When I found my first job in China in 2007, it was easy to have the sense that China's economy was too good to be true. I came to China from a career covering banking and finance in Europe. I had a decent idea of how the commanding heights of the economy were supposed to work, and China's economy didn't work that way.

Chinese banks lent to state-owned enterprises that were chronically inefficient and often lost money, while the country's robust export sector was severely underfinanced. Major government projects, like China's high-speed rail system, would end up poorly functioning and wildly over budget. Yet despite all this and more, the economy was growing 10 percent a year. At some point, the system had to break down.

Then, it didn't. Over the next two years, the population of China living in poverty dropped by 50 million people.

I knew what China was doing wrong, but at the same time China was doing something profoundly right. I wanted to know what that was.

Between 1978 and 2012, the population of China's cities grew by half a billion people, swollen by more than 260 million economic migrants moving to urban centers to look for new opportunities. A worker moving from the farm to a factory could see his or her income grow by 500 percent. A decade earlier these workers were living in rural villages, worrying about having food to eat, heat for the winter, and proper sanitation. Now they were trying to figure out what sort of phone they could afford and how they could sell their skills to a more competitive buyer. Most importantly, they worked. The new urbanite would make goods that otherwise would not have been made, or provide services that otherwise would not have been provided.

The impact of China's Great Migration has been profound. Migrant workers allowed China to grow despite chronic problems in the country's underdeveloped financial system. China's Great Migration forced the government to open the country to private enterprise and reform its fiscal system to be friendlier to independent businesses and urban development. The poor in China continue to serve as a free-market counterbalance to the government's ongoing efforts to control and restrict economic activity.

(continued on page 7)
Free to Choose
and intolerance, our trusted, non-partisan voice is cutting through the noise and fog more than ever. Already, in the first months of Donald Trump’s presidency, our fellows have appeared 178 times in top media, weighing in on the most critical debates over healthcare, the economy, educational choice, government spending and debt, energy and the environment, and more.

We are seizing every new opportunity to pursue tax reductions, deregulation, privatization, spending cuts, and other reforms while also seeing that constitutional protections and the rule of law are strengthened. For example:

- Senior Fellow John C. Goodman (p. 4) continues to lead the debate on the crucial replacement for Obamacare with a plan create a real medical marketplace that would unleash innovation and empower patients with more choices and at lower costs.

- Senior Fellow Lawrence J. McQuillan argues that the way to fix crumbling infrastructure is to allow private entrepreneurs to own, invest in, and manage assets, entrusting projects to those who understand how to serve consumers rather than government bureaucrats.

- Research Fellow Vicki E. Alger (p. 7) exposes the U.S. Department of Education as greatly worsening a broken public school system that is failing students. She is now working with state legislators and partner organizations across the U.S. to put true choice back into education in Texas, Oklahoma, Nebraska, Nevada, Kansas, and other states.


We invite you to join with us to build a better future by becoming an Independent Institute Member. With your tax-deductible membership, you can receive a FREE copy of Future, A Better Choice, Failure, The Independent Review, or other publications, plus additional benefits (see envelope).

We look forward to working with you to advance the boundless possibilities that only a free society provides.
The Economy in 50 Years? *Future* Offers Message of “Cautious Optimism”

Fifty years from now, will the world enjoy living standards and creature comforts greater than most of us can imagine? Or will we face more peril than prosperity?

Contemporary luddites fear the future will bring numerous economic ills, such as prolonged mass unemployment caused by automation. Judging by past results of technological innovation, however, such fatalism seems unwarranted: In the centuries since the Industrial Revolution, humans have shown great skill at adapting to economic change.

But a future filled with widespread prosperity is by no means a sure thing. Excessive taxation, regulation, cronyism—and public hostility to wealth creation—could prevent entrepreneurs and businesses from delivering life-enhancing innovations to the marketplace. The future is what we make it, so policymakers in particular must tread lightly.

This message of “cautious optimism” is a major theme of the new Independent Institute book, *Future: Economic Peril or Prosperity?*, edited by economists Robert M. Whaples, Christopher J. Coyne, and Michael C. Munger.

