possibility exists that it is real, isn't that possibility worth investigating?

No matter which side of the debate you support, spontaneous evolution or intelligent design, the documentary's larger point — that those who hold the power in academia tend to suppress and even expel teachers who support politically incorrect ideas — is valid. Graduate students in econom-

ics have confided to me that they have been advised not to admit attending conferences or seminars sponsored by libertarian or conservative thinktanks like the Liberty Fund, Cato, or Young America's Foundation for fear of being blackballed when they begin their job search. ID is just another example of suppressed speech, and that is a practice that concerns all of us. (See Gary Jason's review of "Indoctrinate U" in this issue.)

Stein's interviews are intercut with black and white clips from movies and newsreels, some frightening, some ironic and funny. One can't help but chuckle at the sight of Dr. Frankenstein chortling crazily, "It's alive!" right after a scientist Stein is interviewing suggests that the first cell came to life through a strike of lightning. However, many of Stein's clips are deeply disturbing. He begins his documentary with scenes from Hitler's Germany, printing the opening credits on Berlin road signs to suggest that we are at a similar crossroads today. (In fact, the original title of the film was "Crossroads.")

Stein tours Dachau, reminding viewers that Darwin's theory of "sur-

vival of the fittest" led to eugenics and its justification for "destruction of the weakest." Hitler used the theory of eugenics to justify killing Jews, blacks, gays, and those with mental and physical handicaps in order to create an elite Aryan super-race. But Stein goes too far in suggesting that today's scientist is Hitlerian, and evolutionists are understandably angry at being likened to the Holocaust engineers.

While the juxtapositions may be over the top, the metaphor works on the level that director Nathan Frankowski intended. College administrators are building an intellectual wall akin to the Berlin Wall that separated the East from the West. "Our world view is influencing the interpretation of science," he suggests. "Academic freedom exists only for those on the right side of the [intellectual] wall."

You may not agree with Stein's position on this issue (and there are plenty of websites you can peruse that tear this film apart), but libertarians everywhere ought to agree with this: no idea should be considered too dangerous to be discussed. □

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## *Should Ben Stein Be Expelled?*

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Mark Rand

With "Expelled," Ben Stein challenges "evolutionists" to defend their science and their actions in the court of public opinion. Why are universities squelching inquiry into problems with Darwin's dangerous idea? What so frightens "Big Science" that they fire researchers who dare to discuss

alternative theories? Stein interviews prominent defenders of the theory of evolution, and none of them are able to answer these questions. Why?

Before I answer that question, allow me to address Stein's "reminder" that Darwin's theories led to the Holocaust. Liberty's readers should not have to be reminded that dictators (and politicians in general) justify their actions in whatever way is convenient. To claim

that “survival of the fittest” leads to eugenics is akin to claiming that science causes war, or that capitalism causes poverty.

Back to the movie’s thesis: Stein’s interviewees do not respond to the charges above because they never hear them. Stein interviews under the guise of an objective documentarian. He tells the mainstream scientists he interviews that his movie is innocuously entitled “Crossroads: The Intersection of Science and Religion.” But by Stein’s own admission, the movie’s title was already “Expelled: No Intelligence Allowed” when it was pitched to him. The interviews are carefully edited to remove content that rebuts any of the film’s premises, then interspersed with pseudoscientific pronouncements from Intelligent Design (ID) proponents (which are, of course, presented as the real truth of the matter).

Were any of the supposed martyrs in “Expelled,” actually fired, demoted, or harassed for questioning Darwin? The short answer is “no.”

In the case Ben Stein describes as the “most egregious,” Richard Sternberg supposedly “lost his job” for publishing a paper critical of the standard evolutionary account of the Cambrian Explosion. In actuality, before the paper was published Sternberg gave his notice of intent to resign his position; then he

circumvented the standard review process to publish some ID nonsense in the small scientific journal for which he served as unpaid editor; then the journal’s publishers withdrew the paper and announced it should not have been published; finally, he left his job. Sternberg was (and still is) an unpaid research associate at the Smithsonian, although he has not shown up there in years. Sternberg was (and still is) an employee of the National Institute of Health.

Each of the five other supposed martyrdoms is convincingly refuted at [www.expelledexposed.com](http://www.expelledexposed.com), at [www.michaelshermer.com](http://www.michaelshermer.com). (the site of one of the scientists duped into appearing in “Expelled”), and at Wikipedia. Each of these sites also addresses the film as a whole, and each site provides easy access to sites addressing the science (or lack thereof) behind ID. Finally, since science and truth are both best served by full information, each site also provides easy access to prominent ID websites.

One of these ID websites ([www.researchID.org](http://www.researchID.org)) inadvertently refutes the general case of suppression with its list of “100+ universities and colleges” that include ID in their curricula. Six Ivy League schools are on the list. (Fittingly, none of them view ID as science.)

What about the supposed prob-

lems with the Darwinian theory of evolution? There are, in fact, legitimate (and sometimes heated) disputes, and peer-reviewed articles regarding natural selection are regularly published in reputable journals of science. The papers make specific, testable, falsifiable claims, which are judged only on whether they withstand challenges. (All scientific papers are challenged — the scientific process has its own survival of the fittest.) The papers cover everything from the criteria of mate selection to the frequency and importance of symbiogenesis.

