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Unemployment Then and Now

by William F. Shughart II*



In March of 1933, when the Great Depression had driven the U.S. economy to rock bottom, the unemployment rate stood at 25 percent: One in four Americans who had jobs in 1929 were queuing on bread lines rather than working on assembly lines.

The unemployment rate remained at historically high levels throughout the following decade. Despite massive increases in federal government spending under the programs of President Roosevelt's New Deal, 14 percent of the labor force still had no jobs in 1941. Unemployment did not fall into single digits until after Pearl Harbor, when millions of men were drafted into the armed forces to fight the first axis of evil.

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Mobilizing America for global war, outfitting youngsters of the so-called Greatest Generation with military uniforms, equipping them with M-1 rifles and sending many to die in France's hedge-rows or the South Pacific's jungles not only lowered the overall unemployment rate dramatically, but also drew millions of women into the workforce to help manufacture the armaments that, in some cases, would maim or kill their fathers, husbands, and sons.

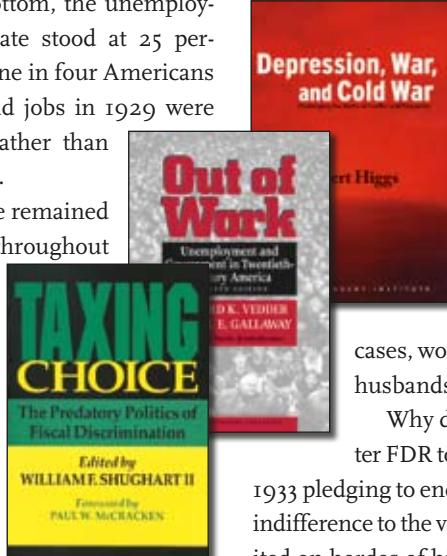
Why did unemployment persist after FDR took the oath of office in March 1933 pledging to end Herbert Hoover's perceived indifference to the visible economic hardships visited on hordes of his fellow citizens, epitomized by General Douglas MacArthur's brutal routing of the "Bonus Army" gathered on the mudflats of Anacostia? Didn't the alphabet soup of work relief programs the president subsequently launched—the Civilian Conservation Corps, the National Youth Administration, the Federal Emergency Relief Administration, and, especially, the Works Progress Administration, to name just a few such programs—create jobs for hundreds of thousands of unemployed Americans, providing them with sorely needed incomes without forcing them to suffer the stigmas of the dole?

To be sure, jobs financed at taxpayers' expense were plentiful. But it is now little-known that, adopting a posture of honesty no longer affected by the Bureau of Labor Statistics, people on work relief during the 1930s were not counted as employed. As a matter of fact, the individuals listed on Depression-era work relief rolls were not included in the labor force at all.

IN THIS ISSUE

Guest Perspective by William F. Shughart II	1
President's Letter	2
<i>The Independent Review</i>	3
Independent Institute in the News	4
New Book: Clash of Economic/Enviro Religions	5
Templeton Essay Contest Winners	5
Forum Examines Iraq and Afghanistan	6
Government Cost Calculator Launched	6
Why I Give: Gilbert Collins	8

(continued on page 7)



President's Letter

Obamanomics

"The theory of aggregate production, which is the point of the following book, nevertheless can be much easier adapted to the conditions of a totalitarian state than the theory of production and distribution put forth under conditions of free competition and a larger degree of laissez-faire."



—John Maynard Keynes, author of *General Theory of Employment, Interest, and Money* (from his foreword to the 1936 German edition)

President Barack Obama continues his “hope” to expand government power and spending at unprecedented rates, claiming to end the influence of special interests that oppose his “progressive” agenda. In the process, he tries to smear critics and holds up business firms as the enemies of creating his vision of a new and just America.

Yet the reality of Obamanomics, with its roots in Keynesian economic fallacies, will be massive national insolvency; health-care protectionism for drug firms and PhRMA; bailouts for Goldman Sachs and other bankers; subsidies for General Electric, DuPont, and other “green” companies; and escalated wars. His gigantic explosion of spending, regulations, and taxes favors “progressive” politicians, business firms, and labor unions; cartelizes markets; and crowds out competition. The result is massive debt, bureaucratic waste, high unemployment (see p. 1), business failures, and economic malaise. Yet, faced with such failure, his “change” is to seek even more of the same.

Meanwhile, Americans are turning against such folly in record numbers and the Independent Institute has been at the forefront of such cultural change: see Robert Nelson’s book, *The New Holy Wars* (p. 5), Robert Higgs’s *Depression, War, and Cold War*, and other Institute publications.

