Those who cannot learn from history are doomed to repeat it,” wrote the philosopher George Santayana. What does the study of economic policy mistakes tell us about how to keep ourselves from making the same blunders that our forbears made?

In my book The Terrible 10: A Century of Economic Folly, I examine the most destructive economic policies that politicians have inflicted on the United States since the early 1900s. Let’s look at some of their causes and see how we might avoid repeating past mistakes.

Special Interest Influence. Campaign contributions by special interests seem to have played a role in some of the worst blunders of the past century, including the Hawley-Smoot tariff hike, Medicare Part D, environmental mismanagement, and lax regulatory oversight of Fannie Mae and Freddie Mac. Would stronger campaign finance laws reduce improper interest-group pressure?

Skeptics have history on their side: Whenever campaign-finance reforms have been enacted, special interests have found loopholes to circumvent their aim. Reforms passed in 2002, for example, simply steered large contributions toward political action committees. Now campaigns cost more than ever. But even when election donations don’t come directly into play, special interests can reward retired politicians with lucrative jobs as lobbyists or influence peddlers.

But what if lawmakers’ salaries and pensions were raised substantially on the condition that lawmakers never accept any lobbying jobs or compensation even after they leave office? Might this reduce influence peddling? Perhaps, but crafty people would look for ways to circumvent such restrictions—such as via lobbying jobs for a politician’s spouse or children, or similar maneuvers. Any laws of this type would need constant monitoring and revision.

A better way to break the abuse of money in politics may be to strengthen transparency and disclosure requirements. Even better would be somehow to limit the value of favors that politicians can dole out.

Short-Run Obsession. Here’s the dark side of democracy: Elections create perverse incentives for politicians to focus on getting re-elected and to neglect problems that arise many years later. Disasters caused by this short-run obsession include pay-as-you-go Social Security, Medicare, and recklessly large public indebtedness.

How can we make politicians pay more attention to the long run? Members of the House of Representatives are constantly seeking campaign contributions because they are up for re-election every two years. Suppose their terms were lengthened but the number of terms were limited? We could also restrict senators and presidents to, say, an eight-year nonrenewable term. Such proposals are intriguing but are no panacea.

A better approach might be to impose rules that limit the scope of decision-making by public
Revolts of the Young

Recent polls show that young voters are turning against the federal government as they grasp how fully their futures are now threatened.

In December, Harvard’s Institute of Politics (IOP) showed that 52% of young “millennials” (ages 18-24) are so upset about Obamacare, joblessness, and NSA spying on their phones that they want Obama removed from office. By April, the IOP reported that trust in government for millennials (ages 18-29) had reached a 5-year low, “and their cynicism toward the political process has never been higher,” said Director Trey Grayson. “It’s been clear for some time that young people are growing more disillusioned and disconnected from Washington,” said IOP Polling Director John Volpe. “There’s an erosion of trust in the individuals and institutions that make government work and now we see the lowest level of interest in any election we’ve measured since 2000.”

In one year, millennials’ trust has dropped in the President (39 to 32%), the military (54 to 47%), Supreme Court (40 to 36%), Congress (18 to 14%), and the U.S. government overall (20%). Since 2010, the share of those polled who say that “elected officials seem motivated by selfish reasons” has increased by 6 points to 62%.

To better connect with young adults and others attuned to the problem of dysfunctional politics, the Independent Institute has developed a free mobile app for our Government Cost Calculator at MyGovCost.org. Available for the iPhone and iPad, the calculator provides a customized estimate of any American’s lifetime federal tax liability and shows how those tax dollars are spent. And, MyGovCost offers news, blogs, videos, and articles on government power, spending, and debt.

To leverage our impact, please join us as an Independent Associate. With your tax-deductible membership, you can receive a FREE copy of The Terrible 10 (p. 1), Recarving Rushmore (p. 6), and other publications, including The Independent Review (p. 3), plus other benefits (see envelope).

David J. Theroux
Sweatshops • The Fed’s War on Interest Income

The tragic collapse of the Rana Plaza garment factory in Bangladesh in 2013 killed more than 1,100 workers and reignited a worldwide movement calling for the regulation of so-called sweatshops. Unfortunately, anti-sweatshop activists try to promote better working conditions the wrong way because they overlook the economic harm that boycotts and costly regulations impose on the factory workers.

The activists also fail to recognize the positive role that low-wage factory jobs played in the West’s rise from poverty, explains Independent Institute Senior Fellow Benjamin Powell in “Meet the Old Sweatshops: Same as the New.”