ID theorists, on the other hand, do not publish in peer-reviewed journals, for they do not practice science. Some of them dispute this — they claim that their research is legitimate science that does not get a fair hearing at the “intelligentsia-controlled” scientific journals. If this is the case, why don’t they publish it through other channels? Their leading theorists have published several books that claim to make a scientific case for ID. Unfortunately for them, all but one ID-related claim has been refuted. This sole unrefuted (and irrefutable) claim is: “some things are known to no one.” Hardly a solid basis for a theory of everything.

ID’s specific claims are all along the lines of “this [link in the evolutionary chain] could not occur without

## The Science of Suppression

In 1514, Nicolaus Copernicus began to circulate evidence that our solar system is not earth-centered (as the church taught), but heliocentric (sun-centered). His model was much better than the prevailing Ptolemaic model, but it was far from perfect. In the succeeding decades, scientists continued to observe the heavens and gather data. In the early 17th century, Johannes Kepler refined Copernicus’ model, and Galileo Galilei’s observations led him also to conclude that a heliocentric model was correct.

The intelligentsia of the day challenged the heliocentric model, much as the intelligentsia of our day challenge ID’s conclusions — by requiring a specific prediction and comparing it to actual observation. (Kepler himself had anguished over his data, since they did not fit his preconceptions. Being a true man of science, he adjusted his beliefs to conform to the data.) The predictions matched the observations, and the intelligentsia abandoned the idea of an earth-centered universe.

The church also challenged the heliocentric model, but, like ID proponents today, refused to bother with data or evidence. The church banned advocacy of the heliocentric heresy, forced Galileo to recant, and sentenced him to house arrest and weekly penance.

— Mark Rand



“Catch a pair of chimps and we’ll do a complete makeover on them.”

Intervention." "Life could not have emerged by chance, therefore there is a Designer," they maintain. Mainstream science continues its search for a natural origin for life, although this search is outside the sphere of evolutionary science. "Certain structures are 'irreducibly complex' and therefore could not have evolved." The reasoning behind the idea of "irreducible complexity" has been thoroughly refuted, as has every ID-proclaimed irreducibly complex structure (including their flagship examples: the eye and the eubacterial flagellum). "The Cambrian Explosion [of phyla and fauna] was too sudden to be natural." The Cambrian Explosion took place over the course of roughly 80 million years, and on top of that, its "explosiveness" may be overstated in the fossil record, as most of the organisms of that era, lacking bones or other mineralised body parts, would fossilize only under unusual conditions.

The claims that "Darwinians have already made adjustments to their theory to account for evidence of the Big

Bang" (since the theories do not overlap in any manner, this is both bizarre and revealing), "ID and evolution do not have to be mutually exclusive," or that there are "ID scientists who shun theology" are no closer to the truth than the belief that a cartoon elephant will teach us a lesson about science.

As for the fiction that ID is something other than a Trojan Horse with which to sneak Christian fundamentalism into public schools, consider the words of one of ID's founders, William Dembski: "Intelligent Design opens the whole possibility of us being created in the image of a benevolent God. . . . And if there's anything that I think has blocked the growth of Christ as the free reign of the Spirit and people accepting the Scripture and Jesus Christ, it is the Darwinian naturalistic view."

All those who've longed for someone to apply Michael Moore's technique in support of the Religious Right will love this movie. Those who want an honest presentation of the facts should look elsewhere. □

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**"Iron Man," directed by Jon Favreau. Paramount, 2008, 126 minutes.**

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# Iron and Dynamite

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Jo Ann Skousen

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"Iron Man" is a superhero for the 21st century. Even the soundtrack is contemporary, eschewing the heraldic trumpets and strings of John Williams' action soundtracks for a pounding, heavy metal guitar that is just right for a superhero who's made of, well, heavy metal.

Like Batman's Bruce Wayne, Iron Man's alter ego, Tony Stark (Robert Downey, Jr.), is independently wealthy

with a houseful of gadgets and a mad scientist's laboratory. Equal parts playboy and scientist, Downey infuses his character with the flair of an irreverent James Bond and the inventiveness of a MacGyver, sexy and debonair yet cheeky and absent-minded. But unlike Batman's futuristic urban dystopia populated with cartoonish supervillains, "Iron Man" is set in present-day L.A. and his villains are present-day Afghans. The plot works on several levels, satisfying the Stan Lee comic book aficionado but with a script worthy of a

political espionage thriller.

Director Jon Favreau develops the backstory well, devoting the first half of the film to how Stark becomes Iron Man and the second half to the espionage thriller, with plenty of Iron Man action throughout. When Stark is caught in a firefight after demonstrating a new superweapon to the U.S. military, he is forced by his Afghani captors to build the superweapon for them. Stark quickly and ingeniously designs a robotic spacesuit with superpowers instead.

A billionaire industrialist who has inherited a munitions plant from his father, Stark initially possesses the devil-may-care attitude Hollywood loves to impose on Big Business. While demonstrating the devastating power of his new weapon to a group of military leaders, he urges them pragmatically: "Find a reason to set off one of these and the bad guys will be afraid to come out of their caves." But Stark isn't a bad guy; he seems to believe that the best defense is a strong offense. When criticized for producing weapons, he replies, "The minute we stop needing missiles, we'll start building bricks and baby bottles."

It doesn't take him long to decide it's time for baby bottles. When a missile headed toward him early in the film literally has his name on it, Stark realizes that his weapons are being used by both sides to escalate the war. He vows to change the direction of his company, much to the chagrin of his business partner Obadiah Stane (bald, bearded, beautiful Jeff Bridges) and even the crazed Jim Kramer from CNBC, who makes a cameo appearance frantically urging investors to dump the stock.

