

The INDEPENDENT

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Policy Forum: Looking Beyond Iraq

How will Iraq fare if and when the United States significantly reduces its military personnel from that country? How strong is the economic case for U.S. military intervention in the oil-rich Middle East? These and related issues were addressed at the panel discussion, "Troop Withdrawal: Looking Beyond Iraq," held September 21, at the Independent Institute's Washington, D.C. office.



JAMES DUGGAN

Leon T. Hadar and David R. Henderson address the Independent Policy Forum.

Research Fellow **Leon T. Hadar**, author of the Independent Policy Report *A Diplomatic Road to Damascus* (see p. 6), began by comparing the Iraq war to a movie that fails at the box office. Whereas many people might attribute its failure to weak acting or sloppy editing, the fundamental problem may have been a bad script that no amount of money or technical excellence could have fixed.

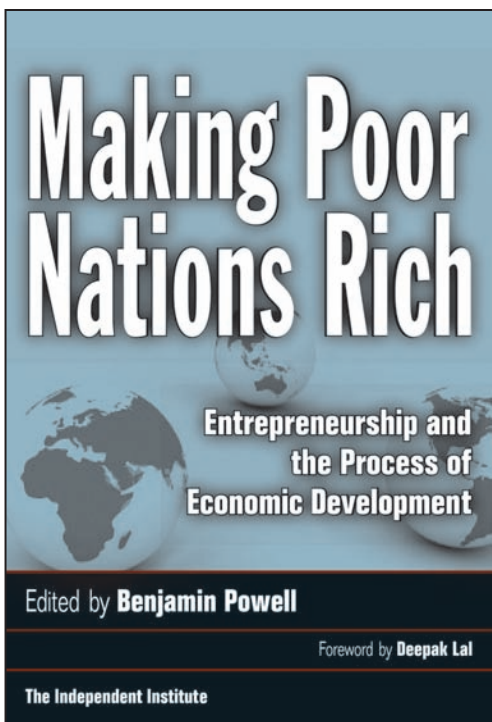
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New Book Shows How to End Global Poverty

Why do some nations become rich while others remain poor? Traditional mainstream economic growth theory has done little to answer this question. During most of the twentieth century it focused on models that assumed growth was a simple function of labor, capital, and technology. Fortunately, more and more scholars have begun to recognize the foundations of growing prosperity: entrepreneurship and a free legal environment conducive to its flourishing.



In *Making Poor Nations Rich: Entrepreneurship and the Process of Economic Development* (Stanford University Press), edited by Research Fellow **Benjamin Powell**, sixteen scholars highlight the importance of entrepreneurship and the legal and regulatory climate in which it operates. Through case studies ranging from Asia and Africa to Latin

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President's Letter:

Ending Poverty

Most of the world lives in abject poverty and misery. Approximately 10 percent of the population (roughly 600 million people) exists at or below an economic level of \$1 per day, and approximately half of the world (3 billion people) lives at or below \$2 per day. Why do some nations like China get richer while others like those in sub-Saharan Africa remain poor? What obstacles prevent development in some countries with plentiful resources while others that may be resource-poor thrive?



For many decades, most of academia, the media, business and government have claimed that abject poverty is caused by a lack of physical resources, unjust terms of trade, and unfair capital flows. And only *greater* government controls can be the answer. Characteristic of this mindset are calls for increased government-to-government aid that expands the bureaucratic strangulation and political corruption already so pervasive in most countries, restricting the poor's ability to freely innovate, build enterprises, and trade to improve their lives.

Now questioning this dogma, our Research Fellow **Benjamin Powell** argues in our new book that he has edited, *Making Poor Nations Rich* (see p. 1), that we must instead free the people of poor countries by ending such controls.

With a foreword by UCLA economist Deepak Lal and involving the work of fifteen economists, *Making Poor Nations Rich* comprehensively demonstrates the power of market-based enterprise to end the oligarchic rule of government elites and emancipate the bulk of the world's population from the prisons of poverty.