Before workplace safety regulations were enacted, textile and apparel factories with poor working conditions were economic springboards to prosperity in what is now the developed world. In Great Britain, sweatshops contributed to economic progress for 130 to 160 years; in the United States, they played the same role for about 100 years.

Those sweatshops closed down not because of labor laws or workplace regulations, but because they helped foster economic progress that made them obsolete: they contributed to decades of capital accumulation that shifted the demand for labor toward higher-productivity jobs. In addition, the rising prosperity meant that fewer and fewer workers needed to take low-wage jobs with undesirable workplace conditions.

Other countries, particularly in East Asia, followed the path out of poverty taken by the West, with low-wage factory jobs, property-rights enforcement, a market price system, and economic freedom. One difference, however, is that they often attained in only two generations the same living standards that it took the United States and Great Britain a century or longer to reach.

“Poorer countries today would be better served if antisweatshop scholars and activists had a better understanding of how the historical process played out in wealthy countries,” Powell writes.

See “Meet the Old Sweatshops: Same as the New,” by Benjamin Powell at www.independent.org/publications/tir/article.asp?a=1002 •

The Fed’s War on Interest Income

Shortly after Janet Yellen was sworn in as chair of the Federal Reserve in February, she told two congressional committees she is committed to both components of the central bank’s dual mandate. That mission consists of, in her words, “helping the economy return to full employment, and returning inflation to 2 percent while ensuring that it does not run persistently above or below that level.”

Pity the ordinary retiree living on interest income. For those dependent on savings accounts paying 1 percent or less, 5-year CDs earning no more than 1.37 percent, and 5-year Treasury bonds yielding 1.69 percent (current rates as of June 9), Yellen’s words amount to a declaration of war on their financial security. Or rather, they amount to a pledge to continue warfare launched in late 2008 under the tenure of her predecessor, Ben Bernanke.

The Fed’s weapon of financial mass destruction is its zero interest-rate policy (ZIRP), which has pushed down yields on low-risk assets below the inflation rate. This policy, explains Independent Institute Senior Fellow Robert Higgs, is impoverishing millions of older Americans who have scrimped and saved for retirement, causing many to return to the labor force at a time when younger cohorts are dropping out.

“There are many reasons to oppose the Fed’s ZIRP,” Higgs writes. “One of them, its euthanasia of the nation’s small savers, deserves far more attention than it has received to date.”

The Independent Institute in the News

Center on Entrepreneurial Innovation
“Working in a sweatshop stinks. It’s much worse than that. But, recognizing that it’s the best available option [for the workers] has important implications because the last thing we should want to do, as people in the First World who care about these people, is take away their least bad option and throw them into even worse alternatives.”
—Senior Fellow Benjamin Powell on Fox Business Network’s The Independents, 4/21/14

Center on Health and the Environment
“Rather than trying to comprehensively fix all of the problems plaguing the Forest Service, whose 35,000 employees manage approximately 10 percent of all land in the United States, what’s needed is a new management model—the type public education reformers have been experimenting with. Like charter schools, we need ‘charter forests.’”
—Senior Fellow Robert H. Nelson in McClatchy Syndicated Newspapers, 4/28/14

Center on Educational Excellence
“Repealing the Jones Act would generate multiple benefits. It would energize the production of shale oil, creating thousands of jobs and boosting the US economy. It would reduce US reliance on imported oil from problematic OPEC countries like Saudi Arabia and Venezuela, shaving billions from our trade deficit and enhancing US energy security.”
—Research Director and Senior Fellow William Shughart II in The New York Post, 4/14/14

Center on Global Prosperity
“The truth is that economic progress and prosperity are elective. A society can choose to do things the right way or the wrong way, and these choices have consequences. Do them the right way and within a couple of generations the economy will take off; do the opposite and the economy will sink.”
—Board of Advisors Member Carlos Alberto Montaner in National Review, 5/31/14

Center on Peace and Liberty
“(Snowden) had a massive data dump . . . the intelligence community looks foolish, the Obama administration looks foolish, and very frankly the NSA looks foolish for snooping on Americans . . . . In a republic, the NSA should be spying for Americans overseas, not on Americans at home.”
—Senior Fellow Ivan Eland on CTV, 5/28/14 •

Visit our newsroom at www.independent.org/newsroom to read these articles and more.
In his brilliant book *The Decline of American Liberalism*, renowned historian Arthur A. Ekirch, Jr., warned that individual freedom faces threats from nationalism, war, and the concentration of power in the modern state and corporate cronies who oppose genuine, free-market capitalism. Ekirch penned his treatise almost 60 years ago, but his insights are still true and timely.

