

## P. J. O'Rourke Explains Adam Smith

Modern readers should keep two things in mind before reading Adam Smith's *The Wealth of Nations*, humorist **P. J. O'Rourke** (Member, Board of Advisors, Independent Institute) told an overflow audience at the February 9th Independent Policy Forum devoted to his new book on Smith's classic economic treatise, *On The Wealth of Nations*.



Author and humorist P. J. O'Rourke addresses the Independent Policy Forum.

First, as a professor during the "Age of Enlightenment," an era when thinkers increasingly applied reason and the scientific method to the study of the world, Smith sought to explain economic progress, and what he called "the obvious and simple system of natural liberty," at a level of detail that seems tedious to those more likely to read tabloid coverage  
*(continued on page 5)*

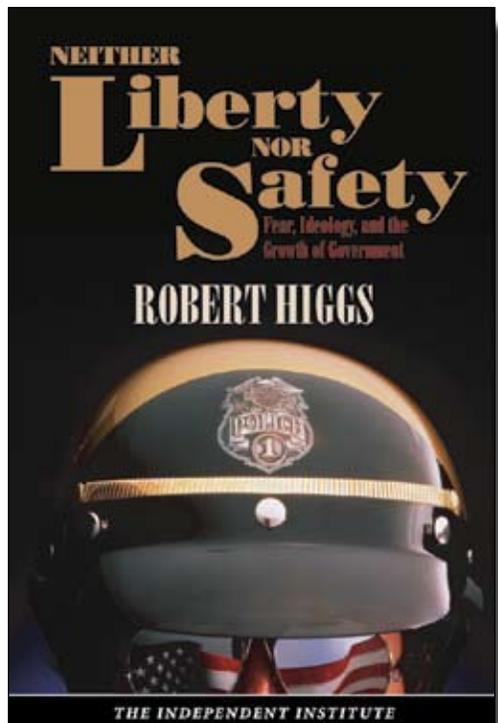
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## New Books on Liberty, Fear, and Government

Two new books from the Independent Institute examine, respectively, the growth of government, and non-state legal and political systems.

- Benjamin Franklin once said that those who would give up essential liberty for temporary safety "deserve neither liberty nor safety." In *Neither Liberty Nor Safety: Fear, Ideology, and the Growth of Government* (paperback, \$15.95), Senior Fellow **Robert Higgs** illustrates the false trade-off between freedom and



security by showing how the U.S. government's economic and military interventions have significantly reduced the civil and economic liberties, prosperity, and genuine security of Americans.

Extending the theme of Higgs's earlier books, *Neither Liberty Nor Safety* stresses  
*(continued on page 5)*



## President's Letter:

### More Awards!

We are very pleased to announce additional awards received for the marvelous work of our numerous fellows:

- Author of the Independent Institute's book, *Restoring Free Speech and Liberty on Campus* (Cambridge University Press), Research Fellow **Donald A. Downs** (Professor of Political Science, University of Wisconsin) was awarded the **Peter Shaw Memorial Award** from the National Association of Scholars.
- Senior Fellow **Robert Higgs** is the recipient of the **2007 Gary G. Schlarbaum Prize for Lifetime Achievement in the Cause of Liberty** from the Ludwig von Mises Institute. Dr. Higgs is the author of numerous seminal books on how crises are used by interest groups to foster increasing government power, including *Neither Liberty Nor Safety* (see p. 1); *Crisis and Leviathan*; *Against Leviathan*; and *Depression, War, and Cold War*, the latter of which was also designated by *Society Magazine* as **Social Science Book of the Month** (January-February 2007).
- The Institute's book *Street Smart* has been designated by Planetizen, the Planning & Development Network, as **Top 10 Book for 2007 in Urban Planning, Design, and Development**. The book is edited by Research Fellow **Gabriel Roth** and features a foreword by Mary Peters, U.S. Secretary of Transportation.
- For the fourth year in a row, the Independent Institute has received the highest rating of **Four Stars (\*\*\*\*)** by Charity Navigator, the premier organization that rates non-profit organizations. In addition, the Institute is once again ranked in the top 10% of American public policy organizations, ahead of virtually all other think tanks.