This far-reaching Independent Institute book along with all of our books, our journal *The Independent Review* (p. 5), events (p. 1) and other programs provide unique and essential insights to redefine and redirect public debate and the direction of government reform. To fund this work however, we will *not* accept government funding. Instead we rely on the generous tax-deductible support of **Independent Associate Members**. Hence, we invite you to join with us to boldly advance this work, and in so doing, receive copies of our new publications plus other benefits (please see enclosed reply envelope for further details). We hope to have the opportunity to work with you!

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The Independent Review

Going Postal • Katrina Recovery • Tocqueville

The Independent Review continues its tradition of wide-ranging scholarship on economics, public policy, and political and social theory. Here is a sampling from the Fall 2007 issue.

Reforming the Postal Service

Years after UPS and FedEx refuted the rationale for a monopolistic and inefficient U.S. Postal Service, statutes and criminal penalties(!) continue to shield half of the agency's mail volume against competition from private carriers. In contrast, the European Union and other countries around the globe have abandoned their state-run postal operations.

One might have expected this costly embarrassment to have been corrected by the Postal Accountability and Enforcement Act of 2006, but this wasn't the case, explains **James A. Montanye** in "Going Postal: Regulatory Reform in the Digital Age."

The new law will lead to the closure of some unprofitable post offices, but meaningful reform may not occur until the Postal Service comes to the brink of collapse. And that possibility looks likely, as e-mail and other cheaper and more reliable alternatives offered by the Internet quickly erode the agency's revenues from its monopoly on First Class mail.

However, meaningful reform will need to overcome powerful vested interests. With nearly one-third of the federal civilian workforce (earning an estimated 30 percent more than they would in the private sector), the Postal Service may pose a stronger obstacle to reform than did the airlines, trucking, and telecommunications industries when the prospect of deregulation confronted those industries.

See www.independent.org/publications/tir/article.asp?issueID=51&articleID=660.

Government Policies Stall Hurricane Recovery

Two years after Hurricane Katrina pummeled the Gulf Coast, recovery in many areas has stalled. Neighborhoods still lie in ruins. Thousands still populate "temporary" FEMA trailer parks. Residents and business owners wait for signs of whether and when their communities and customers are going to return, but the communities and customers can't—or won't—return until housing, businesses, and services are restored.

This Catch-22 is not an inherent by-product of the vast storm-related destruction, according to economist **Emily Chamlee-Wright** ("The Long Road Back: Signal Noise in the Post-

Katrina Context"). Instead the slow pace of post-Katrina reconstruction is caused by many disaster-response policies and redevelopment initiatives that have distorted the signals from markets and civil society that would otherwise have fostered a swift and sustained recovery.

Based on extensive field research, including interviews with hundreds of residents, business owners, and government officials, Chamlee-Wright takes a tough look at policies that have



created "signal noise" that discourages non-government efforts to rebuild. She also offers helpful principles that could—and, in some places, already have—spur redevelopment.

"Effective recovery, even in the wake of catastrophic disaster, depends primarily on the social and economic systems that coordinate people's daily life," writes Chamlee-Wright. "It is imperative that public policy play only a supportive role to these systems rather than create signal noise that inhibits their successful reestablishment."

See www.independent.org/publications/tir/article.asp?issueID=51&articleID=659.

Misreading Democracy in America

Alexis de Tocqueville, author of the two-volume classic *Democracy in America* (1835, 1840), predicted that the United States would avoid the Industrial Revolution that was then transforming England. Instead, he believed Americans would remain self-sufficient farm-

(continued on page 5)