The advantage of running a private company is that a CEO can change the direction of his business, and influence the outcome of a war, without having to convince a committee of 535 people who have competing pork-barrel needs. Like Alfred Nobel, who atoned for inventing dynamite by establishing the Peace Prize, Stark retools his factory and voila, a new superhero is born. This time the mad scientist is the good guy, and with his edgy attitude, wisecracking demeanor, and his almost demented way of talking to himself and his machines, Robert Downey, Jr., makes science cool. □

**“Indoctrinate U,”** directed by Evan Coyne Maloney. On The Fence Films, 2007, 87 minutes.

# Dissent for Me, Not Thee

Gary Jason

A great little documentary that was in very limited release last year is now available for purchase online and for rental at a few outlets. Evan Maloney’s film — “Indoctrinate U” — was produced in collaboration with the invaluable Moving Picture Institute, an organization devoted to producing and distributing films that have conservative or libertarian views. The film documents the repressive atmosphere of political correctness prevalent on all too many college campuses today.

Specifically, Maloney’s film (which he wrote as well as directed) examines the various ways college administrators and activist students try to squelch libertarian and conservative speech, by imposing speech codes, harassing conservative publications, and shouting down speakers with whom they disagree.

Maloney uses Michael Moore’s “Roger and Me” technique, walking into administrative offices and asking for interviews with various devious and nasty administrators. The results are often hilarious. In one sequence, Maloney investigates the case of one university’s legal jihad against a student who posted fliers for an upcoming speaker at a campus conservative club. The scheduled speaker was of that rare breed so offensive to the tender sensibilities of leftist students and profes-

sors: a black conservative. The kid had the stones to post a flier in the Black Student Center, and found himself charged with racial harassment by the vile administrators. They persisted, trying to intimidate him into withdrawing from the university, even taking him to court. He decided to fight, and the university not only lost, but was forced to pay his legal fees — some \$40,000.

In a priceless scene, Maloney and his cameraman show up at the president’s office, asking whether wasting \$40,000 in taxpayers’ money (intended to support bona fide education) on frivolous legal fees to pursue an innocent student

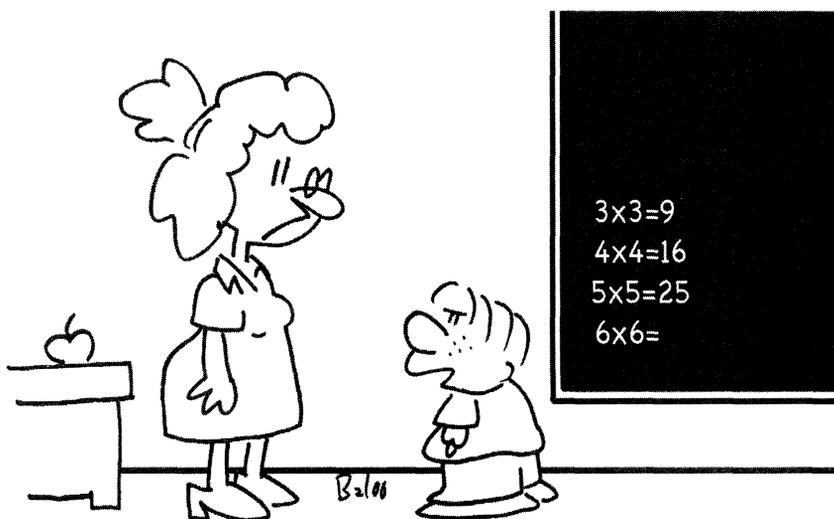
was really the wisest course. The scene is just marvelous — the snarky administrator first tries to intimidate the crew, then calls the campus cops! So much for free speech.

In another humorous sequence, the camera follows Maloney as he asks administrators in the Women’s Studies offices where the Men’s Studies Department is located, or where the Men’s Resource Center is. The look of vapid annoyance on their faces is a scream.

Students who produce campus conservative or libertarian publications tell how their newspapers are routinely stolen, and how they are harassed, even spat upon, while the campus administrations stand by approvingly. He also films antiwar protestors as they try to harass military recruiters on campus and deny other students access to them.

Maloney puts his finger on the crux of the problem. The campus radicals who protested for free speech in the 1960s control academe today, and — so typical of the Left — they act to stifle the dissent they fought so hard to secure, now that they are in control.

If you have a child in college or if you are soon to be a student yourself, this is an invaluable DVD. It is also useful for anyone who truly favors free speech. The production quality is amazingly high for what was obviously a small-budget venture, as is its comedic value. It is well worth the purchase. □



“Isn’t this a waste of time? — If I want to know stuff like this, I can look it up.”

**"Smart People,"** directed by Noam Murro. Miramax, 2008, 93 minutes.

# Too Smart for Its Own Good

Jo Ann Skousen

For smart people like Liberty's readers, the Sundance indie favorite "Smart People" seems a natural. With its smart cast and even smarter script, the film celebrates the cerebral — even its title credit, spelled out in Scrabble letters, appeals to the A+ student in each of us.

The film also celebrates the apparent right of smart people to be inconsiderate, aloof, sloppy, and ill-mannered. "Self-absorption is underrated," one character brags. "People like you and me don't need to compensate for inadequacies." How many times have you heard the phrase, "That's just the way I am," as an excuse for poor manners or downright meanness? The absent-minded professor, too smart to be nice? I don't think so.