Now to continue and expand this work in pioneering sound alternatives to government folly, we invite you to join with us. As an **Independent Associate Member** (please see enclosed envelope), you can receive copies of our new books, such as *Neither Liberty Nor Safety* and *Anarchy and the Law* (see p. 7), our journal *The Independent Review* (p. 3), and much more regarding events (pp. 1, 5, 6), media projects (p. 4), and other programs. And, your tax-deductible support makes this very timely and far-reaching work possible. Please join with us!

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## The Independent Review

### Government Spending • Katrina • Contracting Out Military

The Spring 2007 issue of *The Independent Review* continues the journal's tradition of solid scholarship on important topics.

#### Ominous Trends in Government Spending

• For about a century, U.S. government expenditures reflected Adam Smith's view that the state's role should be limited to protecting citizens from aggression and supplying goods that the free market may not provide. Beginning in the late 1800s, however, government at all levels began to change its emphasis from carrying out these traditional roles to advancing the welfare state.

If this trend continues, it may ultimately threaten government's capacity to provide the services that Smith deemed essential to the maintenance of a safe and prosperous society, according to Presbyterian College economics professors **Jody W. Lipford** and **Jerry Slice** in "Adam Smith's Roles for Government and Contemporary U.S. Roles: Is the Welfare State Crowding Out Government's Basic Functions?"

In 2005, the share of federal spending on national defense, justice, transportation, and education was half what it was in 1962. Social spending as a percentage of total federal spending has risen from 23.4% in 1962 to about 60% in recent years. Mandatory federal entitlement spending, especially for Medicare and Medicaid, worry experts at the Congressional Budget Office, and elsewhere, the most. State and local government spending trends are similar, but less extreme.

"The longer these trends continue, the more difficult it will be politically to change them," Lipford and Slice conclude.

See <http://www.independent.org/publications/tir/article.asp?issueID=48&articleID=626>.

#### Hurricane Katrina

• Like any large-scale project, natural-disaster relief management succeeds or fails on the basis of the ability of crisis managers to gather, evaluate, and act on decentralized, informal knowledge of logistics, local needs, and changing circumstances. Government agencies and private-sector organizations alike must ask such questions as: Is there a disaster? What's needed and who needs it? Is what we're doing working?

The case of the Hurricane Katrina relief effort provides a telling comparison of how bureaucracies, such as the Federal Emergency Management Agency (FEMA), and non-government organizations and networks grapple

with the "knowledge problem," explain economic professors **Russell S. Sobel** and **Peter T. Leeson** (West Virginia University) in "The Use of Knowledge in Natural-Disaster Relief Management."

Before FEMA came to New Orleans, several groups—including a Vancouver-based search and rescue team—had reached the beleaguered city and begun relief operations. Even before Katrina hit, many for-profit businesses had sent supplies to nearby areas: Home Depot sent generators, flashlights, and lumber; phone companies readied mobile cell towers; and insurers flew in agents to get ready to process claims.

Not only were FEMA's efforts too little and too late, the agency hindered others' efforts. A sheriff from Michigan ignored FEMA's (and his governor's) protocols and brought nine truckloads of supplies and thirty-three deputies to New Orleans. In contrast, a sheriff from



Indiana followed FEMA instructions but was buried under its paperwork: he never made it to Louisiana.

Although "bad directors" can magnify the ineffectiveness of federal disaster-relief efforts, Sobel and Leeson stress that the root problem is that the agencies' bureaucracy makes it hard for them to know what to do. In contrast, private-sector organizations have the profit motive or their donors' motives to guide their actions.

See [www.independent.org/publications/tir/article.asp?issueID=48&articleID=628](http://www.independent.org/publications/tir/article.asp?issueID=48&articleID=628).

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# The Independent Institute in the News

- **Opinion:** **Alvaro Vargas Llosa**, Director of the Center on Global Prosperity, continued his weekly column for the Washington Post Writers Group, with a worldwide circulation of 5 million. Research Fellow **S. Fred Singer**'s op-ed on global warming ran in the *San Francisco Examiner*, *Bucks County Courier Times*, and *Providence Journal*. Senior Fellow **Robert Higgs**'s op-eds appeared in *Ottawa Citizen* and *Orange County Register*. Research Fellow **George Nicholson**'s op-ed on the Jackie Robinson 60th anniversary appeared in the *New York Sun*, *Advocate-Messenger*, *Orange County Register*, and *Human Events*. **Benjamin Powell**, Director of the Center on Entrepreneurial Innovation, examined health care for *Contra Costa Times* and *Jacksonville Business Journal*. Research Fellow **Jonathan Bean**'s op-ed on England's abolition of slavery appeared in *Contra Costa Times*, *L.A. Watts Times*, *Baltimore Afro American*, *Orange County Register*, and *Watertown Daily Times*. **Ivan Eland**, Director of the Center on Peace and Liberty, wrote about China,



