

War and Economic Crises Foster Big Government

by Robert Higgs



Why has the U.S. government grown so vast and powerful that it increasingly threatens the civil and economic liberties of ordinary Americans? Nothing promotes the growth of the state as

much as wars and economic crises. We see ample evidence of this connection when we examine the government's response to the September 11th terrorist attacks, but the trend can be seen throughout U.S. history.

During World War II, the U.S. government created and operated a vast system of central planning, as I describe in detail in my previous books *Crisis and Leviathan* and *Depression, War, and Cold War*. After the war, much of this system was abandoned, but it was revived in large part during the Korean War. When that war ended, many of its controls were legally retained, ready for operational reinstatement whenever the president might so order under the

**Robert Higgs is Senior Fellow in Political Economy at the Independent Institute and Editor of The Independent Review.*

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authority of the Defense Production Act of 1950. This statute gives the president legal authority to control virtually the entire U.S. economy whenever he chooses to do so and states that the national defense authorizes such a government takeover.

In my latest book, *Delusions of Power: New Explorations of the State, War, and Economy* (see p.5), I examine fundamental issues related to the state's legitimacy and to the supposed safeguards against

government intrusion. History is our best teacher here, as shown especially by an examination of national crises and their consequences: the world wars and the Cold War; the post-9/11 national-security state; and major economic calamities, including the financial crisis of the 2000s. In exploring the past with an eye to the future, we find that many common assumptions about the U.S. government are not only false but dangerous.

President Obama's executive order National Defense Resource Preparedness, issued on March 16, 2012, stipulates in detail how the president will exercise long-established powers over energy, transportation, human resources, raw materials, and so forth—stating in particular the subordinates to whom he will delegate various specific powers, among other things. It shows plainly, as I emphasize in *Delusions of Power*, that private control of economic life in the United States, to the extent that it survives, exists solely at the president's pleasure and sufferance. Whenever he chooses to put into effect a full-fledged operational fascist economy, controlled from his office, he has the statutory power to do so; all he has to do is to murmur the words "national defense" and give the orders.

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President's Letter

Priceless Healthcare

As the fight over Obama-care escalates this year, and with an imminent Supreme Court ruling, the Independent Institute aims to redefine and redirect the debate with a powerful new book of *real* solutions. Authored by our Research Fellow **John Goodman**, the renowned healthcare economist, *Priceless: Curing the Healthcare Crisis* is the basis for a far-ranging campaign to return competition to healthcare. In the *Wall Street Journal* ("Three Simple Ways Medicare Can Save Money") he presents market-based solutions to the largest federal healthcare program, explaining that "the principle is the same: let markets do what only markets can do well."



And in *Politico* ("Social Security Trustees: We're Going Broke") Dr. Goodman notes:

The latest report of the Social Security and Medicare trustees shows an unfunded liability for both programs of \$63 trillion. That is equal to about 4.5 times the entire U.S. gross domestic product. . . . Obamacare uses cuts in Medicare to pay for more than half the cost of expanding health insurance for young people. So even if the Medicare cuts take place, they won't reduce the government's overall obligations. They just replace entitlements for seniors with entitlements for young people. . . . Medicare must be truly reformed. That means shifting from the current 'pay as you go' system to one in which workers pay their own way. . . . Seniors should be free to manage more of their own healthcare dollars. Doctors should be free to repackage their services in ways that lower the cost to patients and raise the quality of care. Seniors should also have access to more services, whose price is set in the marketplace rather than dictated by governments.

To help advance this campaign, please join with us as an **Independent Associate Member**. With your tax-deductible membership, you can receive a **FREE** copy of *Priceless* (p. 5), *Delusions of Power* (p. 1, 5), and other publications, including *The Independent Review* (p. 3), plus other benefits (see attached envelope).

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The Independent Review

The First Libertarians • Tax Payers and Tax Spenders

Each quarter *The Independent Review* delivers a stimulating dose of in-depth articles about economic development, politics, and the history of government and civil society. Here are summaries of two articles from the spring 2012 issue.

Society before Agriculture

Are human beings better suited for individualism or collectivism? The question has enormous bearing on political economy, but it's one that many advocates of liberty haven't sought to answer by looking at the anthropological record.

This neglect is unfortunate, economist **Thomas Mayor**, University of Houston, suggests, because the evidence indicates that for millennia before the agricultural revolution, people lived in a state of political autonomy and economic freedom, and acted basically as a self-interested individualist (“Hunter-Gatherers: The Original Libertarians”).