Former congressman and presidential candidate Ron Paul shed additional light on the threats to our freedom in his April 9 appearance at California State University, East Bay, “Defining Liberty: The Future of Freedom,” a huge event co-sponsored by the Independent Institute and the Smith Center for Private Enterprise Studies.

Paul’s talk showed that he has not lost his edge since leaving the House of Representatives in 2012 after serving twelve terms. Now as ever, Dr. Paul is not afraid to criticize members of his own party—even denounced them—whenever they put politics above principle.

In fact, it is politicians’ deviations from principle—especially the principle of individual liberty—that has given us so many scandals and policy disasters, he emphasized. Those include the NSA surveillance revelations, the costly Drug War casualties, the Federal Reserve’s record of inflation and recession, and unnecessary wars and military blunders. Moreover, an aggressive foreign policy has led to threats to civil rights at home, such as the government’s demonization of whistleblowers like Edward Snowden and former CIA officer John Kiriakou. “Truth is treason in an empire of lies,” Dr. Paul said.

The former congressman and physician was equally articulate in making the case for freedom. “Liberty guarantees that you have a right to your life . . . and you ought to have a right to keep the fruits of your labor—which means that you do what you want and bear the responsibilities,” Dr. Paul said. “If you do well, the government shouldn’t come and take it from you. . . . But if you don’t do well, you don’t have the right to go to your neighbor through your government and demand that you be taken care of because you didn’t do the right thing.”

For a video of this event, visit www.independent.org/multimedia/detail.asp?m=2530

The long wars in Afghanistan and Iraq have sparked ongoing debate about foreign policy within the Democratic and Republican parties. Neoconservative pundit William Kristol has said that the real debate within the GOP will increasingly become U.S. foreign policy. Similarly, the more hawkish Clinton wing of the Democratic Party continues its clash with the more dovish McGovernite wing.

To shed light on these differences, on May 6 at George Washington University in the nation’s capital, the Independent Institute co-hosted “Whither America: A Foreign Policy Debate Among Realists, Nationalists and Internationalists,” a debate on America’s conflicting foreign-policy traditions.

Henry R. Nau (George Washington Univ.) represented the conservative, internationalist approach to foreign policy (a school that includes, but is not synonymous with, neoconservatism). Michael Lind (New American Foundation) defended the liberal, internationalist orientation. And Ivan Eland (The Independent Institute) stood up for the realist-minimalist or “strategic independence” approach.

Americans today have forgotten the principles that shaped U.S. foreign policy in its early decades, Eland argued. This collective amnesia is not merely an academic matter, Eland suggested; it is responsible for the chaos that has befallen Iraq, Afghanistan, and Libya since the U.S. military intervened in those countries. This alone should inspire us to pay closer attention to America’s oldest foreign-policy tradition. In addition, the more restrained approach would enhance national security and help put the U.S. economy on the road to recovery.

For a video of this event, visit www.independent.org/multimedia/detail.asp?m=2547
Recarving Rushmore—Updated Presidential Rankings from George Washington to Barack Obama

Historians and scholars tend to give higher rankings to U.S. presidents who served during wartime, were well spoken, or expanded, often unconstitutionally, the power of the federal government and the executive office. In contrast, *Recarving Rushmore: Ranking the Presidents on Peace, Prosperity, and Liberty*, by Independent Institute Senior Fellow Ivan Eland, cuts through these longstanding biases and political rhetoric to offer a nonpartisan assessment based purely on how well each chief executive’s policies comported with the founders’ original intention of limiting federal power in all its aspects. These presidential rankings will surprise most and enlighten even acknowledged experts on the presidency.

According to Eland, the U.S. government has hardly functioned as the framers of the Constitution had intended—especially with the subsequent expansion of executive power to now imperial proportions. The framers would have downgraded presidents who got the country involved in needless wars and thereby expanded the federal role and executive power at home in both security and purely domestic areas. They would have pilloried activist presidents and praised presidents who tried to stay within the restrained role for the chief executive enshrined in their Constitution. In short, they would have commended presidents who tried to limit the purview of the federal government both at home and abroad, thus promoting peace, prosperity, and liberty.

In American history, these presidents are fairly rare and party labels often don’t lead us to them, as is also the case with those chief executives who swelled federal power domestically and overseas and were thus the worst presidents. The founders likely would have appreciated unsung or even obscure presidents—such as John Tyler, Grover Cleveland, Rutherford Hayes, Martin Van Buren, and Chester Arthur—who favored a limited federal government and used executive power in a restrained manner.