The Independent Institute in the News

- **Opinion:** Senior Fellow **Ivan Eland** wrote on Iraq partitioning in *The Hill* and the *Washington Times* on terrorism in the *Washington Examiner*, and on al Qaeda in *Providence Journal*. The *Wall Street Journal* ran Research Fellow **William Gray**'s explanation of hurricane forecasting. Policy report author **Leon Hadar** wrote on Middle East conflict in the *Columbia Tribune* (MO), *Gulf Times* (Qatar), and *San Diego Union-Tribune*. Research Fellow **David Isenberg** wrote about oil in the *Asia Times*. Research Fellow **Pierre Lemieux** wrote on labor policy for the *National Post*. Research Fellows **E. C. Pasour, Jr.** and **Randal Rucker** collaborated on farm policy in the *Pittsburgh Tribune-Review* and *Billings Gazette*, and on ethanol for *Connecticut Post* and *Tampa Tribune*. The *Wall Street Journal* ran Research Fellow **John Semmens**' op-ed on driver licensing. Research Director **Alex Tabarrok** wrote about bail in the *Journal of Law & Economics*. Research Fellow **Robert Whaples** predicted a rosy long-term economy in the *Providence Journal*. In his Washington Post Writers Group syndicated column, Senior Fellow **Alvaro Vargas**



Independent Institute Research Fellow Alexander Tabarrok on CNN.

Llosa wrote about ethanol, China, dictators, terrorism, etc. Senior Fellow **Charles Peña** wrote on nuclear proliferation for the *Wayne Independent*, and on the CIA's 9/11 report for the *Arizona Daily Star*, *Buffalo News*, and *Bulletin* (OR). Research Fellow **Gabriel Roth** evaluated traffic congestion in the *Atlanta Journal-Constitution* and *Detroit News*. Research Analyst **Anthony Gregory** wrote on war, statism, and "The Simpsons" for LewRockwell.com. Research Fellow **Benjamin Powell** wrote on immigration in the *Financial Times*.

- **Books:** *Anarchy and the Law* was reviewed in *SciTech Book News* and *Reference & Research Book News*. *Depression, War, and Cold War* was

reviewed in the *Charleston Gazette*. The *Journal of Economic Issues* reviewed *Judge and Jury*. *Reference & Research Book News* reviewed *Neither Liberty Nor Safety*. The *Wall Street Journal* reviewed *Electric Choices*. *Hot Talk, Cold Science* was cited in the *Skeptical Inquirer*. *Plowshares & Pork Barrels* was cited in the *Charleston Gazette* and *Restoring Free Speech and Liberty on Campus* in the *Washington Times*.

- **Broadcast:** West Virginia Radio Network interviewed Research Fellow **Donald Downs** about Ahmadinejad's speech. Research Fellow **Fred Foldvary** discussed Chrysler's sale on KPFA (CA). **Charles Peña** offered military analysis on MSNBC, the "Dan Lovallo Show," C-SPAN 2, ARD Radio Network (Germany), Al-Jazeera, CTV NewsNet (DC), and WDRC (CT). President **David Theroux** was interviewed on troop withdrawal on KTVU (CA). **Ivan Eland** spoke on Afghanistan, Iraq partitioning, al Qaeda, and bin Laden, at outlets including Al-Jazeera, CBC-TV (Canada), KMED (OR), WWRL (NY), and "The Steel on Steel Show." **Alvaro Vargas Llosa** was interviewed on Bloomberg Television, France 24 TV, and the Talk Radio Network. **John Semmens** spoke about driver licensing on the "Brian Wilson Show" (OH). **Benjamin Powell** and **Alex Tabarrok** discussed immigration on "Lou Dobbs Tonight" (CNN). **Gabriel Roth** discussed road pricing on Canadian and U.S. radio.

- **Print:** **Alvaro Vargas Llosa** was quoted by *Vertigo* (Mexico), *Investor's Business Daily*, Bloomberg News, *Liberation* (France), and *Veja* (Brazil). *Jornal do Brasil* interviewed **Ivan Eland** on 9/11. *The Observer* (UK) quoted **Charles Peña** on General Petraeus. **Benjamin Powell** was quoted in *Sydsvenskan* (Sweden) on international remittances, and cited in *Colorado Biz* on immigration. **Gabriel Roth** was quoted on auto use limits in *Diario Reforma* (Mexico) and on infrastructure in *EXAME* (Brazil). **Randal R. Rucker** and **E. C. Pasour, Jr.** were cited on "pork" in Seattle's *Post-Intelligencer* and on ethanol in the *Shawnee News-Star*. The *New York Times* quoted *Street Smart* contributor **Peter Samuel** on road congestion. The *Economist* quoted **Alex Tabarrok** on usury. •