We invite you to join with us as an **Independent Associate Member**. With your tax-deductible membership, you can receive a **FREE** copy of *The New Holy Wars*, and other publications, including our journal edited by Dr. Higgs, *The Independent Review* (p. 3), plus other benefits (see attached envelope).

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The Independent Review

Financial Meltdown • Western Civilization

Here we highlight two articles from the Winter 2010 issue of *The Independent Review*.

The Real Cause of the Financial Meltdown

On September 18, 2008, the financial world was thrown out of orbit. Credit markets froze; banks hoarded cash; corporations slashed their lending; and the value of U.S.-originated mortgaged-backed securities plunged.

Why did credit tighten so drastically? The short answer is that trust—the indispensable glue of financial markets—evaporated.

Financial markets had relied on several tools to foster trust, including credit ratings, accounting standards, and credit-default swaps, but those tools broke under regulatory pressure to aggressively expand homeownership and other government policies, argues **Bruce Yandle** (Clemson U.), “Lost Trust: The Real Cause of the Financial Meltdown.”

Consider credit ratings. Commercial credit-rating agencies were supposed to provide credible risk assessments of mortgage-backed securities. A conflict of interest arose, however, as the agencies (a government-protected cartel) began to advise issuers on how to structure those securities.

As interest rates rose and borrowers defaulted, the value of the securities plunged—as did confidence in the credit ratings.

See www.independent.org/publications/tir/article.asp?a=761.

What Is the West?

Can Western Civilization survive if its leaders misunderstand its identity? French philosopher Philippe Nemo has serious doubts, explains **Bogdan C. Enache** (“What Is the West?”).

Western Civilization, according to Nemo, is a synthesis of equal measures of five ingredients: ancient Greece and Rome, Jerusalem, the Papal Revolution, and modern liberal democracy. The Greek city-states started the endeavor by giving birth to the idea of a society ordered by law, reason, and education.

The Roman Republic refined the concept of law by creating an abstract set of rules protecting the individual's property. Christianity added an ethic of compassion that rejects the assumption that evil is a normal condition of the world. It also replaced a cyclical notion of time with a linear one, making possible the idea of progress.

Those ingredients were not fully blended together until the Papal Revolution in the 11th to 13th centuries, Nemo argues. That era saw Anselm's doctrine of free will replace Augustine's theory of original sin, a development that spurred the individual to play a more active role in the (western) world. It also helped recast science and law as servants of progress.



The Independent Review, Winter 2010

Modern liberal democracy, Nemo's fifth ingredient, arose from the classical liberal revolutions of the 18th and 19th centuries. (Totalitarianism, in Nemo's view, was not a by-product of Western Civilization, but a backlash against it.)

Although non-western societies have adopted or mimicked many western innovations, the West's unique history sets its institutions and worldview apart from those of other societies. Nemo fears that the West's underestimation of its distinctiveness has led politicians to enact immigration policies that will dilute its identity.

Herein lies a paradox, Enache notes. Whereas liberalism began as a revolt against tradition and conservatism, defenders such as Nemo embrace those former foes in the name of cultural self-preservation.

See www.independent.org/publications/tir/article.asp?a=768. •

The Independent Institute in the News

Center on Law and Justice

"Bean demonstrates through his assembled writings that the classical values of 'individual freedom, Christianity, colorblindness and capitalism' have been the driving forces behind ending slavery and racial preferences." — *Citizen*, review of *Race & Liberty in America* by Research Fellow **Jonathan Bean**

"The key reason to legalize [drugs] is that government shouldn't be interfering with people's individual choices . . . unless those people are clearly harming other people by their drug use." — Research Fellow **Jeffrey A. Miron** on *FoxBusiness.com Live*



Independent Institute Research Fellow Jeffrey A. Miron on FoxBusiness.com Live.

Center on Entrepreneurial Innovation

"Although daylight-saving time was sold politically as an energy-conservation measure, it does no such thing. Studies . . . show either no difference in energy consumption or a small increase in power usage during the months after clocks were moved one hour ahead." — Senior Fellow **William F. Shughart II** in the *Milwaukee Journal Sentinel*

"[*Good Money*] is a fascinating study that should appeal to the general reader as much as to the business historian." — *Business History Review*, review of *Good Money* by Research Fellow George Selgin

"Gabriel Roth, a research fellow at the Independent Institute, said the billions proposed for high-speed rail would amount to a massive taxpayer subsidy for the train's middle- and upper-income passengers. 'I'm skeptical of anything for which customers are not prepared to pay.'" — *Las Vegas Sun*

