

The Roots of Government Failure

By Randy T. Simmons



Many problems in public life are beyond the ability of the political system to solve. Yet whenever those kinds of problems are discovered, it seems that somewhere there is a politician or bureaucrat

who is foolish enough to propose that the government try to “fix” them. In fact, knee-jerk government interventionism has long been rationalized by oversimplified doctrines taught in American colleges and universities.

Traditional public policy and “welfare economics”—two influences on many aspiring politicians and bureaucrats—provide excuses for government intervention whenever markets are alleged to have “failed.” But reality isn’t so accommodating. Government failure can—and usually does—lead to a waste of tax dollars and make the original problem far worse.

The lesson may be hard to learn, but not be-

Randy T. Simmons is Senior Fellow at The Independent Institute and author of the Institute book, *Beyond Politics: The Roots of Government Failure*.

cause it is inherently complex. The root problem is one of temptation and myopia: we keep asking more of political institutions than they can handle well, and we invent excuses for their shortcomings even though those shortcomings are inherent in their design.

To craft viable solutions to public-policy problems, the first rule-of-thumb is to recognize that politicians will not necessarily act in the public interest. Their overriding incentives are to win elections, not solve problems. The difference may in principle seem minor (after all, we want politicians to solve problems), but it is not. Problem-solving can be deferred or pushed onto other politicians’ constituents (including future generations). Also, pseudo-problems can be manufactured out of whole cloth so that their proposed “solutions” will benefit a special interest.

The second rule-of-thumb is to recognize that even if politicians faced strong incentives to serve the public interest, in important respects they lack the knowledge necessary to achieve this lofty goal.

“The public” is merely the totality of the millions of people who make up a society, each with differing and changing preferences and goals. And only a few basic services serve everyone’s interests. The provision of law and order may be one of them, but even here we find that government officials seem to possess limited knowledge of how to deliver those services quickly and effectively.

If the “incentive problem” encourages politicians to bite off more than they can chew, the “knowledge problem” prevents them from digesting it. The analogy isn’t perfect, but it suffices to convey why our political system is bloated and dysfunctional.

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President's Letter

New Heights!

With “Occupy” leaders declaring victory from President Obama’s “State of the Union” speech, is an era of continued “progressive” Big Government now inevitable—with ever-greater government “entitlements” and encroachments on our liberties and well-being?

We think *not!* Times of uncertainty, such as today’s, lead more and more people to seek alternatives to government failures and empty rhetoric, and especially now on our 25th Anniversary, increasing numbers are turning to the Independent Institute for innovative and principled solutions.

For example, over the past year our impact in the new media has exploded.

- We now have more than 110,000 Facebook fans (see p. 8)—higher than almost any other “think tank” or public policy group worldwide—involving nearly 700,000 people *each week*.
- Our MyGovCost online project—the Government Cost Calculator tracking and exposing the huge and growing national debt—reaches more than 600,000 every week.
- Overall, our web impressions have increased by 234% this past year, to 313.7 million.

To continue propelling the ideas of liberty to new heights, we invite you to join with us to help accelerate our communications campaign, **Prime Time for Liberty**. As a result, we’re turning up our efforts, with path-breaking, new books like *Financing Failure* (by Vern McKinley), *Delusions of Power* (by Robert Higgs), *Beyond Politics* (by Randy Simmons), *No War for Oil* (by Ivan Eland), and *Aquanomics* (edited by B. Delworth Gardner and Randy Simmons).

We hope that you will join with us in this special campaign and become an **Independent Associate Member**. With your tax-deductible membership, you can receive a **FREE** copy of *Financing Failure* (p. 1), *Aquanomics* (p. 5) and other publications, including *The Independent Review* (p. 3), plus other benefits (see attached envelope).



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The Independent Review

Big Government's Premise • Can Government Be Shrunk?

Now approaching its 17th year of publication, *The Independent Review* is as exciting as ever. Here are summaries of two articles from the winter 2012 issue.

The Perversion of Human Rights

The Universal Declaration of Human Rights, adopted by the United Nations in 1948, helped foster a worldwide concern for the plight of people suffering at the hands of repressive regimes. Human-rights campaigns have led to improvements in the treatment of political dissidents and have helped secure the release of many prisoners of conscience.

