

The INDEPENDENT

NEWSLETTER OF
THE INDEPENDENT INSTITUTE



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SPRING 2009

Conference Presents *Lessons from the Poor*

With thousands of international relief organizations and billions of dollars spent annually on foreign aid, why are so many impoverished countries unable to grow their economies beyond mere survival? Is private entrepreneurship a better solution for reducing poverty in the developing world? These questions were at the heart of the Independent Policy Forum, “Lessons from the Poor: The Power of Entrepreneurship,”



SCAVONE PHOTOGRAPHY

Former Bolivian President **Jorge Quiroga** keynotes the Independent Policy Forum, “Lessons from the Poor.”

held November 13, 2008, at the Renaissance Mayflower Hotel in Washington, D.C.

Independent Institute Senior Fellow **Alvaro Vargas Llosa**, editor of *Lessons from the Poor*:
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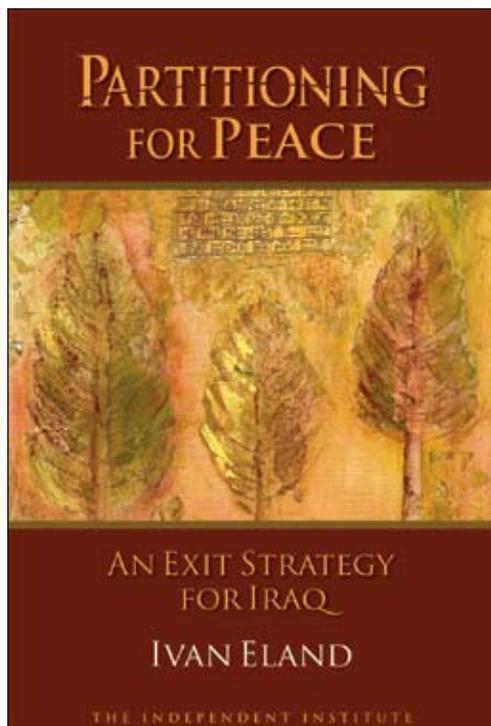
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New Books on Exiting Iraq, Liberty in the U.S.

The Independent Institute is delighted to publish two books this spring—one an insightful proposal for the withdrawal of U.S. forces from Iraq, the other a monumental history of liberty in the United States.

Partitioning for Peace

In *Partitioning for Peace: An Exit Strategy for Iraq*, **Ivan Eland**, Senior Fellow and Director of the Independent Institute’s Center on Peace and Liberty, offers a practical strategy for extricating U.S. armed forces from the quagmire of Mesopotamia.



That undertaking may be trickier than it seems. An ill-conceived withdrawal, some analysts claim, could create a power vacuum that would spark renewed sectarian violence—possibly leading to the return of U.S. forces to Iraq.

How might that outcome be avoided? The first
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President's Letter:

Power Corrupts

"Power tends to corrupt, and absolute power corrupts absolutely." —Lord Acton



A presidential inauguration is an immense spectacle. Although the U.S. was founded as a republic opposed to royalism and absolutism, the Presidency has become the *Imperial* Presidency, projecting power globally with little restraint and by far the most powerful position worldwide. Moreover, the U.S. government is almost *entirely* the Presidency. The budgets of the Congress and the Supreme Court are inconsequential in comparison. The Presidency includes all federal departments (Treasury, Labor, Defense, etc.); IRS, CIA, NASA, and FBI; spy satellites, aircraft carriers, ICBMs, and hundreds of military bases worldwide; huge tracts of land, highways, and waterways; regulatory agencies (FTC, SEC, FDA, OSHA, and EPA)—the list is just too long to recount here.

To be so pervasive, the Presidency is *far* more. For most Americans, the President has become a sovereign king and father figure who stands beyond us mere citizens in order to oversee our lives and assuage our fears. As such the Imperial Presidency is really a secular "divinity," an earthly "messiah" who many believe will save them from harm by wielding government power against others, even if this means trampling on lives, liberties, and property. As a result, around the Presidency has grown a cult of power and personality as with many past rulers. The circus of a Presidential inauguration is only an inkling of what we see every day in the media with the glorification and worship of Presidential power.

But doesn't each president take an oath of office to protect and preserve the Constitution and its limits on Executive Power? Will President Obama have the integrity, insight, and common sense to do so? Despite the rhetoric for "hope" and "change," every indication now says that he will only fan the flames higher. After all, "power corrupts" and for the Imperial Presidency, "it is good to be King."