Center on Global Prosperity

"The anniversary of the fall of the Berlin Wall finds millions of human beings still under recalcitrant communist tyrannies that have defied

the historical 'inevitability' of totalitarianism's demise." — Senior Fellow **Alvaro Vargas Llosa** in *Diario Las Americas*

Center on Peace and Liberty

"U.S. meddling in and occupation of Muslim countries inflames Islamic radicals and is the main cause of blowback anti-U.S. Islamist terrorism." — Director **Ivan Eland** in the *Chicago Tribune*

"The Fed has been politicized from its very inception and the idea that it's independent will not bear scrutiny." — Senior Fellow **Robert Higgs** on FoxNews.com "Freedom Watch"

"Whereas politicians had once respected the Constitution enough to recognize that it must be legally amended to federally ban alcohol, the war on other drugs continues without any constitutional justification." — Research Analyst **Anthony Gregory** in the *Herald News*

"The insurgency in Afghanistan and the wider radicalism seeping through Islam is fueled in large part by unnecessary U.S. encroachment in Muslim countries." — Senior Fellow **Charles Peña** at *NationalInterest.org*

Center on Health and the Environment

"We see no evidence in the climate record that the increase in carbon dioxide—which is real—has made any appreciable difference in the climate. Climate change has been going on for millions of years." — Research Fellow **S. Fred Singer**, BBC "Daily Politics"



Independent Institute Research Fellow S. Fred Singer on BBC's "Daily Politics."

Center on Culture and Civil Society

"Climate change is as much a religious issue as a scientific one. . . . In climate policy, scientists may be fighting a new holy war without even knowing it . . . But religion masquerading as climate science is a problem, resulting in bad theology and bad science." — Senior Fellow **Robert H. Nelson** at *Forbes.com*

New Book: Clash of Economic and Environmental Religions

The deepest religious conflicts in the American public arena today are crusades fought between two secular religions, according to Independent Institute Senior Fellow Robert H. Nelson. In his just-published book, *The New Holy Wars: Economic Religion versus Environmental Religion in Contemporary America* (see envelope), Nelson probes the origins and implications of these two opposing belief systems.

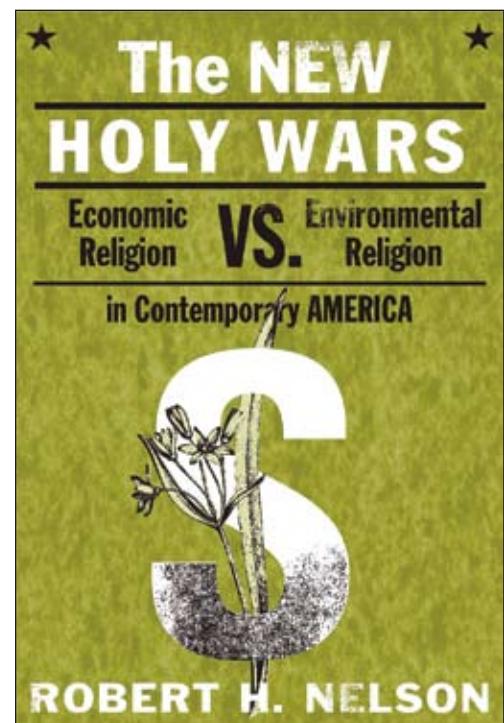
"If it makes a reader of this book more comfortable, he or she may think of it as an examination of the 'spiritual values' of economics versus the 'spiritual values' of environmentalism," writes Nelson. "For me, though, it is a distinction without a difference."

By interpreting the conflicts as theological disputes, Nelson can show why these creeds talk past each other and why the clash will continue to dominate public discourse until one party or the other backs down—or unless an alternative outlook rises to challenge their public influence.

Both environmentalism and economics claim to be scientific, even value-neutral, yet they seldom state their core beliefs explicitly, let alone subject them to scrutiny. Environmental religion views wilderness as sacred, seeks salvation by minimizing man's impact on nature, and proselytizes using imagery meant to stir spiritual longings.

Economic religion, on the other hand, worships technological innovation, economic growth (as measured by GDP), and efficiency (as revealed by cost-benefit analysis) and is presided over by a priesthood of Ph.D. economists who communicate in a liturgical language unintelligible to the layperson. Economic religionists across the ideological spectrum hold that economics is the prime mover of culture and history, although their reasoning may differ enormously. Some even suggest that economic growth will end crime and usher in an era of morality.