Some evidence comes from existing primitive societies. The Yanomamo of the northern Amazon, for example, show a high level of individual autonomy in decision-making. The nuclear family typically is sovereign on matters that affect it alone, and there is no centralized mechanism to coerce compliance on matters that affect others. Families can cooperate with each other or leave the band.

The evidence also suggests that individual hunter-gatherers were free to enjoy the fruits of their own labor. The custom of “food sharing”—the offering of surplus food to those in need—was maintained not through coercion, but through reciprocity. Those who only took food and never offered any to others were unlikely to be tolerated. This helps explain why existing hunter-gatherers are noted for their generosity—their gifts become in effect premiums paid for “hunger insurance.”

If individualism characterized human societies for so long, why did humans lose their basic freedoms when settled agriculture became the dominant mode of production? The potential loss of cleared land and stored crops, Mayor explains, made it harder for people to escape from powerful warlords. Thus was born the State.

“Hunter-Gatherers: The Original Libertarians” is available at <http://bit.ly/xSZvI9>.

Big Government and the Tax System

When goods and services are free, people tend to consume more of them. Does this maxim apply to government spending and taxation? In other words, when people can receive benefits without paying taxes, do they demand more of them even if they're funded by deficits?

That possibility troubled John C. Calhoun. In 1810, the American politician and political theorist wrote that an “unequal fiscal action of the government” divides a community into two classes: taxpayers and tax spenders. James Madison also worried that the wrong type of fiscal system could create a profound conflict in the political culture and create irresistible pressures for the government to spend more and grow more.

Economists call this phenomenon the problem of the fiscal commons, and its consequences can be seen in trends in the distribution of federal tax liabilities, according to **Jody W. Lipford**, Presbyterian College, and **Bruce Yandle**, Clemson University (“Taxpayers and Tax Spenders: Does a Zero Tax Matter?”).

Examining data from 1979 to 2007 from the Congressional Budget Office, Lipford and Yandle found that the top 10 percent of taxpayers paid a growing share of federal tax revenue collected, whereas the bottom 40 percent paid a diminishing share—all while government spending as a percentage of GDP changed hardly at all. The change in the distribution of tax liability is strongly correlated with growing federal deficits and debt.

To prevent the fiscal system from creating two antagonistic classes, Calhoun had urged policymakers to keep the tax base broad, but as Lipford and Yandle note, Calhoun's recommendation was abandoned with one constitutional change: the ratification of the federal income tax amendment. This set the stage for the population to divide into taxpayers and tax spenders.

“Taxpayers and Tax Spenders” is available at <http://bit.ly/zKl405>.



The Independent Review, Spring 2012

The Independent Institute in the News

Center on Law and Justice

“Who really has the final say on what the Constitution means? . . . From high school civics to law school, Americans are taught that the framers of the Constitution designed the court to be the ultimate arbiter of constitutional issues. Yet, our modern advocates of judicial supremacy misconstrue the facts and promote an erroneous historical perspective.” —**Research Fellow William Watkins** in the *Daily Caller*



Senior Fellow Ivan Eland discusses US military intentions in Pakistan in the wake of drone strike casualties on GBTV's "Real News from the Blaze."

“The real obscenity exists in trusting government officials, whether in robes or suits, with the authority to override our freedom of expression and speech.” —**Research Editor Anthony Gregory** in *Huffington Post*

Center on Health and the Environment

“As we approach the presidential election of 2012, we will be hearing much more about rising gas prices and the cost of energy generally. These circumstances will present an important opportunity . . . to challenge Obama's performance and talk about the essential steps to rationalize the domestic oil market.” —**Research Fellow Fred Singer** in *The American Thinker*

“If nothing else comes out of President Obama's plan to force employers, including faith-based organizations, to provide free pregnancy prevention and termination coverage for employees, let's hope it's the realization that government is not a benevolent, godly force, but a potential threat to both religious and personal freedom.” —**Vice President Mary Theroux** in the *Washington Examiner*

Center on Peace and Liberty

“If we want to reduce government spending and, in turn, reduce spending on contract services, government needs to do less. That means

deciding what's important and what's not. That means taking an honest look at every program and prioritizing; everything can't be equally important, otherwise nothing is important.” —**Senior Fellow Charles Peña** in the *Washington Times*

“Bluntly put, our federal government is broken. Can and should we fund legitimate domestic defense? Of course. But should we continue to pay for so-called 'wars of opportunity,' the subsidization of our prosperous European allies, or nation building in Africa or in the Middle East? No way.” —**Research Fellow Dominick T. Armentano** in *Scripps Treasure Coast Newspapers*