Unless one is smart enough to turn to the dictionary. Then it begins to make sense: (smart) *vi.* 1. a) to cause sharp, stinging pain, as a slap b) to feel such pain 2. to feel mental distress or irritation; *adj.* 3. brisk, lively 4. intelligent, clever 5. neat, trim 6. stylish 7. impertinent or saucy.

In the film, Lawrence Wetherhold (Dennis Quaid) is a brilliant but self-centered professor who can't remember his students' names or even recognize their faces. Students complain and roll their eyes in disgust. He passes out nametags, but doesn't connect — as though naming something is the same as knowing it. At first we think he must

be suffering from short-term memory loss or mental illness a la schizophrenic math professor John Nash in "A Beautiful Mind." But no. Wetherhold is simply a curmudgeon of the worst sort: tenured.

Wetherhold's smart daughter, Vanessa (Ellen Page), doesn't fall far from the tree — when ER doctor Janet Hartigan (Sarah Jessica Parker) calls to tell Vanessa that her father has been in an accident, Vanessa replies sardonically, "I'm taking the SAT at 8 a.m. I have exactly one hour to study and get to sleep by 10." Page tries to make this character as "impertinent or saucy" as "Juno" would be in her next film, but director Noam Murro relies on sitcom shortcuts (Vanessa belongs to the Young Republicans and the Model UN, for example) to telegraph the character instead of letting Page act.

Quaid's performance is far from "neat, trim, stylish." His unkempt beard, his odd lumbering gait, his weird fixation on his briefcase, the potbelly under his shirt, and his inability to sit in a front passenger seat, all serve to distance the audience even more from this unlikeable character. We learn that his "mental distress or irritation" is down to the death of his wife, but that excuse doesn't satisfy: he has been offending his students since before his doctor was a freshman. It's "just the way he is" and he doesn't have to compensate for it.

Lawrence is also mean to his adopted brother, Chuck (Thomas Haden

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Church), using the word "adopted" as a continual "stinging slap" to explain why Chuck isn't as smart and successful as the real Wetherholds. Lawrence is supposed to be one of those "redeemed by love" characters, but there is no redeeming quality to love about him. As he heads out for his first date with Hartigan, Chuck advises him, "You spend \$50 for dinner, that's grounds for intercourse," and that's about as deep as the relationship goes.

First-time director Murro tries a little too hard to be smart. He wants to show a family that doesn't know how to function — daughter is playing at being housewife, father can't let go of the past, uncle is trying to bring some reality into the house, son is totally left out — but Murro comes off looking "sophomoric" (as Lawrence smartly calls Janet.) The names are "clever" but sophomoric clues: will Janet lose her "heart-again"? Will Wetherhold "weather" the storm or "hold" onto his pain? And of course there are the multiple meanings of the word "smart." But naming something isn't the same as knowing it, and Murro doesn't let us know his characters beyond their surface descriptions.

This movie tries to be another hilariously dysfunctional Sunshine family, but films about quirky dysfunctional families need to be "brisk, lively," and Murro's direction is deadening. Brisk, lively music would have been a smarter choice than the pleasant folk rock that has become an indie film staple. For example, the scenes at Goodwill when the dead mother's clothes are repeatedly donated and then repurchased could have been funny, but instead they seem maudlin and pathetic because the music is sentimental and low-key.

In one particularly odd scene, when Vanessa is out with adopted Uncle Chuck celebrating her early acceptance to Stanford, she asks a group of pretty girls — who haven't said a word to her — "What's it like to be stupid?" Such easy stereotypes — pretty girls = dumb, smart girls = rude, curmudgeonly professors = redeemable, unmarried lady doctors = uptight — lie at the root of this film's problems. To paraphrase a wise character from another film (*Forrest Gump*), "pretty is as pretty does," and this film is neither pretty nor smart. □

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## Housing Bubble and Bust, from page 30

monetary system that has existed since the post-World War II Bretton Woods agreement is coming apart at the seams. Recently Bill Gross, CEO of PIMCO, the world's largest bond fund manager, wrote, "What we are witnessing is essentially the breakdown of our modern day banking system." Vladimir Putin has called for a "new international financial architecture," a call that resonates with emerging economies such as China, India, and Brazil. At an international economic forum in St. Petersburg in June 2007, Putin pointed out, "Fifty years ago, 60% of world gross domestic product came from the Group of Seven industrial nations. Today 60% of world GDP comes from outside the G7." In view of this growing global economic trend, it is hard to see the current monetary system enduring when the linchpin of that system, the U.S. dollar, is continually undermined by the inflationary policies of its own government.

Regarding a recent hint from China about dumping a portion of its dollars, Judy Shelton, a professor of international finance and author of books and articles on monetary issues, said: "The prospect of such a shock to the U.S. economy in the midst of a housing slump threatens to bring the whole edifice crashing down. Throw in statements of support from oil-producers Venezuela and Iran, and you have the makings of a devastating dollar rout." Incidentally, last July Japan agreed to pay for its oil imports from Iran in yen rather than dollars.