Amidst such folly, the Independent Institute continues to escalate its impact as a beacon of liberty, and we invite you to join with us as an **Independent Associate** Member. With your tax-deductible membership, you can receive a **FREE** copy of *Recarving Rushmore*, as well as other publications, including *The Independent Review* (see p. 5), plus other benefits (see attached reply envelope).

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The Independent Review

Health Insurance • Private Communities • Financial Fraud

The *Independent Review: A Journal of Political Economy* is the Independent Institute's flagship publication for bringing important scholarship to a large audience: article downloads from the journal's website average 20,000 or more each month. Here are some highlights from the Winter 2009 issue.

Health Insurance before the Welfare State

At their peak, fraternal organizations and friendly societies provided health insurance for millions of Americans and Britons, mostly lower-middle-class tradesmen and skilled artisans. By 1886, the Independent Order of Oddfellows and the Ancient Order of Foresters each claimed more than 600,000 members worldwide. In the 1920s, roughly every third adult male in the United States belonged to a fraternal organization.

These groups were characterized by independent lodges, democratic governance, a ritual, and mutual aid for members (and often their families). Although camaraderie was a leading incentive to join, disability insurance was also an attractive benefit.

Despite their popularity, however, such groups had all but vanished within two decades after being pushed aside by the surge of the welfare state. What accounts for their rise and fall?

The answer, according to **Pavel Chalupníček** and **Lukáš Dvořák** (both from the University of Economics in Prague), lies in the concept of *social capital*, an individual's ability to use his or her network of friends and acquaintances for economic gain. Social capital, they explain, enables many people to function better in society, but its value depreciates rapidly in the presence of certain kinds of government activities.

See www.independent.org/publications/tir/article.asp?a=714.

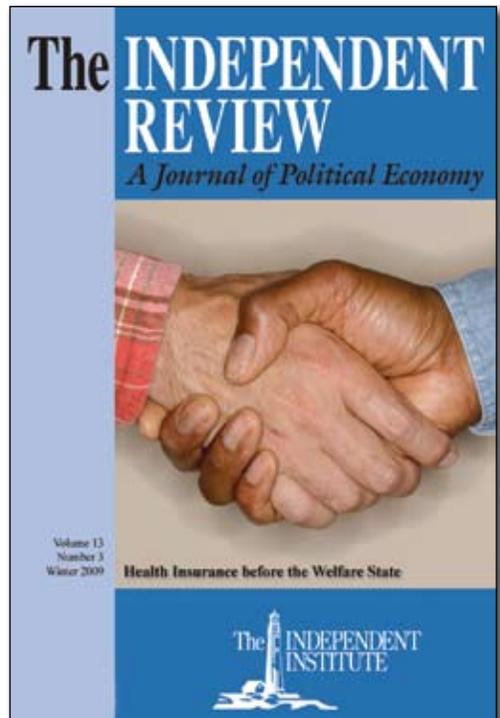
Private Community Associations

In recent decades, private community associations have spread like wildfire. About 20 percent of all Americans now live under this form of private government, up from 1 percent in 1970.

Although this trend represents the largest example of privatization since the Homestead Act of 1862, urban scholars have neglected it, leaving many important questions unanswered. Perhaps the greatest mystery to be explained is why private community associations even exist, given that their members must pay both association fees and local taxes for similar services.

According to **Robert H. Nelson** (University of Maryland), three factors account for this phenomenon. First, in newly developing areas, private community associations are very efficient in initially forming neighborhood-level governments. Second, they have greater legal flexibility to meet the diverse collective needs of homeowners. Third, developers who offer community associations are often more effective in getting their proposals approved by local governments than those who don't—sometimes local governments even encourage developers to provide them.

See www.independent.org/publications/tir/article.asp?a=713.



The Independent Review, Winter 2009

Does Regulation Prevent Fraud?