Conversely, they would have looked askance at presidents who have become the darlings of historians, the public, or the media—Abraham Lincoln, Franklin Roosevelt, Harry Truman, John F. Kennedy, and the worst president of all time, Woodrow Wilson.

Some presidents’ reputations deviate significantly from their actual policies, for example, those of Ronald Reagan and Jimmy Carter. By the founders’ standards, Reagan’s actual policies overall increased government spending, whereas Jimmy Carter’s were surprisingly better. Also, historians are slowly starting to grasp that Dwight Eisenhower was a better chief executive than his traditional reputation, but not to the extent that Eland thinks so. Unfortunately, historians have not yet realized that Warren Harding was actually a good president despite petty corruption during his administration, as was his reticent successor, Calvin Coolidge. In fact, the Harding/ Coolidge model is probably much better for conservatism than the Reagan model.

As for Barack Obama’s yet unfinished presidency, Eland treats it as one of the worst in U.S. history, as is the case with that of his predecessor, George W. Bush. Obama has pursued, as did the younger Bush, ruinous domestic policies and substantial infringements on civil liberties. Yet surprisingly, Obama, despite significant flaws, has run one of the more restrained foreign policies since Gerald Ford and Jimmy Carter.

In sum, *Recarving Rushmore*, is full of surprises—looking beyond historical myths, conventional wisdom, inflated presidential rhetoric, and false reputations to rate presidents only on what they actually did, that is, the policies they initiated.
servants. A rule requiring Federal Reserve policymakers to focus only on price stability or a low inflation rate, for example, would have reduced the political pressures that led to the Great Depression and, later, the Nixon-Burns business cycle.

A well-designed rule requiring a balanced budget when the economy approaches full employment or a rule limiting the national debt to some percentage of national income would restrain government from excessive deficit finance that pushes costs onto future taxpayers.

Policymaker Ignorance. Politicians and government bureaucrats are often very ignorant about the long-term effects of their policies. One egregious example is the pay-as-you-go Social Security system.

In 1939, Senator Arthur Vandenberg (R-MI) said he thought a fully funded retirement system was a “leech on society.” But the reform Congress enacted was much worse. It kept payroll taxes lower—but only temporarily. Now we suffer from an unfunded system that has reduced savings and investment, and requires major new taxes or repudiation of promised entitlements.

Can policymaker ignorance be corrected? Years of experience with bad trade policies, and economists’ vocal opposition to restraints on trade, seem to have made lawmakers less protectionist. Perhaps elected officials should be required to pass an economics course before taking office. Perhaps more regulatory policies and spending programs should be required to pass a rigorous cost-benefit test.

In the final analysis, our public policies will be only as good as our electorate is smart. Unless voters take the time to understand the issues—including their economic and historical contexts—we will indeed be condemned to repeat past mistakes. •

Burton A. Abrams is a research fellow at the Independent Institute, professor of economics at the University of Delaware, and author of *The Terrible 10: A Century of Economic Folly.*
Ideas Into Impact

When you reflect on high points of your career, can you identify key contributors to your success—perhaps a teacher who worked with you to develop a key skill; or a book, article, or seminar that gave you new insight into your profession; or a colleague who introduced a fruitful way to find solutions to a challenging problem.

Your support of the Independent Institute helps us provide these kinds of invaluable benefits to others! Prime examples are our student programs that train young people how to translate their passion for improving the world into effective action.

Take Research Intern Adriana Vazquez. When the UC Berkeley grad shared her frustration with the politicized curriculum at her alma mater, our staff worked with her to channel that frustration into an insightful op-ed (“Robert Reich Stands on Soapbox at Students’ Expense”), which also encourages other students to call for change and put university officials on notice regarding debased curricula. Further, Adriana gained important skills and knowledge in effective leadership that she can apply throughout her career.

Or consider our studies that helped change the minds of cultural leaders such as musician and poverty activist Bono. Thanks to his introduction to Research Fellow George Ayittey’s powerful work on the sources and solutions to Africa’s woes, Bono’s approach to helping Africa has changed from calling for “more foreign aid” to advocating “more capitalism.”

Or note our work on housing policy that led then-Mayor Jerry Brown to block destructive “affordable housing” measures in Oakland, and now-Governor Jerry Brown to veto legislation that would have resulted, perversely, in far less affordable housing in California.

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