Independent Policy Forum: Troop Withdrawal: Looking Beyond Iraq

(continued from page 1)

Such is the case with the U.S. in Iraq, according to Hadar. Had U.S. military commanders acted differently in Iraq, the campaign still would have suffered from a faulty “script”—that is, a set of dubious assumptions that have long guided U.S. policy in the Middle East. Those assumptions—which support the notion that the U.S. should be the region’s predominant security guarantor and peace broker—are strategically outdated, economically fallacious and morally questionable, according to Hadar.

The U.S. foreign-policy establishment accepts those assumptions and hopes the U.S. will resume the leadership role it played in the Middle East in the 1990s, but that course would be a mistake, according to Hadar. Instead, he proposed that the U.S. help create a consortium of great powers—including the European Union, Russia, and perhaps eventually China and India—to deal with global threats such as terrorism, rogue states, and weapons of mass destruction.

Next, **David R. Henderson** (Naval Postgraduate School) examined the leading economic rationale for U.S. intervention in the Middle East: “oil security.”

“The idea that a government needs to use military force to maintain access to oil is false,” said Henderson, who drew on his recent policy report, *Do We Need to Go to War for Oil?* Because oil is sold in a world market, an oil-exporting government cannot effectively target an enemy country by ending its exports to that country.

“Moreover, by restricting supply, this government will forgo oil revenues and hurt itself,” he said. “No government restriction of supply in any other country can cause people in another country to line up for gasoline. Only price controls in the home country can do that.”

Finally, **Ivan Eland** (Senior Fellow and Di-

rector, Center on Peace and Liberty) addressed criticisms leveled at U.S. troop withdrawal from Iraq. Withdrawal, he argued, could help prevent a full-blown civil war by pressuring the Iraqi government to pursue political decentralization, either by partitioning the country or by creating a loose confederation of Shi’ite, Sunni, and Kurdish states.



Ivan Eland address the Independent Policy Forum.

History can teach us much about how—and how not—to partition a country, Eland then explained. For example, the Indo-Pakistani partition of 1947 shows that security should be provided to migrating populations; whereas the partition of Ireland in 1921 shows that leaving a large minority in one region can prolong civil strife.

“The lesson for Iraq is, you can’t leave a big block of one group on the other side of the line,” Eland said. “Small group pockets are okay, but we must gerrymander the borders to make the new statelets as homogeneous as possible, leaving no big concentration of one group on either side.”

Eland also stressed the need for each group to help draw defensible borders and to be given its own oil-producing land.

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

The Independent Review: Tocqueville

(continued from page 3)

ers or jacks-of-all-tradesmen who would avoid not only large industry, but also higher education, professional specialization, scientific and scholarly research, and large-scale organizations in general; they would also stay relatively equal in wealth and income.

Long ago, history proved Tocqueville grossly mistaken, yet he is hailed almost universally as the supreme oracle of the modern age.

Why have scholars across the ideological spectrum gotten Tocqueville wrong? Simple. Like the inkblots of a Rorschach test, parts

of *Democracy in America* are so ambiguous that readers can see what they want to see and thus misinterpret Tocqueville in ideologically congenial ways, argues **Daniel Choi** in “Unprophetic Tocqueville: How *Democracy in America* got the Modern World Completely Wrong.”

Choi writes: “Had these various commentators pursued clarity rather than ideological vindication, the anti-Marxists among them might have seen that Tocqueville’s vision of the

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Independent Policy Report

Diplomacy with Syria

After years of threatening and isolating Syria, President Bush this year expressed interest in diplomatically engaging President Bashar al-Assad. In his new Independent Policy Report *A Diplomatic Road to Damascus*, Independent Institute Research Fellow **Leon T. Hadar** lauds this overdue policy reversal.