All this is to the good. But in recent decades, the notion of what comprises a human-rights violation has been expanded, and this development has, ironically, posed a threat to traditional human rights and liberties, rather than buttressed them, according to political scientist **Stephen Baskerville** (“Sex and the Problem of Human Rights”).

As the title of his article suggests, Baskerville argues that the cutting edge of this development involves social policies related to gender relations. Case in point: the 1979 United Nations treaty known as CEDAW—the Convention on the Elimination of All Forms of Discrimination Against Women. Among other provisions, the treaty requires signatory countries to eradicate “any stereotyped concept of the roles of men and women at all levels and in all forms” (Article 10c).

“Thus, not simply governments, but private individuals can be designated as human rights violators simply because of how they divide the household labor or otherwise conduct their private lives and personal relationships,” Baskerville writes.

If UN monitoring committees succeed in pressuring governments to enforce CEDAW, privacy in the home would suffer a harsh blow.

“Sex and the Problem of Human Rights” is available at www.independent.org/publications/tir/article.asp?a=863/

Alchemy Leveraged

Scores of books and articles have been written about the financial crisis of 2007–2008. Unfortunately, much of this literature is deeply flawed, treating, for example, the foibles of mortgage lenders as the primary cause of the calamity, rather than as secondary matters.

One book exempt from this criticism is *Alchemists of Loss: How Modern Finance and Government Regulation Crashed the Financial System*. According to its authors, Kevin Dowd and Martin Hutchinson, the chief culprit of the financial crisis is the agency assigned to promote economic growth and keep unemployment low: the Federal Reserve.

Economist **Roger Garrison** (Auburn University), a leading theorist of the business cycle, agrees with Dowd and Hutchinson’s overall assessment (“Alchemy Leveraged: The Federal Reserve and Modern Finance”).

Under the leadership of former chairman Alan Greenspan, the Fed drove down interest rates and thereby precipitated an unsustainable housing bubble. This emphasis on distortions to long-term investment patterns caused by loose monetary policies, Garrison notes, accords with the business cycle theory of the Austrian School of Economics.

But if *Alchemists of Loss* shares the analytical tenets of a tradition that sprouted in Vienna, some of its policy prescriptions come from Chicago. For though Dowd and Hutchinson favor the abolition of the Fed, a goal advocated by most Austrian economists, they would settle for the Fed to pursue policies aimed at stabilizing the level of prices, an approach associated with the monetarism of the University of Chicago. Unfortunately, a monetary policy of price stabilization would still leave the economy vulnerable to Fed-induced business cycles, says Garrison. So although *Alchemists of Loss* has many virtues, a foolproof prescription for avoiding future booms and busts isn’t one of them.

“Alchemy Leveraged: The Federal Reserve and Modern Finance” is available at www.independent.org/publications/tir/article.asp?a=867



The Independent Review, Winter 2012

The Independent Institute in the News

Center on Global Prosperity

“The search for liberty is simply part of the greater search for a world where respect for the rule of law and human rights is universal—a world free of dictators, terrorists, warmongers and fanatics, where men and women of all nationalities, races, traditions and creeds can coexist in the culture of freedom, where borders give way to bridges that people cross to reach their goals limited only by free will and respect for one another’s rights.”—Alexis de Tocqueville Award recipient **Mario Vargas Llosa** in *The Wall Street Journal*



Research Fellow Jonathan Bean engages with John Stossel of Fox Business Network’s “Stossel.”