Published by the Independent Institute, *Future* offers insights from 19 contributors who not only look to the state of the economy in 50 years, but also offer guidelines on how to think about our economic future in a world of uncertainty.

As the humorist P. J. O’Rourke points out in his chapter, not all predictions are created equal: Nostradamus and Marx are famous for having made predictions, but they were prescient only in the same way that a broken clock is “accurate” twice a day. The contributors to *Future*, however, stay well within the bounds of established scientific and economic thought.

Here are a few of the blessings we are likely to see:

- World poverty will be one-half of today’s level. Economic freedom in the developing world will be a major catalyst for progress.
- Everyday products will automatically respond to people’s wants and needs. Smart wearables and houseware will be the norm.
- Households will offer surplus electricity for sale on the smart grid. Lower energy usage will reduce the human impact on the environment.
- The future is not predetermined, however, and there is no shortage of potential obstacles to progress. The United States could plunge into another Great Depression as a result of government monetary folly. The regulatory state could reach deeper into the economy, harming opportunity and prosperity.
- Significant gains in material wealth could also help usher in the Age of Complacency. With fewer people fighting to secure economic liberties, personal freedoms, and equal rights, the world of abundance might prove to be short lived.

The world of tomorrow could be brighter than ever—but the prospects could be dim if we fail to avoid making careless mistakes. “And we all have a say in the matter—individually and in the policies enacted by those we elect,” Whaples concludes.
Independent Institute in the News

Center on Educational Excellence
“Switching from debt-based facilities funding to a cash-based strategy could cut current construction and maintenance expenses nearly in half . . . Viewed another way, for the same cost California could buy twice as much as it does now.” —Vicki E. Alger and Jacob Richards in The San Francisco Chronicle, 12/20/16

Center on Entrepreneurial Innovation
“Trump has called for a two-for-one policy requiring the elimination of two existing regulations for every new rule issued . . . It’s a good starting point. But there’s much more to be done. Pruning back the regulatory state will go a long way toward energizing the economy.” —William F. Shughart II in USA Today, 2/16/17

“International trade is not a game that’s about winning or losing. We want our industry to be as competitive as possible serving consumers. That has nothing to do with regulating trade abroad.” —Benjamin Powell on Fox Business News, 2/23/17

Center on Global Prosperity
“What is much less clear is what will happen after Raúl Castro is gone. No apparatchik wields enough power to ensure the perpetuity of the system. Although civil society is too weak at this time to rebel against one-party rule, the cracks that might open within the structure of the state could unleash forces of the kind we saw in Eastern Europe both inside and outside of the Communist Party.” —Alvaro Vargas Llosa in Newsday (NY), 12/19/16

Center on Health and the Environment
“The VA health system does not need more money. Rather, veterans need more freedom to make their own health care decisions. Give the VA’s hospital budget to the veterans; let them decide which hospitals to use.” —John R. Graham in the Boston Herald, 1/14/17

“Rep. Pete Sessions (R., Texas) and Sen. Bill Cassidy (R., La.) have offered a bill to create a universal tax credit worth $2,500 for an adult and $8,000 for a family of four . . . The bill would remove federal impediments to portable insurance, offer large employers a choice of tax regimes (tax credits or the current system), and give every American access to a Health Savings Account.” —John C. Goodman in the Wall Street Journal, 1/23/17

Center on Law and Justice
“As a man outside the legal mainstream, Neil Gorsuch is a needed addition to a Supreme Court that is too often engrossed with its power and authority. Confirmation will be a fight, but this herculean battle will be well worth the effort.” —William J. Watkins, Jr. in The Hill, 2/6/17

Center on Peace and Liberty
“With an almost $20 trillion debt, the United States needs to begin to learn to let other countries do more for their own security. In this case, letting wealthy Japan and South Korea do more for theirs would likely make China feel less encircled and able to do more for its own security, and everyone else’s, by pressuring North Korea towards better behavior.” —Ivan Eland on US News & World Report, 2/17/17

VISIT OUR NEWSROOM AT INDEPENDENT.ORG/NEWSROOM TO READ THESE ARTICLES AND MORE.
The Real Alexander Hamilton

Hamilton: An American Musical, the smash-hit Broadway show, tells an entertaining and compelling tale about the first Treasury Secretary of the United States. By many critics’ accounts, it is an aesthetic success—it’s won seven Tony Awards and a Pulitzer Prize for Drama. But how true to life is Hamilton? And how might its popularity influence our political discourse? The Spring 2017 issue of The Independent Review features a Symposium about this unusual musical, its relationship to the historical Hamilton, and the implications for America.