Predictably, the Bernie Madoff financial scandal has prompted calls for stricter regulation of the investment industry, just as the collapse of the Manhattan Capital hedge fund led to calls for new anti-fraud regulations in 2004. If those regulations reduced fraud significantly, they would seem to be a reasonable solution to a real problem, but at least two assumptions underlying the SEC's proposal in 2004 were dead wrong, argues financial journalist **Chidem Kurdas**. First, government regulators already possessed the ability to detect fraud at Manhattan Capital. Hence, the extra bene-

(continued on page 6)

The Independent Institute in the News

• **Center on Entrepreneurial Innovation:** Senior Fellow **William F. Shughart II** wrote commentary on the cost of Daylight Saving Time for *U.S. News & World Report Online*, Barack Obama's tax policies for the *Washington Examiner*, and the federal deficit for the *Journal Star*. *The Vicksburg Post* published his five-part series on Mississippi's tax study commission. *National Review Online* cited unemployment statistics from *Out of Work*, co-authored by Senior Fellow **Richard K. Vedder**. *The New York Times* and *Wall Street Journal* quoted Senior Fellow **Robert Higgs** on the New Deal and economic recovery. He was also quoted on the government bailout in John Stossel's nationally syndicated column. Research Director **Alexander Tabarrok** was interviewed on the same subject by Al Jazeera and quoted in the *Boston Globe*. Research Fellow **Stan J. Liebowitz** received international attention for his *Independent Policy Report Anatomy of a Train Wreck*, including a cover story excerpt in *National Review* and an excerpt in *Boston Herald*, an op-ed in the *New York Post*, and an interview with National Public Radio's *Tell Me*



Independent Institute Senior Fellow Ivan Eland on C-Span2's Book TV.

More. Research Fellow **Pierre Lemieux** provided commentary on Washington's role in the financial crisis for the *National Post*. Research Fellow **George Selgin**, author of *Good Money*, discussed U.S. mint coin shortages in *Numismatic News* and gave perspective on the bailout for the *Pittsburgh Tribune-Review*.

• **Center on Global Prosperity:** Senior Fellow **Alvaro Vargas Llosa** continued his internationally syndicated weekly column for the Washington Post Writers Group. His book *Lessons from the Poor* was reviewed by Switzerland's *Neue Zürcher Zeitung*, and he was quoted by the *Daily Telegraph* on the myth of Che Guevara. Broad-

cast interviews included BBC World Service News, CNN en Español, and CNN Plus, and his documentary *Consecuencias: Latin America Uncovered* aired on National Geographic Channels International in Latin America. Research Fellow **William Ratliff** wrote on Vietnam's economic development for the *Far Eastern Economic Review Online*.

• **Center on Law and Justice:** Research Fellow **Stephen P. Halbrook's** book *The Founders' Second Amendment* received high praise by *Freedom Magazine* and *Choice* and was recommended by the *American Rifleman*, which also featured an excerpt. His debate over gun control laws at *Intelligence Squared* aired on National Public Radio, and he was quoted by the *Dallas Morning News*, *Boston Globe*, and *Seattle Post-Intelligencer* on the Second Amendment. Research Fellow **William J. Watkins, Jr.**, wrote on the bailout for the *Star-Ledger* and on voter registration for the *Washington Times* and *Visión Hispana*. *Philadelphia Daily News* quoted Research Fellow **Jonathan Bean**, editor of the forthcoming Institute book *Race and Liberty in America*, on growing media attention surrounding African-American intellectuals.

• **Center on Peace and Liberty:** Director **Ivan Eland** was quoted on the 2008 U.S. election results in the *Christian Science Monitor* and on George W. Bush's presidential legacy in the *Boston Globe*. He wrote on presidential policies for the *Pioneer Press* and the *Press of Atlantic City*. He was interviewed on *After Words* on C-SPAN2 Book TV, as well as the BBC, Al Jazeera, and KPFK. His new book *Recarving Rushmore* was lauded in the *Washington Times*. Senior Fellow **Charles Peña** wrote on U.S. military spending for the *Houston Chronicle* and Barack Obama's foreign policy strategies for the *Tampa Tribune*. Research Analyst **Anthony Gregory** reviewed *Reclaiming the American Right* for the *American Conservative*. **Higgs** was quoted on public fear and government expansion by the *Orange County Register*, while the *Nonproliferation Review* reviewed *Twilight War* by Research Fellow **Mike Moore**. *The Freeman* published a review of *Opposing the Crusader State* by **Higgs** and articles by **Eland** and Research Fellow **Edward P. Stringham** on exporting democracy and market economies, respectively. *The San Francisco Chronicle* featured a photo retrospective of the Independent Institute's **A Gala for Liberty**.•

New Books: *Partitioning for Peace* • *The Decline of American Liberalism*

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step, Eland argues, is to recognize that Iraq's historically antagonistic religious and ethnic groups fear that if one group dominates the central government, it will use its power to the detriment of the others. Thus, the best option is for Iraqis to partition their country into autonomous regions and to delegate to the central government only a few basic functions, such as foreign policy and allowing free trade between regions.