Center on Entrepreneurial Innovation

“Make no mistake: Washington’s real problem is runaway spending. The government is more than \$15 trillion in debt and the Congressional Budget Office forecasts another \$10 trillion of deficits in the coming decade. Congress failed to make significant cuts to address these problems when it raised the debt ceiling last August and the ‘super committee’ did no better.”—Senior Fellow **Benjamin Powell** in *The Daily Caller*

“We are just beginning to learn the extent to which [failing financial agencies] actions were an abysmal combination of seat-of-the-pants analysis and panicked responses. Decisions and deals oftentimes ‘took place in emergency meetings in the middle of the night,’ as President Obama has described it, and the resulting decisions were inconsistent in their entirety.”—Research Fellow **Vern McKinley** in *The Washington Times*

“As the ranks of those dependent on the welfare state continue to grow, the need for the rulers to pay attention to the ruled population diminishes. The masters know full well that the sheep will not bolt the enclosure in which the shepherds are making it possible for them to survive. Every person who becomes dependent on the state simultaneously becomes one less person who might act in some way to oppose the existing regime.”—Senior Fellow **Robert Higgs** in Andrew Breitbart’s *Big Government*

Center on Peace and Liberty

“So while there may be one less dictator in the world to worry about, Gadhafi’s ouster and death have created a vacuum that increases the terrorist threat. Many of those 20,000 MANPADS missiles are unaccounted for. Let’s hope they haven’t fallen into the wrong hands. Meanwhile, the lesson for us all: Be careful what you wish for.”—Senior Fellow **Charles V. Peña** in *The Sacramento Bee*

“In the end, it is public opinion that most restrains political power — not words on paper, not judges, not politicians’ promises. A population that is not decidedly and passionately against violations of their liberties will see their rights stripped away.”—Research Editor **Anthony Gregory** in the *Huffington Post*



Senior Fellow Benjamin Powell on Fox Business Network’s “Freedom Watch.”

“Current U.S. policymakers should follow John Quincy Adams’s long-forgotten advice rejecting the lure of American intervention to promote democracy abroad in favor of rhetorical support and leading by example.”—Senior Fellow **Ivan Eland** in *The Dallas Morning News*•

New Book

The Need for Water Rights and Water Markets

Water is becoming increasingly scarce. If recent usage trends continue, shortages are inevitable. Policies must be implemented to postpone or avoid the onset of “water crises.” Many observers see calamity ahead unless water supplies are harnessed and effectively conserved, and unless water quality can be improved.

These issues are carefully examined in *Aquanomics: Water Markets and the Environment*, edited by B. Delworth Gardner and Randy T. Simmons. Twenty-two experts provide insight and guidance about water policy. The book explains why private water rights and water markets should appeal to the large segment of the population for whom environmental quality is a top priority, as well as to those who recognize the need for economic growth and efficiency.

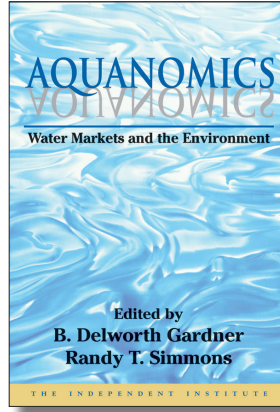
Water pollution is one problem that markets can help fix. For example, markets for tradeable water-quality permits (and wastewater-discharge permits) lower the costs of pollution abatement. Thus, farmers who can abate water pollution at

lower costs may sell credits to those whose costs are higher. Unfortunately, as usually proposed and practiced under the Clean Water Act, water-quality trading has only a limited number of real market-like features, a limitation that prevents it from living up to its full potential.

Although non-market hindrances have prevented water markets from doing their best, water policy is an area flush with market-based innovations that have improved water quality. Oregon’s Deschutes River Basin, for example, has been improved through the use of auctions for water rights. Auctions help generate and reveal information as to what water is worth to the people who buy and sell it in actual markets. This enables the owners of water rights and mitigation credits to offer their assets for an acceptable price.

Dam removal is another hot topic in water policy. In the coming years, decision-makers will be tempted to set priorities for dam removals solely on the basis of political pressures. *Aquanomics* offers an evaluative framework for dam

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Student Programs

2012 Challenge of Liberty Summer Seminars

We are pleased to announce the dates for the Independent Institute’s 2012 Challenge of Liberty Summer Seminars!

The high school student seminar will be held at our campus in Oakland, California, June 18–22, and the college student seminar will be held at Notre Dame de Namur University in Belmont, California, July 30–August 3.

We are coming off of an historic year for our seminars! In 2011 our high school seminar hosted a record number of students from all over California and across the country. In addition, our college seminar attracted students from 6 different countries and 16 different universities including University of Prague in the Czech Republic, University of Francisco Marraquin in Guatemala, and Roosevelt Academy in Lithuania.