Center on Entrepreneurial Innovation

“We like to think of ourselves as an innovation nation, but our government is a warfare/welfare state. To build an economy for the 21st century we need to increase the rate of innovations and to do that we need to put innovation at the center of our national vision.” —**Research Director Alex Tabarrok** in *The Atlantic*

“On the right, the Tea Party saw the bailouts as a massive, unjustified intervention in our economy; and on the left, Occupy Wall Street saw the bailouts as more evidence of how rigged the political and economic system is in favor of the 1%. Both had it right and will no doubt forcefully take the argument forward that the judgment of the bailouts will be negative.” —**Research Fellow Vern McKinley** in *Investor's Business Daily*



Research Fellow Jonathan Bean engages with John Stossel of Fox Business Network's "Stossel."

“A properly conceived balanced-budget amendment would send a strong signal to American families and investors, as well as the rest of the world, that America intends to get its fiscal house in order and avoid the devastating debt crisis facing Europe.” —**Research Fellow Emily Skarbek** in the *Washington Examiner* •

New Books

Curing the Healthcare Crisis

Americans are trapped in a dysfunctional healthcare system. Virtually all of us—patients, doctors, nurses, hospital administrators, employers, and employees—are locked into a system fraught with perverse incentives that raise the cost of healthcare, reduce its quality, and make care less accessible. Moreover, American healthcare suffers from the absence of a genuine price system.

In a free market, prices coordinate the actions of buyers and sellers by communicating, in the form of a dollar amount, the relative scarcity of goods and services. But the arbitrary reimbursement rates of third-party payers, encouraged by decades of government intervention in healthcare, are a poor substitute for genuine prices and foster the misallocation of resources.

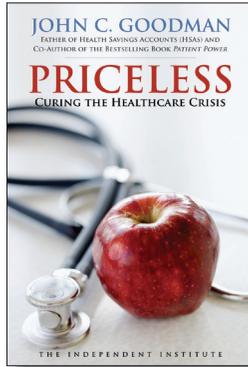
Unfortunately, most people in health policy—including the architects of the Affordable Care Act (ACA)—don't fully grasp how perverse incen-

tives and the lack of genuine prices have harmed American healthcare.

Research Fellow **John C. Goodman** hopes to change all that. In *Priceless: Curing the Healthcare Crisis*, Goodman diagnoses the ailments of the current system, explains why ACA will make things worse, and prescribes dozens of alternative policies to make affordable high-quality healthcare more accessible.

A key component of Goodman's plan is to get costs under control by shrinking the role of third-party payers (insurance companies, employers, and governments). Costs have escalated largely because patients spend only about one-tenth of the amount spent on their behalf. Costs would fall significantly—perhaps by up to 50 percent, Goodman argues—if Health Saving Accounts, from which patients provide the bulk of routine payments, were widely adopted.

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Robert Higgs Exposes the Delusions of Power

Why have so many Americans abandoned the Jeffersonian principle that the best government is that which governs least? Is it because we have deluded ourselves into believing that if we cede more power to democratic institutions, they will somehow solve problems that they're not really capable of fixing?

In his new book, *Delusions of Power: New Explorations of the State, War, and Economy*, Independent Institute Senior Fellow **Robert Higgs** debunks common false assumptions about the U.S. government and explains why often they're not only false, they're dangerous.

Some of these myths arose from the ashes of World War II or during the Progressive era, but others are much older. The notion that the U.S. Constitution is an effective bulwark against government abuses, for example, was espoused by James Madison. His naïveté should encourage us to pursue better institutional arrangements for

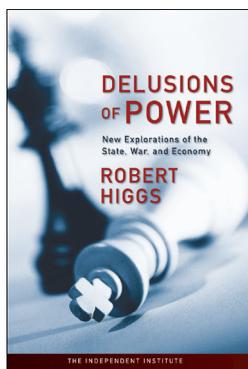
safeguarding liberty, Higgs argues.

In addition to fascinating insights about democracy and the state, Higgs offers new analyses of the Great Depression, the two world wars, the Cold War, the Nixon years, and the post-9/11 era. Regarding the recent economic recession, Higgs exposes the six worst mistakes of the current orthodoxy and shows how they contributed to a surge in the government's size, scope, and power.

Wars, and preparation for them, have played a key role in the expansion of government power at the expense of liberty, Higgs shows. Tax withholding, for example, became a permanent feature during World War II and was adopted in order to make it easier to raise taxes in the future. Wars also illustrate the profound gulf between the interests of U.S. presidents and those of ordinary people, Higgs argues.