Many critics have raised doubts that such a scheme could work, but Eland refutes each criticism deftly and argues forcefully that partitioning represents the best hope for post-occupation Iraq—if it's done correctly. Drawing on the numerous historical examples of partitions, he discusses fifteen principles that must be heeded to maximize the likelihood that a partitioned Iraq would provide peace and stability.

Praise for *Partitioning for Peace*

"Obama and his foreign policy experts, as well as anyone interested in an exit strategy from Iraq, should read this thoughtful analysis."

—**Thomas Gale Moore**, Senior Fellow, Hoover Institution, Stanford University

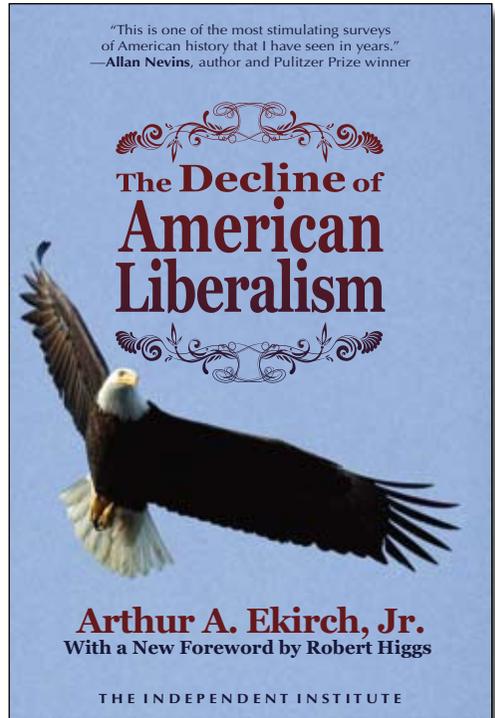
"Partitioning for Peace foresees the eventual failure of U.S. efforts to forge an effective central government in Iraq. His alternative of partition remains an option that unresolved conflicts may force upon the country irrespective of U.S. policy."

—**James H. Noyes**, former Deputy Assistant Secretary of Defense for Near Eastern, African, and South Asian Affairs

The Decline of American Liberalism

When the Declaration of Independence spoke of the right to life, liberty, and the pursuit of happiness, the Founders understood these as individual rights, and they saw the protections of these rights as the sole legitimate function of government. Soon after 1776, however, the political philosophy that guided the Founders—classical liberalism—found itself on the defensive as various tenets of collectivism gained adherents. By the end of the 19th century, the "Progressive movement," which favored government intervention at home and abroad, had in many respects eclipsed it, and by the mid-20th century, individual liberty had long been passé in intellectual circles, and the welfare-warfare state was in full force.

The Independent Institute is very pleased to reprint the landmark analysis of that trend, *The Decline of American Liberalism*, by the late historian Arthur A. Ekirch, Jr., who was a founding member



of the Independent Institute's Board of Advisors. First published in 1955 and last printed in 1976, this powerful and lucid work has long been revered by learned advocates of individual liberty. In a foreword to the new edition, Independent Institute Senior Fellow **Robert Higgs** notes that the book is still timely more than 50 years after it was written.

"Even now virtually every reader is sure to learn much from Ekirch's descriptions and evaluations," writes Higgs. "To my knowledge, no good substitute for *The Decline of American Liberalism* is available, and this new printing serves a valuable purpose by preserving and making conveniently available the great classical-liberal historian's most important contribution to American political and intellectual history."

To order these books, go to www.independent.org/store/.

Praise for *The Decline of American Liberalism*

"Ekirch's chapters on the growth of the garrison state and the cult of national loyalty are a devastating commentary which has the virtue of relating these developments to long term trends in this society."

—**The Nation**

"An intelligent and important book . . . a serious historical interpretation which is at the same time highly readable." —**The New York Times**

Equipping Tomorrow's Champions of Liberty

At the Independent Institute, we know that the world today demands leaders for tomorrow who are well equipped to handle problems far beyond our current reach. Our growing global environment requires that our leaders of tomorrow harness all the power of information, innovation, and leadership in order to create a better and brighter world, rooted in the principles of liberty. We believe in the future and we believe that it is essential and far more efficient if tomorrow's leaders are given the intellectual tools to make these goals a reality.