These 5-day seminars feature an integrated program of presentations by Independent Institute fellows and key university professors on issues including:

- Philosophical foundations of natural law and natural rights
- How the market economy promotes prosperity, civic virtues, and equality
- History of money and banking and the causes of economic malaise
- Nature of government power and monopolies
- Why governments fail and markets succeed
- How to resolve problems in the environment, housing, education, health care, employment, and other issues

For more information please visit our website at www.independent.org/students/seminars/

A Gala For Liberty

Celebrating Liberty's Champions



PHOTOS BY MOANALANI JEFFREY

The Independent Institute's **Gala for Liberty** was a fantastic success, attended by more than 400 people and held at the Ritz-Carlton Hotel in San Francisco on November 15, 2011.

The event commemorated the Independent Institute's 25th anniversary and honored three individuals whose work has significantly contributed to the advancement of liberty and human dignity by presenting them with the Alexis de Tocqueville Award: economic historian **Robert Higgs**, distinguished novelist and essayist **Mario Vargas Llosa**, and pro-democracy activist and former President of Poland **Lech Wałęsa**.

Due to health reasons Wałęsa, recipient of the 1983 Nobel Peace Prize, was not able to attend the event in person, but in his video message and interview he conveyed his characteristic modesty. "Thank you very much for this prize. I hope that the time will come that I can personally thank you for this award and then talk to you about the challenges of our times." More concerned with substance than with awards, Wałęsa continued his message with numerous insights about social movements and the battle for liberty.

In his acceptance speech, Vargas Llosa, recipient of the 2010 Nobel Prize in Literature, spoke on the importance of the award's namesake, Alexis



de Tocqueville. Receiving the award is, he said, "a mandate of vigor, of commitment in defense of certain values, the first of which is of course liberty, freedom, [and] I will do my best in order to be up to this honor and this responsibility."

Higgs, a Senior Fellow at the Independent Institute, was the first award recipient to speak. "I am pleased to accept this award on behalf of all those who share my ideals and who struggle to defend and promote the free society," he said. He stressed that liberty is a powerful instrument for creating wealth and important cultural products as well as an immensely important value in its own right.

Several luminaries honored the award recipients by sharing their accolades either at the podium or via videotaped messages: Independent Institute President **David J. Theroux**, Rev. **Alan Jones** (Grace Cathedral), economist **Price Fishback**, former President of Bolivia **Jorge Quiroga**, Research Fellow **Alex Tabarrok**, technology entrepreneur **Peter Howley**, **Yuri Yarim-Agaev** (Hoover Institution), **Thaddeus Taube** (Honorary Consul, Republic of Poland), **Shana Penn** (Taube Philanthropies), Nobel Laureate in Economic Sciences **Robert Fogel**, Nobel Peace Prize Laureate Archbishop **Desmond Tutu**, Congressman **Ron Paul**, former Prime Minister of Estonia **Mart Laar**, and Former Deputy Prime Minister of Poland **Leszek Balcerowicz**.

A video of the gala is available at www.independent.org/gala/•



Clockwise from top left: Mario Vargas Llosa autographs his book for Evelyn McClure; honoree Lech Wałęsa; former Soviet Dissident Yuri Yarim-Agaev delivers a tribute to honoree Lech Wałęsa; honoree Robert Higgs (center, left), flanked by (l-r) Mary Theroux, Price Fishback, and David Theroux; honoree Mario Vargas Llosa, former Bolivian President Jorge Quiroga, and David Theroux.

Randy T. Simmons: The Roots of Government Failure

(continued from page 1)

One of the worst examples of the ill effects of government intrusion into the free market is the mounting national debt. Independent Institute Research Fellow and MyGovCost.org Director **Emily Skarbek** recently wrote in the *Washington Examiner*: “While politicians have been spending profligately on . . . special interests, public debt has increased by at least \$500 billion per year every year since 2003.”

Yet despite those huge amounts of spending—the cost of government interventions that were supposed to correct alleged “market failures”—the American economy remains stagnant, unemployment remains high, and millions of Americans remain at the mercy of a federal government operating without a budget.