America’s Founders have long been illuminated under the spotlight of popular culture, including in plays, movies, TV shows, and speeches. Usually they are interpreted as symbols that reflect contemporary concerns more than historical reality, and Hamilton: An American Musical is no exception. As Symposium editor Matthew Brown argues, despite its novel artistry (hip-hop rhythms and vocals) and casting against type (including black performers playing white slave owners), the show largely conforms to this mythmaking tradition.

Most notably, perhaps, the musical celebrates Hamilton’s immigrant identity but overlooks his unsavory views about nationality and birth status. According to Philip W. Magness, the historical Hamilton committed several turns against the same liberal immigration beliefs that the show’s creator and star, Lin-Manuel Miranda, intended his stage character to illustrate.

Is it too much to ask that great art also be great history? It’s a big question that merits public debate. Historian Kenneth Owen admits he has conflicting feelings about popular entertainment that brings history to large, enthusiastic audiences but paints a distorted picture of real people and their times. Such feelings, Owen says, are especially acute in the case of Hamilton: An American Musical, because it excels at sacrificing historical accuracy yet is an engaging, uplifting morality tale.

But while the fictional Hamilton has broad appeal, the real Hamilton is not a good fit for today either socially or politically, argues Billy G. Smith. This makes it all the more surprising and impressive that the musical has garnered so much favorable attention for its namesake.

If today’s audiences manage to resist the temptation to treat the real Hamilton as a hero for today, however, they still might fall for the myth that, as the first U.S. Treasury secretary, he “invented” our financial system or even American capitalism itself. Such gullibility would be unfortunate for several reasons, according to Edward Peter Stringham, not the least of which are that it perpetuates the discredited Great Man theory of history and neglects the determining factor in financial history: the interactions of countless people whose choices shaped our institutions.

Economic historian Robert E. Wright concludes the symposium with a humorous rejoinder to Hamilton: An American Musical, his own historically accurate libretto in rap style. Hip-hop revisionism, anyone?

Rounding out the Spring issue are in-depth articles about Canada’s economic transformation, political dysfunction and constitutional drift, the weakening of property rights in North Carolina, George Gilder’s take on where Wall Street went wrong, and six insightful book reviews.
CAL FIRE Wins Golden Fleece Award

As the old saying goes: Where there’s smoke, there’s fire.

It should come as little surprise, therefore, that the state agency known as CAL FIRE (the California Department of Forestry and Fire Protection) is the latest winner of the Independent Institute’s California Golden Fleece Award, given quarterly to a state or local government agency or program that has violated the public trust.

CAL FIRE, which is tasked with preventing and fighting fires on 31 million acres of land in the Golden State, has been on a losing streak for California residents, property owners, and taxpayers. Its budget has increased, including through a controversial “fee,” but its effectiveness in preventing fires has declined.

Most of all, the agency has shown gross negligence in setting appropriate priorities.

“CAL FIRE’s poor handling of fire safety and costs, severe lack of accountability to taxpayers and landowners, and widespread personnel scandals make it a hindrance to the state,” says Independent Institute Senior Fellow Lawrence McQuillan, who oversees the Golden Fleece Awards.

Poor Priorities and Premium Prices

CAL FIRE has the second largest budget of the state’s resource agencies, second only to the Department of Water Resources. In Fiscal Year 2016–17, it was poised to receive nearly $2.2 billion, an increase of almost 12 percent over the previous year and a 42 percent increase over 2014–15. However, the portion allocated to fire prevention is an estimated 5 percent less than the previous year. (About $1.8 billion is allocated for actually fighting fires.)