Even if China does not dump its U.S. treasuries on the market any time soon, the longer term outlook for the dollar is still bleak. It seems unlikely any of the trends that brought us to

this point will reverse; more likely, they will worsen. Earlier I mentioned that the U.S. national debt is now \$9 trillion. But that does not include unfunded Social Security, Medicaid, and similar obligations. If those are included, the debt is \$59 trillion. There is no way those future bills can be paid in terms of current dollars. As a "solution," future administrations will simply employ larger doses of the same inflationary measures that created the problem. Because of structural changes in our government many years ago, which I discuss at some length in my book "Makers and Takers," the system has evolved to favor the politicians who spend more and promise more. "A lot of people, including me," said Paul Volcker, former chairman of the Federal Reserve, "have been saying that the country has been spending more than it's been producing, and that will have to come to an end. The question is: Does it come to an end with a bang or a whimper?"

The attempt to kick the problem down the road to the next generation and let them pay off future obligations with trillions of dollars worth a fraction of today's dollars will no longer work. As the dollar loses its stature as a reserve currency, as countries one by one defect from their formal links to the dollar, as U.S. dollars pile up abroad from financing our deficits, and as our borrowing becomes increasingly expensive, the monetary framework becomes ever more fragile. The danger of creating a run from the dollar could easily snowball like the run to gold prior to Nixon's action in 1971. The dollar may survive this crisis, or the next one, but there will always be one more, to which the United States will be more vulnerable than to the previous ones. Long before that \$59 trillion debt comes due, the dollar will have lost too much value to be trusted any more. The end will not come with a whimper. □

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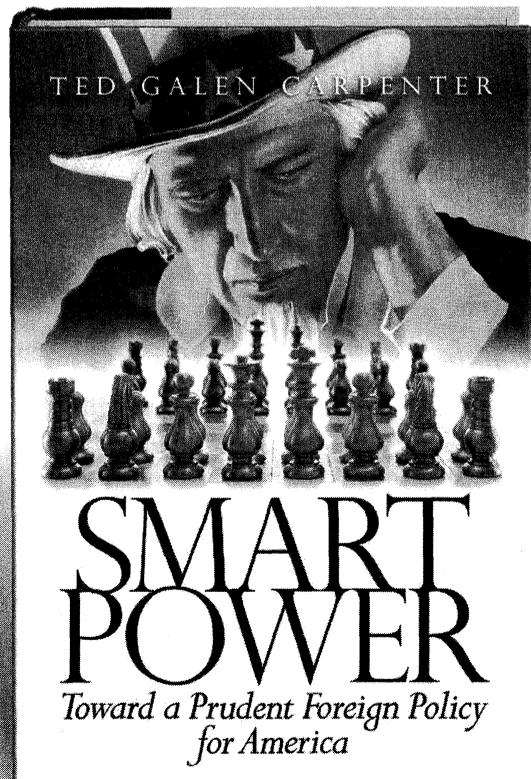
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## Summer Books, from page 48

of the 20th century. Certainly the horde of science fiction and fantasy writers who have been inspired by him would grant him that title by acclamation.

In our collection, Borges moves beyond the pettiness of the Greek gods. He gives us the boy who is condemned to a perfect memory. He gives us the soldier whose courage fails him in war but who, thanks to his creator, is allowed to renegotiate his past. He gives us Judas, but not the traitor we expect him to be. "He labored himself with titanic humility," Borges

writes, "He believed himself unworthy of being good."

In these pages, Borges guides us away from the political labyrinth and through the eternal one, stopping here and there to refute the existence of time or to consider the existence of God, never doubting himself or his treasury of secrets, never giving us cause to doubt him, and soothing us with the reminder that his job as mythmaker — and God — isn't difficult at all, that he "should only have to be immortal to carry it out."

*Garin K. Hovannisian is a writer living between Los Angeles and Yerevan, Armenia.*

## Salesman, Stalwarts, and Old Pols, from page 18

Gravel, who lives in Virginia now, was sometimes quiet and seemingly bored with the talkfest about him — then suddenly seemed engaged with a splash of radicalism. It was a reminder that in his Senate days he was too un-PC for his own party and eventually lost its nomination.

He has a new cause, the National Initiative for Democracy. The idea is to establish the voter initiative at the national level, which would require a constitutional amendment. "I want to do away with the entire system we have," he said.

Gravel was for freedom, which he defined — echoing the great Roman orator Marcus Tullius Cicero — as the people being "participants in power." He had tried to interest the Democratic Party in this idea but hadn't succeeded. Campaigning for president among the Democrats, he never broke out of the pack of such no-hopers as Tom Vilsack and Chris Dodd.

A former LP candidate for Senate told me he pegged Gravel at "65% libertarian." Gravel was for "open borders — one world," and for an end to the Iraq occupation and drastic shrinkage of the military. He was also for universal health

insurance — a stand he downplayed, telling the crowd that his version (government vouchers for private doctors) was "not socialistic." They could read about it in his book, "Citizen Power," which was on sale for \$20.

Afterward, when an LPer questioned him, Gravel said, "You want freedom for all Americans. Is there something wrong with wanting health for all Americans?"

Gravel appeared to be a fresh and opportunistic party member who had not seen fit to change his lefty positions in the way Barr had changed his righty ones.

Gravel's pitch was pragmatic: as a former senator, he had credibility the others — except for Barr — lacked, and he, Gravel, had more of it than Barr did. Gravel undertook to pretend he could actually win but stressed the urgency of the moment. "At my age, I've got a minimum shelf life. If you want to capitalize on what I have to offer, you've got to make me your standard bearer."