Chief among these tools is training tomorrow's leaders in the kind of critical, analytical thinking that it will take to devise solutions that are both effective and ethical. Our children and our children's children need to fully appreciate the power of the entrepreneurial spirit and be grounded in the first principles of the irreplaceable benefits and importance of individual freedom, personal responsibility, and limited government. And because of this, we're fully invested in the future and work to ensure that all three of these qualities are cultivated in today's youth through our student programs.

The Independent Institute's student programs consist of four parts: the prestigious **Sir John M. Templeton Fellowships Essay Contest** for college students and young faculty; the Independent Institute **Challenge of Liberty Summer Seminars** for high school and college students; a year-round **Student Internship Program**; and our **Program of Textbook Course Adoptions** for high schools and colleges. Each component encourages educational excellence among up-and-coming generations by examining the nature and relevance of the entrepreneurial spirit and freedom.

The Sir John M. Templeton Fellowships Essay Contest

This annual international essay contest encourages college students and untenured professors, under 36 years of age, to develop their research and writing abilities.

The topic of the 2009 contest pertains to a quotation by Benjamin Franklin:

"Only a virtuous people are capable of freedom. As nations become corrupt and vicious, they have more need of masters."

Contestants should reflect on Franklin's words as they address this question: *Which virtues contribute the most toward achieving freedom, and how can the institutions of civil society encourage the exercise of those virtues?*

Student Division: First Prize: \$2,500;

Second Prize: \$1,500; Third Prize: \$1,000.

Junior Faculty Division: First Prize: \$10,000;

Second Prize: \$5,000; Third Prize: \$1,500.

The deadline is May 1, 2009.

For guidelines, see www.independent.org/students/essay/.

Summer Seminars

For more than a dozen years, the **Challenge of Liberty Summer Seminars** have introduced the economic and ethical principles of free societies to high school and college students.

Led by **Brian Gothberg** and a faculty of speakers, the 5-day seminars are part lecture, part discussion, and part multi-media presentation: in addition to reading classic books, students see how economic issues are treated in popular culture! Tuition is \$195.

Session I: June 15–19;

Session II: August 10–14.

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The Independent Review: Does Regulation Prevent Financial Fraud?

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fit of the SEC's proposal was unclear. Was the SEC engaging in a bureaucratic cover-up or trying to justify a larger budget? Second, securities regulations themselves can increase the likelihood that an investment will turn sour. By lulling investors into thinking their funds are more secure than they really are, regulations reduce the incentive to closely monitor one's investment.

Wishful thinking can undermine the diligence of investors and regulators alike, but there's often a big difference in the consequences of their respective mistakes. When investors fail,

everyone tends to learn from their mistakes. But when regulators fail, new regulations are proposed, and investors are not given stronger incentives to learn.

"The conventional response of boosting government watchdogs magnifies the impact of their mistakes while reducing both the watchdogs' and the public's incentive to learn," writes Kurdas. "It creates a vicious spiral of more regulation, regulatory failure, and even more regulation."

See www.independent.org/publications/tir/article.asp?a=712.

Conference Presents *Lessons from the Poor*

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Triumph of the Entrepreneurial Spirit, introduced the first speaker, former president of Bolivia **Jorge Quiroga**. “He’s truly one of the shining stars of the Latin American firmament,” Vargas Llosa said of Quiroga. “His voice is often heard throughout the continent in defense of political democracy and free-market capitalism.”

Quiroga argued that the main barriers to economic development in Latin America are political instability, weak legal systems, and dysfunctional governments. “Talents, brains, drive, entrepre-



SCAVONE PHOTOGRAPHY

From left to right: William R. Easterly, David Theroux, and Thompson Ayodele at the Independent Policy Forum, “Lessons from the Poor.”

neurship are evenly distributed,” he said. “What is not randomly distributed in the world is the rule of law, sensible governments, and institutions that work for the people.”

Next, a panel of three experts discussed economic reforms around the world. Independent Institute Research Fellow **William Ratliff** drew upon his new Institute book, *Vietnam Rising: Culture and Change in Asia’s Tiger Cub*. Vietnam’s reforms have attracted formidable foreign investment, but for rapid economic growth to continue the government must improve the business climate for small and medium-size enterprises.