The new holy wars have intensified policy debates about climate-change policy, the Endangered Species Act, and much more. Some of the conflict's worst casualties have been the world's poorest people. Under the banner of saving the African environment, for example, environmental



religion has promoted conservation objectives that have displaced and impoverished rural Africans. That catastrophe resulted because influential western conservationists, driven by unexamined theological assumptions, misunderstood African wildlife management practices and problems.

Nelson's analysis of the history of American environmental thought is especially eye-opening. Although rarely acknowledged, environmental religion owes its moral activism, ascetic discipline, reverence for nature, and fallen view of man to the

(continued on page 7)

Templeton Fellowships Essay Contest Winners

Congratulations to the winners of the 2009 Sir John M. Templeton Fellowships Essay Contest for their outstanding replies to the question, "Which virtues contribute the most toward achieving freedom, and how can the institutions of civil society encourage the exercise of those virtues?"

Junior Faculty Division. 1st prize (\$10,000): Ben

O'Neill, Univ. of South Wales; 2nd prize (\$5,000): Ross Corbett, Northern Illinois Univ.; 3rd prize (\$1,500): Claudia Williamson, Appalachian State Univ. and New York Univ.

College Student Division. 1st prize (\$2,500): Brad Taylor, Univ. of Canterbury; 2nd prize (\$1,500): Jordan Paul Smith, Cornell Univ.; 3rd prize (\$1,000): Antonio Zanella, Univ. Rey Juan Carlos.

For winning essays and details about the 2010 Essay Contest, see www.independent.org/essay. •

Forum Examines Iraq and Afghanistan Withdrawal

Ivan Eland, Director of the Independent Institute's Center on Peace & Liberty, has long argued that Iraqis would have the best hope for a peaceful society if political power were decentralized—especially via the establishment of a partition or confederation. He reiterated this theme at the December 9 Independent Policy Forum, "Can the U.S. Withdraw from Afghanistan and Iraq?" (Held at the institute's Washington, D.C., conference room, the event was televised on C-SPAN2's "Book TV.")

Although violence in Iraq has fallen—mainly because the U.S. "bought off" hostile Sunni militias—long-standing sectarian tensions make a genuinely cohesive central government unlikely, according to Eland, author of *Partitioning for Peace: An Exit Strategy for Iraq*. President Obama's plan for a troop surge in Afghanistan, similar to the one in Iraq, misreads the facts.

U.S. opposition to the creation of new states has long been a matter of policy, noted the second speaker, **Peter Galbraith**, a former United Nations deputy representative to Afghanistan. In 1991, for example, President George H. W. Bush discouraged Ukrainians from pursuing nationhood in what came to be called his "Chicken Kiev" speech.

U.S. overcaution may also undermine progress in Iraq, Galbraith suggested. Kurds, Arab Sunnis, and Shiites would probably not fight each other

if their territories became more independent, as opponents of decentralization claim.

Ironically, Afghanistan's central government has greater formal control than Iraq's, although in reality Kabul doesn't govern large parts of the ethnically divided country, Galbraith explained.

"In truth, what Afghanistan needs is an Iraqi-style constitution also with elected local government," he said, adding that the U.S. should not impose any solution.

The final speaker, Independent Institute Senior Fellow **Charles Peña**, made the case for



Image courtesy of C-SPAN2 Book TV

Senior Fellow Charles Peña addresses the Independent Policy Forum on lessons for President Obama.

U.S. withdrawal from Afghanistan. A U.S. victory over the Taliban insurgency is unrealistic, he argued, because as General David Petraeus's counterinsurgency manual suggests, a successful campaign would require more troops than the U.S. army possesses.

Nor would training the Afghan military likely
(continued on page 7)

Government Cost Calculator Launched

A trillion dollars here, a trillion dollars there—what exactly is a trillion dollars anyway? According to the most recent figures from the Congressional Budget Office, the national debt will reach \$17.2 trillion dollars by the year 2019. What if we had a calculator that the average American could simply use to find out what government bailouts and other runaway government programs would cost him or her? The Independent Institute's new project does just that.

MyGovCost.org, a new website scheduled to launch in early 2010, will allow the user to input his or her current age and income to see his or her own share of the cost of any given program. Over the

past six months, we have witnessed government spending and power rising to an unprecedented level. The American public is growing increasingly aware of how misguided and dangerous such frivolous spending is, but putting the debt created by these programs into perspective is quite difficult.