How should Americans begin to get out of the current economic malaise? In my book, *Beyond Politics: The Roots of Government Failure*, I offer a two-fold remedy: Eliminate the federal constraints that have hindered production and exchange, and search for ways to remove politics from problem-solving.

In this election year, we should demand less government intervention and more freedom from those lobbying for our votes. Rather than ask, “how can government help?” we should ask, “how can government get out of our way so that we can solve our own problems?” Answering that question will enable us to make the best use of the most valuable services of all: human ingenuity and initiative. •

New Book: The Need for Water Rights and Water Markets

(continued from page 5)

decommissioning that considers cost, ecological effects, and stakeholder preferences.

California has long been a hot spot for water policy, and *Aquanomics* examines issues of special concern in the Golden State, including the future of the Sacramento–San Joaquin River Delta, a watershed that has been the source of much conflict between competing uses. The second issue is the role of property rights to groundwater governance in the Los Angeles Basin. The third looks at the development of various water rights in California. These analyses are also highly relevant for water policy in other states.

A novel theme emerges from the analysis of these and other topics examined in *Aquanomics*: Reforms that incorporate private-property rights in water and emerging water markets would increase the quantity and quality of an increasingly scarce and valuable resource, and they would accommodate changing and often conflicting demands for water, including conservation and environmental uses.

Water is becoming scarcer and more valuable and action must be taken. With its detailed look at water markets and its bold exploration of the potential for private-property rights to enhance

Praise for *Aquanomics*

“Aquanomics is essential reading for those wishing to understand water markets and advance more sensible public policies.”

—**Lee J. Alston**, Professor of Economics and Environmental Studies, University of Colorado

“Aquanomics reveals the enormous ecological and economic benefits of bringing property rights to water. As with any other resource, if people own water it will be protected.”

—**Roger E. Meiners**, John and Judy Goolsby Distinguished Professor of Economics and Law, University of Texas at Arlington

“This book is indispensable for anyone who wants to understand what went wrong and what can still go right with water policy in America.”

—**H. Spencer Banzhaf**, Professor of Economics, Georgia State University

freshwater ecosystems, *Aquanomics* will quench the thirst of readers eager for refreshing insights about the world’s most vital natural resource.

To order this book, visit www.independent.org/aquanomics/ •

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Why We Give!

In conjunction with The Independent Institute's 25th Anniversary Gala for Liberty, *Genery Wealth Magazine* asked those serving as Co-Chairs of the event how and why they became involved with the Institute. The following are excerpts from their responses:

Silicon Valley venture capitalist—and founder of a group fostering entrepreneurship among students—**Tim Draper** admires that “The Institute is all about freedom. It is a consistent beacon of truth in proving the economic value of freedom, free markets, and less government intrusion into our lives.” He further recognizes that this is a critical time for supporting the Institute, “when the world needs to be enlightened as to what creates jobs, wealth, and progress.”

Institute supporter and retired KPMG CEO **Robert Alspaugh** noted, “The Institute is foremost independent in thought and that independence drives research which is meaningful and unbiased. So much of what we see in ‘think tanks’ today is colored by political and financial support so that when the reader picks up the analysis they must begin by thinking about what slant is put upon the information provided.”

Believing that independence is key to having the Institute’s findings seriously considered by



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The Independent Institute’s Gala Co-Chairs Tad Taube, Tim Draper, and Phil Hudner.

academic, policy, business, and media leaders across the political spectrum, the Independent Institute depends entirely on private contributions to fund our peer-reviewed research and award-winning program of dissemination through conference and media programs.

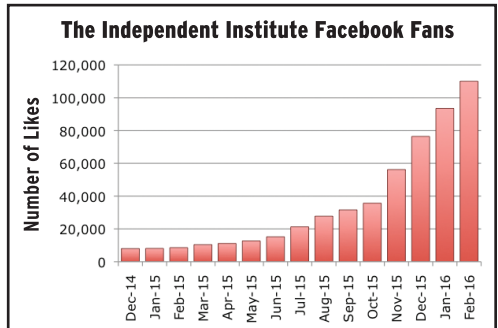
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