But this is just the tip of the iceberg. Readers

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Harnessing the Power of Social Media

The Independent Institute has undertaken an aggressive campaign aimed at harnessing our impact in social media forums and pursuing opportunities that enable us to reach new audiences. Since launching this initiative last year, we have become one of the most prominent social media communities, among non-profit research and public policy organizations. With a Facebook community now numbering well over 200,000—a 110% increase from the previous year—our network of followers continues to grow by the thousands with each week. Our daily Facebook interactions, including op-ed, blog, video, interview, and event posts, inform our audiences of the most timely projects and activities as they are happening at the Institute. Thousands look to The Independent Institute and MyGov-Cost pages as resources for information on the most current and pressing issues affecting our nation. Perhaps the greatest measurement of our



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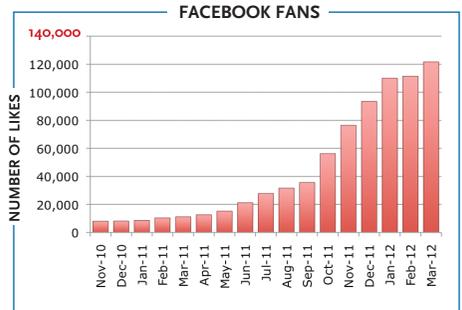
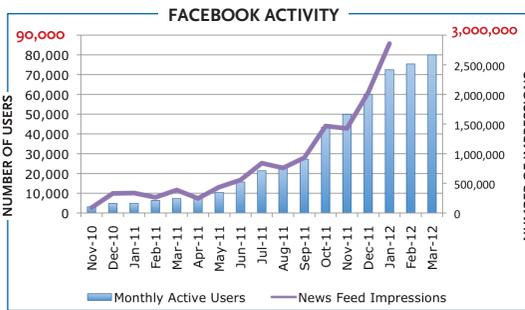
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influence can be demonstrated in our followers' ability to "share" our updates with their personal networks. Through these sharing capabilities, we are averaging a total reach of over half a million individuals per week through our Facebook pages alone. We are excited to report that the mission to *advance the cause of liberty* has officially gone viral! •



Update: Challenge of Liberty Seminars

We are pleased to announce the addition of three new professors for our 2012 Challenge of Liberty Summer Seminars!

High School Seminar | June 18–22 | Oakland, CA

- **Benjamin Powell**, Senior Fellow at the Independent Institute and Associate Professor of Economics at Suffolk University.

College Seminar | July 30–Aug. 3 | Belmont, CA

- **Randy T. Simmons**, Senior Fellow at the Independent Institute and Professor of Economics and Director of the Institute of Political Economy at Utah State University.

- **Ivan Pongracic, Jr.**, William E. Hibbs/Ludwig von Mises Professor of Economics at Hillsdale College.

Our incredible team of professors will use lessons from philosophy, history, and economics to teach students how natural rights and free markets lead to peaceful and prosperous societies. Coming off an historic year in 2011, we are anticipating full sessions for both the high school and college seminars.

Due to generous donor support, scholarships are still available for both seminars.

Housing is also available for both sessions. For more information, please visit our website at www.independent.org/students/seminars.



Benjamin Powell



Randy T. Simmons



Ivan Pongracic, Jr.

Robert Higgs: War and Economic Crises Foster Big Government

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Subjecting the public to the whims of presidential discretion is a recipe for destruction of our remaining freedoms. As I maintained at the Independent Institute's 25th Anniversary Gala for Liberty in November 2011, individual liberty is the foremost instrument by which we create and maintain many of the conditions, goods, and services that constitute material abundance and relieve many of the anxieties and pains that once accompanied social life for almost everyone.

The specific conditions of a free society—private property rights, secure contracts, genuine rule of law—are prerequisites for the maintenance and enhancement of our economic well-being. At this late date, after we have witnessed the personal horrors and economic disasters brought about by socialist central planning, it should not be necessary to go on preaching the gospel of individual

freedom and the limitation of government, yet we all know that many people still do not understand these essential matters and often act politically to thwart the operation of a genuinely free society.

If we do not resist such government intrusion, as exemplified by executive order National Defense Resource Preparedness, the boundaries of our liberties will be constricted further with each new episode of crisis. This struggle requires education, constant awareness, and the courage to think, speak, and act forthrightly among our more conciliatory fellows who would rather take the easy way of going along to get along, even when society at large is going along toward a plunge into complete tyranny or a long, steady descent toward totalitarianism. Americans should not reassure themselves that it cannot happen here. •

New Book: *Priceless*

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Scaling back the third-party system would also create healthy incentives for healthcare providers to reduce prices and to compete more on quality, as producers in other markets do.