Fredrik Erixon, director of the European Centre for International Political Economy, explained how Estonia, a poor country during the Soviet era, rose to above average in wealth, by Western European standards, after it drastically cut tariffs and allowed free trade. And Independent Institute Research Analyst **Gabriel Gasave** looked at reforms that had harmed various Latin American countries. The corruption of the concept of *rights*, he argued, created “entitlements” whose funding infringed upon genuine individual rights and impeded economic progress.

A second panel, consisting of contributors to the book *Lessons from the Poor*, discussed enterprise-based solutions to poverty. **Daniel Córdova**, Dean of the School of Economics, University of Applied Science (Peru), explained that rags-to-riches companies such as Topy Top, Peru’s leading textile firm, show the huge potential for the private sector to lift people out of poverty.

Martín Simonetta, Executive Director of Fundación Atlas 1853, explained how Argentina’s barter clubs emerged earlier in the decade as a way for people to minimize their holdings of a rapidly depreciating currency. **Thompson Ayodele**, Director of the Initiative for Public Policy Analysis, discussed the clothing-design industry in his native Nigeria. One entrepreneur, he said, started out 30 years ago with \$417 but now has assets worth \$40,000.

William R. Easterly, Professor of Economics and Co-director of the Development Research Institute at New York University, gave the final talk. “You’ve heard a lot of really inspiring little pictures, now I want to talk about the big picture,” Easterly began. “The big picture is about individual liberty, and how it has made possible the world’s gradual and hopeful escape from global poverty from 1776 to the present.”

That year saw the signing of the Declaration of Independence and Adam Smith’s *The Wealth of Nations*. The former enshrined individual rights, whereas the latter showed that everyone who buys and sells helps the free market’s “invisible hand” to guide the pursuit of self-interest toward the promotion of others’ well being. Together, they helped accelerate the Industrial Revolution. Unfortunately, many development economists discount their current applicability and instead favor central planning, which has performed poorly.

“Free-market systems are not simply created out of nothing by experts and politicians,” said Easterly. “They arise from the values of the people. And that’s why it’s so incumbent on all of us to spread the values of individual liberty, and present the evidence for how individual liberty is not only good in itself, but also is the great vehicle for enabling the world to escape from poverty.”

For a transcript and audio file, see www.independent.org/store/events.

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Help Give Children the Choice to Succeed!



Last month, the **Independent Scholarship Fund** (ISF) once again began accepting applications from families living in our neighboring counties to help take advantage of alternative educational opportunities. And once again, our staff has been overwhelmed by the number of applicants seeking such assistance.

Established in 1999, the ISF has already provided more than 1,700 tuition scholarships, but the number of students unable to receive funding grows every year, as do the frightening statistics surrounding California's education crisis.

Specifically in the community local to the ISF, figures were reported that schools in the Oakland Unified School District experienced dropout rates as high as 52%! In contrast, in the midst of such bad news, the ISF's grassroots-level partnership with a growing number of individuals, foundations, businesses, excellent private schools, and caring parents is quietly educating and graduating

many of our community's future leaders, leaders who would otherwise be stuck in failing schools without the financial means to attend a school of their own choice.

While we celebrate these achievements, we continue to have to turn away even more children who deserve the same opportunity. As a result, we hope to award at least 260 scholarships this year—but we need your help to do so! So we're seeking your support of this very important program and are asking you to give \$50, \$100, \$500, or whatever you find in your hearts to give to these very deserving children.

To make a gift to the ISF please contact Joseph Asbell at jasbell@independent.org or 510-632-1366, ext. 152, or you can send in a donation in the enclosed envelope and direct it to The Independent Scholarship Fund. To learn more please visit, www.independent.org/students/isf/.

Tomorrow's Champions of Liberty

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For details, see www.independent.org/students/seminars/.

Student Internships

Internships for college students and recent graduates are available year-round. Internships are available in the following departments.

Development: Interns in this department work on donor relations and fundraising. Spe-

cific tasks include, for example, pursuing grants from foundations and designing a comprehensive fundraising campaign.

Publicity: Interns in this department work with the media, edit op-eds and press materials, schedule speaking engagements, and coordinate television and radio interviews for our research fellows.

Marketing and Sales: Interns in this department work on promoting our publications through book distributors and over the Internet. This is an excellent opportunity for someone eager to learn about the book industry.

Publishing and Information Technology: Interns in this department work on a variety of print and online projects, including the production of books and other print media, advertisements, websites, and blogs.

For details, see www.independent.org/students/internships/.

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