Such were the six: Stalwarts, Salesmen, and Old Pols. Each would put a distinctive face on America's longest-running third party, which is due to select its nominee in Denver at the end of May. That choice will determine whether the party has a chance to be a player in 2008 or merely an asterisk. □

## Libertarian Like Me, from page 22

disparate than a 60:40 split are considered too "unfair" and usually rejected in Western societies (though not in all societies). Rejecting an offer of money because it is "unfair" is costly to the rejecting individual and is a type of punishment behavior. Incidentally, another recent paper, which used an ultimatum game played by pairs of identical twins, estimated that over 40% of the variation in subjects' rejection behavior is explained by additive genetic effects.<sup>4</sup>

### Predicting Political Elections from Rapid Exposures to Candidates' Faces

I close, for now, by reporting a mind-boggling new paper on decision-making in elections.

Researchers showed participants the faces of candidates for elections (the winner and the runner-up of congressional and gubernatorial races). The subjects were asked to decide, based only on the candidates' faces, which of the two individuals were more competent. (If any participant recognized a face, that data was excluded from the results.) The researchers compared competence judgments collected before the election of 2006 and found that they predicted 68.6% of the outcomes of the gubernatorial races and 72.4% of the senate

races! The results were independent of the incumbency status of the candidates. Even a fleeting glimpse of a face (just 100 ms) led to predictions as accurate as unlimited exposure.<sup>5</sup> □

#### Notes

1. Van Wolkenten et al, "Inequity responses of monkeys modified by effort," *Proc. Nat'l. Acad. Sci. USA* 104 (47): 18854–18859 (2007).
2. Fliessbach et al, "Social comparison affects reward-related brain activity in the human striatum," *Science* 318:1305–1308 (2007).
3. Hauert et al, "Via freedom to coercion: the emergence of costly punishment," *Science* 316:1905–1907 (2007).
4. Wallace et al, "Heritability of ultimatum game responder behavior," *Proc. Nat'l. Acad. Sci. USA* 104 (40): 15631–15634 (2007).
5. Ballew and Todorov, "Predicting political elections from rapid and unreflective face judgments," *Proc. Nat'l. Acad. Sci. USA* 104 (46): 17948–17953 (2007).

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## Reflections, from page 52

skills look promising for play at the college level usually join a private club team in addition to playing for their school. (This privatized approach to developing young athletes is a rational response to yet another shortcoming of the state-run education cartel.)

Recently, my daughter's club volleyball team played in a big regional tournament in the suburbs south of Seattle. They started out slowly, dropping a couple early matches that they could have won.

They turned things around in the third match. This was partly due to unexpectedly strong play from the smallest girl on the team. The small girl normally plays in the back row of the rotation, a defensive specialist. And she doesn't usually serve. But some injuries and a last minute no-show meant that she had to play more, rotating through all six positions. And serving.

It was a little absurd to see her, just five feet tall, lining up in the front row — the offensive position — against girls who were six feet tall or taller. But she played selflessly and set the

ball for her teammates to take kill shots. My daughter's team was protecting a thin lead through most of the first game.

Then came the small girl's turn to serve. She was clearly nervous. Her teammates told her to relax and just put the ball in play. They'd win points on the volleys.

Her first serve wasn't booming; but it stayed in play and, true to their promise, her teammates won the point on the volley. Her confidence picked up . . . almost visibly. She placed her next couple of serves close enough to the sidelines that the other team couldn't return them. The other team's coach called a timeout to make some adjustments and "ice" the small server.

At this level of play, many players have strong serves; but most of the teams are good enough to return them. A good service turn will usually yield four or five points. The small girl reeled off eight points and my daughter's team won the game going away.

Afterward, the unexpected star jogged to the sideline, laughing. "God, winning feels so good when you've earned it!" True, that.

— Jim Walsh

## Letters, from page 4

if I (say) sue Garland? Well, I might be confident that I will prevail in court, but I couldn't be sure. So if I recklessly and needlessly expend \$100,000, and he only \$10,000, and I lose, I not only have to pay his modest \$10,000, but my original \$100,000. That's already plenty of incentive to keep my expenditures reasonable, no matter how confident I might be of victory.

Worse, his proposal would seem to allow lots of injustice. Suppose an attorney like John Edwards is suing a large corporation for some bogus alleged incident of sexual harassment at one of their sites. The plaintiff — Edwards' client — only has to testify on the stand, and perhaps present a couple of other witnesses. But the corporation will typically have to shell out a lot more money to present an adequate defense: many more witnesses (other employees) will have to be deposed (you need more witnesses to rebut than to prove); records will have to be gone over to prepare the interrogation of the plaintiff; managers will have to be deposed to describe the measures taken by the corporation to stop any and all harassment; very likely, the plaintiff's attorney will have demanded lots of documents, which would then have to be reviewed in detail before being handed over to check for any potentially harmful information, etc. It could easily be the case that the corporation will tru-

ly have to spend vastly more to defend itself than the accuser will spend to accuse — so if the plaintiff loses, he or she only has to pay a small portion of what the corporation really had to pay to adequately defend itself. That seems to me to be patently unjust — the corporation is still greatly out of pocket even though it was in the right.

### First Pauline Epistle

Bruce Ramsey's piece on Ron Paul was excellent, but I was stunned when he wrote that Paul "will have to endorse McCain" after McCain is nominated. Our movement is a revolution or it is nothing, and revolutionaries don't endorse their opponents. Did Gandhi endorse Churchill? Did Martin Luther King, Jr. endorse George Wallace?