Priceless also offers ideas for improving Medicare and Medicaid, reducing malpractice lawsuits, liberating doctors from the dictates of third-party bureaucracies, and getting insurance companies back to the business of pricing and managing risk and leaving the management of healthcare to the medical experts. To order this book visit www.independent.org/store/priceless. •

Praise for *Priceless*

"John Goodman has long been the clearest and most insightful healthcare thinker we have. . . It's time we acted on his common sense, fact-based wisdom in Priceless."

—Mitch Daniels, Governor of Indiana

"Anyone seriously interested in understanding healthcare reform should look carefully at the proposals offered here."

—Michael A. Morrissey, Professor of Health Economics, Univ. of Alabama at Birmingham

"The insight and innovative thinking in Priceless will be invaluable in avoiding the harms of government-run healthcare."

—Steve Forbes, Editor-in-Chief, *Forbes*

New Book: *Delusions of Power*

(continued from page 5)

unfamiliar with Robert Higgs will discover that *Delusions of Power* provides new vistas from which to see the world with greater clarity. And the growing number of readers already acquainted with Higgs's works will find that this book offers more of the refreshing intellectual rigor, elegant erudition, and morally grounded wit that they've come to expect from the most astute critic of government power on the scene today. •

Praise for *Delusions of Power*

"Lively throughout and based on deep historical knowledge, Delusions of Power can be read profitably by anyone interested in the fundamental controversies of economics and politics."

—Timur Kuran, Professor of Economics and Political Science, Duke University

"Delusions of Power is history well-told and should be thought-provoking to all, whatever their political preferences."

—Stanley L. Engermann, John H. Munro Professor of Economics and Professor of History, University of Rochester

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“What Most Changed Your Views?”

We asked the staff of The Independent Institute what inspired them to embrace liberty, and the response was revealing. Answers ranged from reading F.A. Hayek’s “Why I Am Not a Conservative” to Rose Wilder Lane’s *The Discovery of Freedom* to Murray Rothbard’s *What Has Government Done to Our Money?*; the influence of a high school teacher who subscribed to *The Independent Review*; and attending the Independent Institute’s Summer Seminars. Three of our team previously worked at DC-area liberty-minded organizations, putting them on the path to joining our mission to boldly advance peaceful, prosperous and free societies; while two other of our valued, full-time staff started with us as summer interns!

This summer, a dozen more students will intern with us, gaining valuable experience for taking their place as leaders of a free society, including immersion in its undergirding principles, while scores of students will be exposed to the ethical and economic principles of open markets and free societies as participants in our own “Challenge of Liberty” Summer Seminars. Thousands of others will learn and be inspired from talks and discussions led by Independent Institute Fellows at semi-

nars across the country. In the fall, even greater numbers will be exposed to the ideas of liberty and the fallacies of government failure in college courses around the globe, utilizing Independent Institute books adopted for the classrooms such as *Living Economics: Yesterday, Today, and Tomorrow*; *Beyond Politics: The Roots of Government Failure*, and *Aquonomics: Water Markets and the Environment*.

Meanwhile, the Institute’s new book, *Priceless: Curing the Healthcare Crisis* (see p. 5) will offer refreshingly non-politicized solutions in the midst of this election season’s contentious debates; while conversations around government debt and spending attract a half million weekly at the Institute’s MyGovCost.org website, blog, and Facebook page.

History continues to show the powerful impact of ideas, from Thomas Paine’s *Common Sense*, to the Velvet Revolution’s bringing down the Soviet bloc. Today, as millions across the globe clamor for inspiring ideas to solve the ills that continued statism only perpetuates, who knows how many lives may be changed by the seed planted as a result of an Independent Institute study, article, book, website, or talk? Your support helps make possible the development and dissemination of the principled ideas and solutions that may well provide the motivation and ammunition to change not just one life, but millions.

Please take a moment to fill out the enclosed envelope, visit us at www.independent.org to make a secure contribution online, or contact Sarah Tarvin (510-632-1366 ext. 152, starvin@independent.org). And thanks to generous Independent Institute members, every *new* or *increased* donation made by June 30th will be matched dollar-for-dollar. Please be sure to share the message of the Independent Institute with your friends, family, neighbors, colleagues, and everyone you meet! •

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