*Independent Institute Research Fellow Benjamin Powell on "Penn & Teller: Bullsh\*t!" on the Showtime network.*

Iraq, Afghanistan, and Iran in *San Diego Union-Tribune*, *Daily Sun News*, *American Conservative*, and *San Gabriel Valley Tribune*.

- **Books:** *Judge and Jury* was reviewed in the *Journal of Economic Literature* and *Colorado Lawyer*. *Re-Thinking Green* was reviewed in *The Freeman*. *The Challenge of Liberty* was reviewed in *Reason Magazine*. *Depression, War, and Cold War* was reviewed in *Reference & Research Book News*. *Plowshares & Pork Barrels* was reviewed in *Capital Ideas*. **Gabriel Roth** promoted his book, *Street Smart*, in the *Washington Post*, *National Journal*, and on radio stations KIRO (WA), KDNK (CO),

KRCB (CA), WFLF (OH), and WDRC (CT). Research Fellow **Andrew Kleit**, author of *Electric Choices*, appeared on WMBS (PA) and WEJL (PA).

- **Broadcast:** **Ivan Eland** discussed North Korea, Iran, China, and the war in Iraq on ABC (Australia), BBC, al-Jazeera, KZFR (CA), KTLK, BBC Radio, Sirius Satellite Radio, Washington Post Radio, and stations across the country including KOA (CO), WDRC (CT), Pacifica Radio Network, KNOX (ND), KKCR (HI), American Urban Radio Network, KSFR (NM), WPR, WEKZ (WI), KRXA (CA, AZ, OR), WGR (NY), WHO (IA), WGR (NY), and WZBC (MA). **Charles Peña** offered military analysis on Iraq, Israel, and Iran for MSNBC-TV, CBC (Canada), al-Jazeera, NBC-TV, Washington Post Radio, and BBC News. **Alvaro Vargas Llosa** was interviewed on Radio America, Air America, ABC Radio, and by David Frost on al-Jazeera. **Benjamin Powell** discussed sweatshops on Penn & Teller's "Bullsh\*t!" (Showtime). **David Isenberg** discussed his policy report, *Budgeting for Empire*, on USA Radio Network, Air America, KNPR, ABC Radio Network, KCPW (UT), KFTK (MO), WNDB (FL), WDRC (CT), KTBB (TX), KFBK/KSTE (CA), and WHO (IA). Research Fellow **S. Fred Singer** discussed global warming on CFRB (Canada), The Drudge Report, and KSFO (CA). **Winslow Wheeler** discussed his policy report, *Congress, the Defense Budget, and Pork*, on KTSA (TX) and WDRC (CT).
- **Print:** **Alvaro Vargas Llosa** was interviewed about Bush's Latin America trip in the *New York Times*, *USA Today*, Reuters, *Washington Times*, and McClatchy News Service, and on Chavez in *San Diego Union-Tribune*. **Charles Peña** was interviewed by *National Journal* on weaponry cost and by *Sun Journal* (NC) on the Iraq troop surge, and was quoted in the *Boston Globe*, *Hartford Courant*, and the *Orange County Register* on the size of U.S. armed forces. Research Director **Alex Tabarrok** was quoted in *New York Times* on Bush's congestion pricing proposal. Adjunct Fellow **Carlos Sabino** was interviewed in *Energy Tribune*. **Ivan Eland** was interviewed by *Christian Science Monitor*, *USA Today*, *Shelbyville Times-Gazette*, and *News-Item* (PA) on U.S. military escalation in Iraq. •

## **Independent Policy Forum: P. J. O'Rourke Explains Adam Smith**

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of Anna Nicole Smith's probate battles than serious books. Second, Smith's 18th-century Scottish prose sometimes makes reading him seem "like reading *Modern Maturity* in Urdu," O'Rourke said.

Yet *The Wealth of Nations* changed the world for the better, and thus every truly educated person should have a working knowledge of its profound ideas and huge impact.