Bill Anderson  
Capitola, Calif.

### Second Pauline Epistle

In the article "The Paul Vote" (June) Bruce Ramsey writes that "He [Paul] will have to endorse McCain — not now, and not with enthusiasm, but he will have to do it after McCain is nominated."

Why would he have to endorse anyone? I would prefer he remain silent and not endorse anyone if they are not qualified by his standards.

As far as Ron Paul running as an independent candidate, I would support Ron Paul if he does run as an independent,

but when Republicans inevitably lose the next presidential election, I would prefer they not have Ron Paul as an independent candidate to blame for their loss.

Tony Kruse  
Asheville, N.C.

**Ramsey responds:** I think he will have to endorse McCain just to show that he's a Republican. But it does sound at the moment like he's determined not to.

### Reader's Digest Version, Please

A 12-page article on the libertarian philosophy of war ("Thinking About War," May)? That is 21% of your entire issue. If I wanted to read a book, I would buy a book.

Jeff Thomas  
Fairbanks, Alaska

### Letters to the editor

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Port Townsend, WA 98368.

## Kinshasa, Congo

Just another day for CSI: Kinshasa, sketched out by the intrepid adventurers at Reuters:

Police have arrested 13 suspected sorcerers accused of using black magic to steal or shrink men's penises after a wave of panic and attempted lynchings triggered by the alleged witchcraft. Purported victims claimed that sorcerers simply touched them to make their genitals shrink or disappear.

"I'm tempted to say it's one huge joke," Kinshasa's police chief, Jean-Dieudonne Oleko said. "But when you try to tell the victims that their penises are still there, they tell you that it's become tiny or that they've become impotent. To that I tell them, 'How do you know if you haven't gone home and tried it,'" he said.

## Tel Aviv, Israel

New meaning to "lousy," from the *Jersualem Post*:

Seven German artists are living with lice in their hair in an Israeli museum in the name of art. The Berliners aim to stretch boundaries of what is art, saying they are toying with ideas about hosts and guests.

"The idea is that we live in the museum as their guests, and at the same time we are hosting lice on our heads," said artist Vincent Grunwald, 23.

Milana Gitzin-Adiram, chief curator of the Museum of Bat Yam, near Tel Aviv, said: "Art is no longer just a painting on the wall. Art is life, life is art."

She said she spent weeks exploring the gallery's theme of "hosting," turning to philosophers such as Jacques Derrida and the Bible for inspiration. After receiving proposals from around the world, she decided to choose the head lice.

## U.S.A.

Ruminations from the vanguard of the omphaloskeptic class, from an audience with the *Atlanta Journal-Constitution*:

If steps aren't taken to stem global warming, "We'll be eight degrees hotter in 30 or 40 years and basically none of the crops will grow," Ted Turner said during a wide-ranging, hour-long interview with PBS' Charlie Rose. "Most of the people will have died and the rest of us will be cannibals."

Turner added, "It's been a long time since anybody caught me saying something stupid."

The CNN founder also said he thinks his old network has veered too far away from serious news.

## Switzerland

Advance in timekeeping, noted by *The Wall Street Journal*:

Swiss watchmaker Romain Jerome has launched a \$300,000 watch, the "Day&Night," that won't tell you what time it is. But it does tell you whether it's day or night.

As the company's website boasts: "With no display for the hours, minutes or seconds, the Day&Night offers a new way of measuring time, splitting the universe of time into two fundamentally opposing sections: day versus night."

The watch sold out within 48 hours of its launch.

## The Vatican

Pronouncement on ecclesiastical exobiology, in an interview from Holy See newspaper *L'Osservatore Romani*:

"The extraterrestrial is my brother," says the Rev. Jose Gabriel Funes. Such a notion "doesn't contradict our faith" because aliens would still be God's creatures.

## Kuwait

Curious appraisal of sexual practices, in a report by CBS News:

Army Sgt. Darren Manzella, a medic who served in Iraq for a year, currently serves as medical liaison for the 1st Cavalry Division stationed in Kuwait, where he says he is "out" to his entire chain of command, including a three-star general.

After leaving Iraq, he started receiving anonymous emails warning him about his openness that suggested he was being watched, so he went to his commander to head off an investigation he felt was coming. Manzella turned over pictures of him and his boyfriend, including video of a passionate kiss, to aid the investigation. But to his surprise, "I was told to go back to work. There was no evidence of homosexuality," says Manzella. "You're not gay," he says his superiors told him. This response confused him.

## Dallas, Texas

Revelatory infrastructure, charted by the Christian Broadcasting Network:

A number of Christians have come to believe that because of recent prophecies, dreams, and visions I-35 is the highway spoken of in Isaiah 35, verse 8 — "And a highway will be there; it will be called the Way of Holiness."

Now dozens of Midwest ministries have linked arms to pray these prophecies are soon fulfilled. For one thing, pointed out prophetic intercessor Cindy Jacobs of Generals International, "We have 17 24-hour prayer rooms going on." Jacobs calls these gatherings Purity Sieges.