Unlike "per capita" government debt calculators currently available, MyGovCost.org will truly personalize the meaning of the

current \$12.3 trillion dollars in debt, making people realize just how much they stand to lose in their future standard of living, and that of future generations, if such spending practices are not brought under control. •

MyGovCost.org

William Shughart: Unemployment Then and Now

(continued from page 1)

Nowadays, the unemployment rate equals the number of unemployed persons divided by the total civilian labor force, which itself adds the number of people who are employed to the number who are unemployed. To be counted as “unemployed,” though, one must not have a job but also must be engaged actively in seeking one. If you are out of work, but not searching for a new position, you are not “in” the labor force and, hence, are a non-person as far as the unemployment rate is concerned.

The employment and unemployment statistics of the 1930s took this definition a step farther by excluding people who would not be employed

in the absence of public largesse. Someone who holds a job only because Congress has appropriated money for it is not creating wealth but is merely the recipient of an income transfer. Those who at the time derided the WPA as “We Piddle Around” recognized the wasteful consequences of public profligacy.

Today, however, people holding make-work positions “created” by stimulus spending, jobs tax credits, or “investments” in alternatives to fossil fuels and other “green” initiatives are counted as employed. If they were not, as they should not be, the unemployment rate would be much higher than 10 percent. •

New Book: The New Holy Wars

(continued from page 5)

Protestant theology of John Calvin. A remarkable number of American environmentalists were raised in the Presbyterian church (the Scottish branch of Calvinism) or one of its offshoots, including John Muir, Rachel Carson, David Brower, and Edward Abbey.

Economic religion exerted greater influence over public policy for most of the 20th century, but the clout of environmental religion has grown rapidly in recent decades. Some economists have taken heed of the environmentalists’ criticisms and have proposed new concepts and methods designed to incorporate environmental values within economics. Although these attempts have been conceptually flawed, according to Nelson, they may portend future attempts to reconcile environmental and economic religion.

What might a rapprochement look like? One possibility, Nelson suggests, is a synthesis that would incorporate elements of both environmen-

Praise for The New Holy Wars

“It’s a brilliant book, which anyone who cares about the economy or the environment or religion needs to read. That’s most of us.”

—Deirdre McCloskey, Distinguished Professor of Economics and History,
University of Illinois at Chicago

“Completely different...provocative analysis.”
—Publishers Weekly

tal and economic Calvinism (the latter having played only a small role in economic religion and government policy in 20th-century America).

Regardless of what emerges, *The New Holy Wars* provides readers with a powerful key for decoding hidden assumptions that will continue to shape public policy and cultural life.

To order this book, see the enclosed envelope or go to www.independent.org/store/book_detail.asp?bookID=84. •

Forum: Withdrawing from Iraq and Afghanistan

(continued from page 6)

succeed due to the country’s deep tribal divisions and widespread illiteracy.

Removing U.S. troops would help reduce anti-U.S. hostility among radical Islamists, Peña said. If Afghanistan (or Iraq) were to become a safe haven for terrorists planning to attack the

U.S. homeland, it would be cheaper for U.S. troops to return and disrupt the terrorists than to continue a prolonged and costly military presence, he concluded.

For the transcript and audio file of this event, see www.independent.org/events/. •

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Why I Give: *Gilbert Collins*

Independent Institute Works to Fill the Void

Gil Collins has been a loyal supporter of the Independent Institute ever since it began to critically analyze the costly war in Iraq as well as U.S. involvement in the Middle East.

While foreign policy issues may have piqued Gil's interest in the Institute's work, financial markets remain at the forefront of his interests. Given his background—a B.A. in history from Brown University and an MBA in finance from the Columbia Graduate School of Business—this is not surprising. After years of working on Wall Street as a security analyst specializing in the oil industry, Gil moved to California and became an investment advisor, a job that he continues to enjoy to this day.

For Gil, the Independent Institute's work relating to the federal government's severe budget deficit, national debt, and U.S. military action overseas are most timely and necessary. They "provide the best examples of the high-quality

work the Institute does," he says. Moreover, Gil believes the organization serves as an excellent counterpoint to the mainstream media, which is "often undisciplined" and lacks "serious applied learning and inquiry on reported matters." As a result, the media creates a narrative that is more often misleading than accurate. Gil sees the Independent Institute as working relentlessly to fill the void established by the media through providing "great opportunities for serious study and publication."

Gil has been, and continues to be, a wonderful supporter and friend of ours. He is one of the many members who have made our work possible.

The staff at the Independent Institute thanks Gil and all our Associate Members for all of their support. If you would like to discuss gifting ideas, please feel free to contact **JuliAnna Jelinek**, our Development Director at **510-632-1366** or **jelinek@independent.org**.•



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