Greater U.S. engagement with Syria, according to Hadar, could advance important strategic



Leon T. Hadar

interests of both governments, such as thwarting Sunni radicalism. The Syrian government brutally fought a Sunni fundamentalist revolt from 1976 to 1982, but the threat to Ba'athist rule could return if Assad's regime, under economic duress from U.S. sanctions, move closer to Shiite Iran and thereby radicalize Syria's Sunni majority. A U.S.-Syria rapprochement could even help foster stability elsewhere in the strife-worn Middle East.

"Ending Syria's political and economic isolation could create conditions for the resumption of negotiations between Israel and Syria, as well as between Israelis and Palestinians, that could eventually lead to peace and security for Israel," Hadar writes.

Open dialogue would also encourage Syrian officials to continue cooperating with U.S. agencies in pursuing al-Qaeda, according to Hadar. It will also strengthen reformist forces within the country, which will foster better integration into the global economy. Additional benefits could include a more positive future for Iraq, long-term prospects for a viable state in neighboring Lebanon, and progress toward peace between Israel and Palestine, Hadar notes. Finally, focusing on the common interests between the United States and Syria will shift the regional balance of power away from Iran.

"What has been surprising," Hadar continues, "is the failure of Washington to comprehend that reality, instead taking steps that made it more likely that Syria would work with Iran to secure its interests in the region while at the same time helping to strengthen the Syrian Islamist opposition forces that want to oust the Ba'athists from power."

This Policy Report can be downloaded at www.independent.org/publication/policy_reports/ •

Garvey Essay Fellowship Winners

The Independent Institute is pleased to announce the winners of the 2007 Olive W. Garvey Fellowship Contest.

Applicants were asked to submit an essay on the topic: *Is foreign aid the solution to global poverty?*

Faculty Division

- First Prize (\$10,000): **Peter Leeson**, BB&T Professor for the Study of Capitalism, George Mason University

- Second Prize (\$5,000): **Jason Sorens**, Assistant Professor of Political Science, University at Buffalo, SUNY
- Third Prize (\$1,500): **Art Carden**, Assistant Professor of Economics, Rhodes College

Student Division

- First Prize (\$2,500): **John Parker**, University of Alabama
- Second Prize (\$1,500): **James Estes**, Pittsburgh Theological Seminary

(continued on next page)



From left to right: Garvey Fellows **Peter T. Leeson**, **Jason Sorens**, **John Parker**, and **James Estes**.

New Book: Making Poor Nations Rich

(continued from page 1)

America and Europe, they present compelling evidence that the protection of private-property rights and the widening of economic freedom help make entrepreneurship more productive and thus contribute to greater prosperity.

Making Poor Nations Rich begins by explaining how entrepreneurs create economic growth and why some institutional environments encourage entrepreneurship better than others. **Mancur Olson** and **Randal G. Holcombe** explain why vigorous entrepreneurship is essential, not natural resources or access to current technology. **William Bamoul** explains that special favors to entrepreneurs are often anti-competitive and counterproductive, and **Robert Lawson** surveys the empirical literature on development, entrepreneurship, private-property rights, and economic freedom.

The book then looks at barriers to entrepreneurship that hamper economic growth. **George Ayittey** argues that foreign aid has often undermined local entrepreneurship in Africa. **Alvaro Vargas Llosa** explains why many Latin American reforms in the 1980s and 90s were inadequate. **Peter Boettke**, **Christopher Coyne**, and **Peter Leeson** explain why entrepreneurship in Romania is weak despite several attempts at reform. And **Dan Johanson** shows why Sweden's regulatory-welfare state is also unkind to entrepreneurs.

Lastly, the book examines countries that have grown their economies by strengthening private-property rights and granting more economic freedom. **James Dorn** describes China's reforms (and areas for improvement), as do **Parth Shah** and **Renuka Sane** in their chapter on India. **Benjamin Powell** looks at how

Praise for *Making Poor Nations Rich*

"I wish politicians would pay careful attention to the arguments expounded by this remarkable book."