At the first Purity Siege outside a prominent gay bar in Dallas, up came James Stabile, a 19-year-old homosexual who'd come by to drink and party. But he ran smack-dab into the Purity Siege and Joe Oden. Stabile recounted, "He just barely touched me and he said, 'Fire!' and I remember staggering back and I thought I was tripping on acid. It was the weirdest thing ever. And he said, 'Fire!' again and I fell in the Holy Ghost." One thing disappeared immediately: his homosexuality.

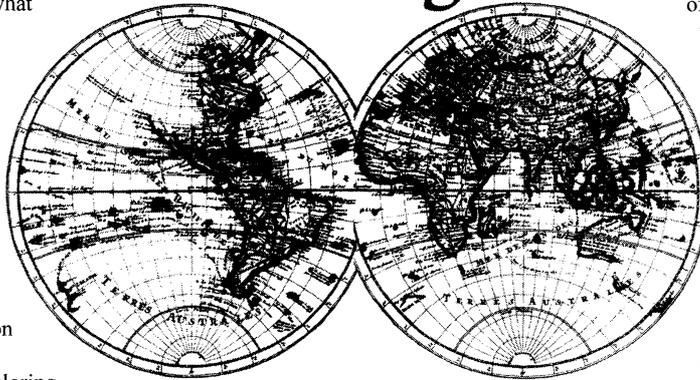
## Italy

Curious bid for transparency, in a dispatch from the BBC:

There has been outrage in Italy after the outgoing government published every Italian's declared earnings and tax contributions on the internet.

Deputy Economic Minister Vincenzo Visco said he could not understand what all the fuss was about: "This already exists all around the world, you just have to watch any American soap to see that."

# Terra Incognita



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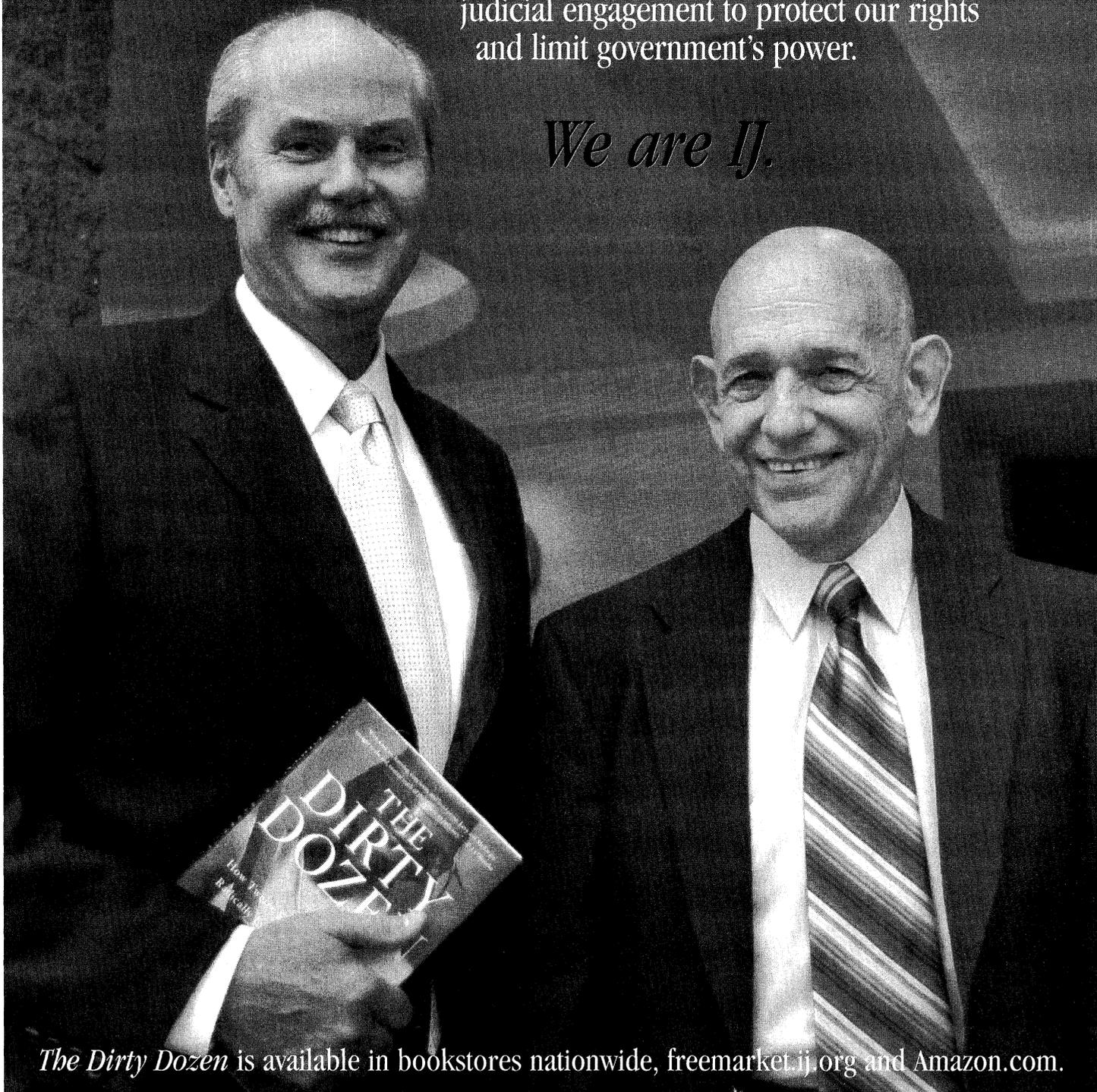
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