Fortunately, the essence of Smith's treatise can be encapsulated in a single sentence, O'Rourke said: "Economic progress depends upon three individual liberties: the pursuit of self-interest, the division of labor, and the freedom of trade."

Understanding the book's historical context is key to grasping its importance, O'Rourke explained. In Smith's day, ordinary people were just beginning to gain control of their lives from feudal, political, and ecclesiastical authorities. Smith's famous example of the benevolent social consequences of the butcher, the brewer, and the baker—each pursuing his self-interest, yet also promoting the ends of others as if guided by an invisible hand—was meant partly to reassure the old-guard elites who were leery of new opportunities for commoners.

Smith also debunked a myth popular in his day and ours: the naïve notion that wealth exists in a fixed amount and that the key to economic progress is for the state to redistribute wealth by granting monopolies to favored companies, to impose tariffs on imports, and to accumulate a national surplus of gold bullion.

In reality, Smith showed, specialization and trade allowed everyone to benefit from the efforts, talents, and resources of others. Freedom in production and exchange—founded on secure private-property rights—raises labor productivity, which makes possible savings and investment. Through this process, real wealth—not money, but the things that money can buy—is created.

"Wealth is not a pizza, where if I have too many slices, you have to eat the Domino's box," said O'Rourke. "Wealth is not a zero-sum game. That is probably the single most important message of *The Wealth of Nations*."

Sadly, politicians are often deaf to this message, whether they are decrying foreign trade imbalances or immigration, O'Rourke explained with his famous wit. Smith's book, however, transcends party politics, and his brand of economics relies on moral and philosophical principles.

"*The Wealth of Nations* espouses free enterprise, not because free enterprise will make us rich—although we all hope it will—but because free enterprise is based upon property rights," said O'Rourke. "And not property rights in the Donald Trump sense of property rights, but a far more important property right than that. It is based on the property right that we all have to ourselves, the deed we have to ourselves. It is based upon our self-possession as free individuals."

A transcript is available at [www.independent.org/store/events](http://www.independent.org/store/events). ●

## **New Books: Neither Liberty Nor Safety • Anarchy and the Law**

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the role of misguided ideas in the expansion of government power at the expense of individual liberty. Higgs illuminates not only many underappreciated aspects of the Great Depression, the two world wars, and the postwar era, but also the government's manipulation of public opinion and the role that ideologies play in influencing political outcomes and economic performance.

Advocates of a larger government often use fear to make the public more receptive to their plans, but social scientists studying the growth of government usually neglect the role of fear, crisis and ideological change, Higgs explains. Also, they often rely on flawed statistics (e.g. government spending as a share of GDP) that fall far short of measuring the actual extent of government involvement in the economy and in people's personal lives.

### **Praise for *Neither Liberty Nor Safety***

"**Neither Liberty Nor Safety** is required reading for anyone interested in the history of government or in the future of America."

—**Michael C. Munger**, Professor of Political Science, Duke University

"**Neither Liberty Nor Safety** is an important addition to Robert Higg's systematic analysis of the political uses of fear-mongering."

—**Thomas S. Szasz**, Emeritus Professor of Psychiatry, SUNY, Syracuse

Fear-mongering and statist ideology exerted a lasting effect by setting the stage for the Great Depression and the federal government's counterproductive responses to it, according

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## Independent Policy Forum

# The Reality and Legacy of the Iraq War?

As the situation in Iraq deteriorates into a full-blown civil war, it is time to face some pressing questions: Is the Iraq war a hopeless quagmire whose failure was unavoidable? Can the U.S. government still foster a united, peaceful and prosperous Iraq—or is the very notion of a stable, unified Iraq itself problematic?

The Independent Institute hosted an Independent Policy Forum entitled “The Reality and Legacy of the Iraq War,” which aimed to address the above questions, as well as others. The forum, held on October 17, 2006, at the Institute’s Oakland Conference Center, featured **Mark Danner**, Professor of Journalism at the University of California, Berkeley, and **Ivan Eland**, Senior Fellow and Director of the Institute’s Center on Peace and Liberty.

Danner, author of *The Secret Way to War* and *Torture and Truth*, argued that the sectarian violence in Iraq is even more brutal with little chance of letting up, given the current U.S. approach, than the mainstream media seem to indicate. “When you look at the newspaper or look at the television screen every night,” Danner said, “what you’re seeing is rather a truncated view simply because the journalists there are now under so much threat and so much stress.”