—**Ernesto Zedillo**, former President of Mexico; Director, Yale Center for the Study of Globalization

"Making Poor Nations Rich gives readers a deeper understanding of the true forces of economic growth."

—**Arnold C. Harberger**, Distinguished Professor of Economics, UCLA

Ireland's large cuts in taxes and government spending fostered increases of foreign direct investment and entrepreneurship, which led to its economic revival, and **Frederic Sautet** examines similar developments in New Zealand. The book closes with **Scott Beaulier's** eye-opening look at Botswana, which has transformed itself from one of the world's poorest nations into an upper-middle-income nation.

"The overall message of this book is simple, yet is vitally important for the millions who reside in underdeveloped regions of the world," writes **Benjamin Powell** in the introduction. "Economic freedom and private property rights are essential for promoting the productive entrepreneurship that leads to economic growth. In countries where this institutional environment is lacking, sustained economic development remains elusive. When countries make pro-market reforms that enhance their institutional environment, growth improves—sometimes dramatically."●

Garvey Fellowship Winners

(continued from page 6)

- Third Prize (\$1,000): **Juan Ramón Rallo**, Universidad de Valencia

In addition to the cash prizes, winners from both divisions will receive assistance in getting their articles published and a two-year subscription (eight issues) to the Independent Institute's quarterly journal, *The Independent Review: A Journal of Political Economy*.

Since 1972, the Olive W. Garvey Fellowship

Competition has rewarded college students for essays on selected topics on economic and personal freedom. The contest has since been broadened to include untenured college teachers, as well as undergraduate and graduate students.

To read the complete text of the winning essays, see www.independent.org/students/garvey/winners2006-2007.asp.●

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Lower Your Taxes at Year-end!

As long as we have to live with it, we might as well take advantage of the tax code, and charitable deductions remain one of the best ways to reduce your tax bill.

Bearing this in mind, it's important to note that this year marks the close of the new tax law that allows taxpayers who are 70½ or older to move up to \$100,000 a year from their IRAs directly into a charity, tax-free. This break was made available only for distributions in 2006 and 2007 made directly to qualified charities like the Independent Institute, **so this is your last year to take advantage of the tax-free break!** Other ways to reduce your tax bill include gifts of cash (check or credit card), or if you're holding appreciated stock and would like to make a gift to the Independent Institute, you could make a tax-wise gift and transfer the stock directly to the Independent Institute. You won't owe any tax on the appreciation of the stock, and we can sell the stock, tax-free, for a net gift to us—and tax-deduction for

you—higher than you might otherwise have felt able to do.

So now's a good time to take a look at your portfolio and see if it's time to clear out some appreciated stocks, and help the cause of liberty at the same time. Please check with your tax advisor to determine if any of the ideas above are the right strategy for you, and please keep the Institute in mind!

If you should give to the Institute at the end of this year, we want your giving to be fully satisfying to you—satisfying in *what* you give, *how* you give, and *where it goes*. And on this last point, you can rest easy: for the fourth year in a row, the Independent Institute has received the highest, four-star rating from Charity Navigator, the preeminent public charity rating service. The Independent Institute efficiently and effectively deploys your investment in us to produce award-winning, innovative solutions to the most pressing problems of the day, on the forefront of the battle of ideas!

For further details, contact JuliAnna Jelinek, Development Director, at 510-632-1366 x153, JJelinek@independent.org •



The Independent Review: Tocqueville

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future is classless only because the early-19th-century democratic economy, which he mistook as eternal, was too simple and unproductive to

generate modern economic classes; the communitarians among them would have seen that Tocqueville cared so much about townships not because they fostered civic participation per se, but simply because they were effective in teaching the generic art of collaboration; and, finally, the conservative commentators among them might have seen that the 'pettiness' Tocqueville ascribed to democracy was an artifact of early-19th-century economic assumptions as well."

See www.independent.org/publications/tir/article.asp?issueID=51&articleID=655. •

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