As for solutions, Danner suggested first recognizing that “the war cannot be won militarily” and that only diplomacy, including meetings with the sectarian parties in Iraq and

its neighboring states, can bring about a viable political stability in the country.

According to Eland, author of *The Empire Has No Clothes* and the highly relevant Independent Policy Report, *The Way Out of Iraq: Decentralizing the Iraqi Government*, the U.S. government needs to withdraw as soon as possible, and if the Iraqi people are to have political harmony in their country, decentralized governance will have to play a role. Eland challenged the idea that a central Iraqi state



(L to R) *Mark Danner and Ivan Eland address the Independent Policy Forum.*

would be able to quell sectarian violence when the U.S. military has so clearly failed to do so. Indeed, he argued that the civil war was being propelled by a desire of the Shiite and Sunni sects to maintain or grab the reins of a powerful central state and explained why they, as well as the Kurds, would be better off without such a state.

[A transcript is available at www.independent.org/store/events.](http://www.independent.org/store/events) ●

## *The Independent Review:* Contracting Out Military Services

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### Privateers and Private Military Services

● Privateers—private ships licensed to carry out warfare, in exchange for the right to seize the cargo of enemy ships—were widely used before the mid-19th century because they were far less expensive and easier to mobilize than larger navies. **Alexander Tabarrok** (The Independent Institute and George Mason University) recounts their history in “The Rise, Fall, and Rise Again of Privateers.”

Privateering played a crucial role in the American Revolution, with approximately 700 commissioned ships, compared to about 100 in the U.S. Navy. It practically determined the outcome of the War of 1812, as privateers sank up to 2,500 British ships and inflicted \$40 million in damage (about \$525 million in today’s dollars).

After the War of 1812, however, the prac-

tice came under attack. In March of 1813, Congress drastically changed the incentive for privateers: they would pay privateers half the value of a British ship they had burned, sunk, or destroyed. But because it was difficult for the government to monitor a privateer’s performance under this rule—how could it confirm that a privateer hadn’t lied about his claim of sinking an enemy ship?—they had effectively initiated the end of the privateering system.

One lesson to draw: privateering—like the use of private security contractors in today’s troubled hotspots—was an instance of “contracting out,” not the full privatization of security, and thus operated in the context of incentives and constraints established by the government.

See [www.independent.org/publications/tir/article.asp?issueID=49&articleID=631](http://www.independent.org/publications/tir/article.asp?issueID=49&articleID=631). ●

**New Books: *Neither Liberty Nor Safety* • *Anarchy and the Law****(continued from page 5)*

to Higgs. And as a result of their influence, although the United States was on the winning side of World War I, World War II, and the Cold War, Americans ended up with fewer liberties than they had before the wars.

Since the early 20th century, long-term structural changes, the enduring effects of great “national crises,” and collectivist ideological changes have promoted political lobbies that use government power to promote their ends at the expense of the general public. Constitutional doctrines that had long restrained the growth of government have been abandoned. For the past century the U.S. case illustrates Thomas Jefferson’s dire dictum: “The natural progress of things is for liberty to yield and government to gain ground.”

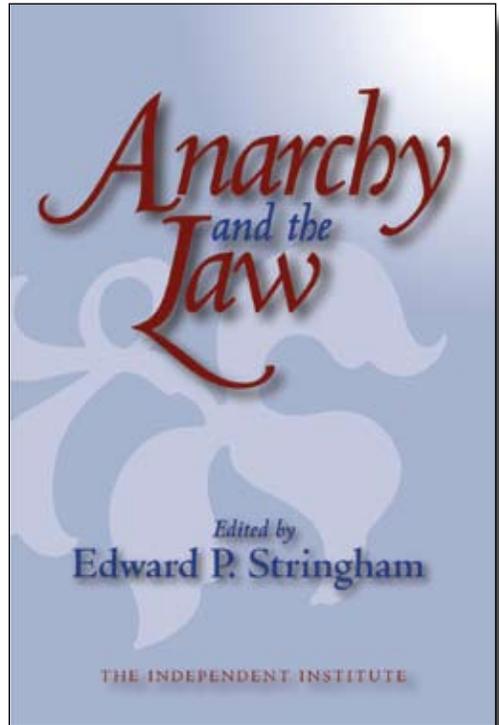
To purchase *Neither Liberty Nor Safety*, see [www.independent.org/store](http://www.independent.org/store).

• How would society function without government-provided courts and police? If private institutions were the sole providers of justice and security, would they be subject to the same competitive forces that characterize a free-market, private-property economy? The questions are intriguing, and the intense debates they have sparked in some circles seem endless. Unfortunately, the classic texts on non-state legal systems have been scattered across numerous books and hard-to-find journals, making it difficult to study this provocative idea in much scholarly detail—until now.

***Anarchy and the Law: The Political Economy of Choice*** (paperback, \$29.95), edited by **Edward P. Stringham**, Associate Professor of Economics, San Jose State University, remedies the problem by assembling many of the major

studies that explain and debate the theory and practice of law and order under a rule of law based on natural law and private contracts.

Part One shows how influential advocates of non-state legal systems, from the 1970s to the 1990s, have argued their case. In Part Two, philosophers and economists debate the morality and viability of non-state legal systems. Part



Three looks at the history of anti-statist legal and political thought and includes classic writings from the 19th century. Part Four presents historical case studies from medieval England, Ireland, and Iceland; the Law Merchant; and dispute resolution during the settlement of the American West and elsewhere.

One highlight of the book is the light it sheds on the kind of justice that private courts have historically delivered. For example, systems of private-law creation and enforcement have viewed lawbreaking as an offense against the injured party, not society at large, and justice was primarily about restitution, not retribution. In medieval Iceland, which had a system of competing law enforcement for 300 years, a victim (or his survivors) could sell his right to collect compensation, which made it economi-

*(continued on page 8)*

### Praise for *Anarchy and the Law*

*“Finally, a fit rejoinder to people who begin sentences with ‘There ought to be a law...’”*

—**P. J. O’Rourke**, author, *Parliament of Whores* and *On The Wealth of Nations*

*“Scholars interested in scrutinizing the links between political and legal institutions will find **Anarchy and the Law** an invaluable resource.”*

—**Tom Bell**, Professor of Law, Chapman University

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# New Report on Defense Waste and Fraud

Donald Rumsfeld used to champion the idea of scaling back the military to be a smaller, faster, leaner, meaner fighting force. However, all such talk has been abandoned.

In February of 2006 the Pentagon released its *Quadrennial Defense Review (QDR)*, and the Defense Department seems inclined toward the same old business as usual—pork, graft, and outdated weapons systems.



David Isenberg

In a new Independent Policy Report, *Budgeting for Empire: The Effect of Iraq and Afghanistan on Military Forces, Budgets, and Plans*, David Isenberg, Research Fellow at the Independent Institute and Senior Research Analyst at the British American Security Information Council, presents an astute analysis of the defense budget, which doesn't even cover the cost of the wars in Iraq and Afghanistan.

In the 2007 Defense Budget, "the Pentagon continued to fund three very costly short-range

jet fighters... as well as the navy's Virginia class nuclear attack submarine at \$2.4 billion each, the CVN-21 next-generation aircraft carrier, and the DD(X) destroyer. And the army's expensive and futuristic Advanced Combat Systems program based on systems not yet invented is still rolling along."

Isenberg makes numerous suggestions for streamlining the budget and bringing it more in line with the new challenges the United States faces. This will, however, require a commitment to cutting back programs, redundant weapons, and waste that some constituents find beyond questioning.

Among the Report's findings:

- The final tally for earmarks—spending inserted in a bill to benefit Members of Congress—tops \$12.2 billion, a record high.
- In 2005, the Defense Department paid \$1,000 for popcorn makers and toasters and \$5,500 for a deep-fat fryer.
- Nearly two decades after the fall of the Berlin Wall, every Cold War Weapon system previously in the procurement pipeline remains.

"The levels of deceit and ignorance are so high that we cannot even begin to understand how bad overall American fiscal irresponsibility is," said Mr. Isenberg.

To download *Budgeting For Empire*, see [www.independent.org/publications/policy\\_reports/detail.asp?type=full&id=23](http://www.independent.org/publications/policy_reports/detail.asp?type=full&id=23).

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## New Books on Liberty

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cally feasible for even the poor to prosecute a case or enforce a verdict. People could choose which law-enforcement bodies to join and could switch at will, and the system's incentives worked to reduce conflicts.

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