The agency has a $76 million fund earmarked for fire prevention but has granted only $16 million to local efforts. The painful consequences of this choice were made plain in the 2016 fire season, which saw an increase of about 700 fires over the previous year (which had California’s third-worst fire season on record).

Save for a rainy day, the old maxim goes. For fire agencies, there is a corollary: Budget for a major drought. Had CAL FIRE heeded this wisdom and allocated more for local fire-prevention efforts, the destruction from recent fire seasons, exacerbated by the state’s historic drought, could have been significantly less.

Unconstitutional ‘Fees’

The need to improve fire prevention did not go wholly unnoticed. In 2011, Governor Jerry Brown approved a controversial fire-prevention “fee” imposed on more than 800,000 property owners within CAL FIRE’s domain. At the time the measure was signed, however, even Gov. Brown indicated he thought it violated constitutional strictures for creating a new tax.

The formal cost to property owners is approximately $115 to $150 per year for each habitable structure, depending on whether or not it also falls within the boundaries of a local fire protection agency (the actual costs are much greater). Oddly, much of the fund ($1 of every $7 collected) has been kept in reserves instead of going to fire prevention, according to the Sacramento Bee.

Putting Out Fires by Local Control

The overriding theme of these and other deficiencies, including personnel scandals involving cheating on tests in CAL FIRE, is that CAL FIRE is ill suited to solve its multifaceted problems.

“Fixing these problems requires divesting responsibilities from the agency and empowering private landowners,” writes McQuillan. “By unshackling Californians from the burden of paying for and relying on the unreasonably costly, misincentivized, and scandal-ridden CAL FIRE, fire safety and can be efficiently and effectively achieved.”
Education policy has long been a contentious issue. Opposing factions argue not only about curricula and pedagogy—Common Core is only the latest example—but also about student-teacher ratios, the role of standardized tests, funding levels, school-district autonomy, and parental choice.

The U.S. Department of Education (ED) has played an important role in the growing politicization of education, particularly in the tug of war between the federal government and state policymakers and the citizenry.

The political conflicts related to the ED might be deemed a worthwhile cost if federal involvement in education resulted in better academic performance by students, but the trends in standardized-test scores offer little if any support for that rationale.

Independent Institute Research Fellow Vicki E. Alger issued a report card on the ED in her 2016 book, Failure: The Misedukation of America’s Children, and her message is sobering: The ED has not lived up to its promise, and students would be far better off if education policy were decentralized and school choice were the norm.

As of mid-March, Alger has supported her book by publishing 10 op-eds, appearing on 63 radio shows, and giving 17 presentations across the country. In addition, Alger’s research has contributed to numerous school choice bills—including five in California.

Alger’s latest recommendations are found in her brief paper, “Returning Education to the States and Citizens,” the fourth in Independent’s new Executive Summary series. (Available at www.independent.org/publications/executive_summaries/.)

Engaging Bright Young Minds

Approximately 2,000 liberty-minded people descended on Washington, D.C., for the 10th Annual International Students for Liberty Conference (ISFLC). Billed as “the largest gathering of pro-liberty students in the world,” the event draws not only college students, but also non-student liberty enthusiasts and policy experts.

Representing the Independent Institute were Senior Fellow Ivan Eland, Social Media Manager Adriana Vazquez, and Programs Manager Martha Ekdahl.

For Eland, who speaks frequently to public-policy groups and the media, ISFLC was a chance to connect with young people, especially those eager to learn about “Trump’s Foreign Policy,” the title of Eland’s presentation.

For Vazquez and Ekdahl, the conference was a successful opportunity to engage with Millennials, network with other liberty-minded organizations, and spread Independent Institute’s bridge-building message to diverse audiences using social media.

In addition to staffing our table in the conference’s Exhibit Hall, they leveraged the event to increase our following on Twitter and Instagram, sold award-winning Independent Institute books, gave out free copies of The Independent Review, and represented Independent at ISFLC’s career fair. They also oversaw the screening of our award-winning video series, Love Gov: From First Date to Mandate.

“ISFLC has become a critical player in the liberty movement,” said Ekdahl, “and our presence is essential to engaging young minds in the cause of freedom.”

China’s restrictions are not unique. Many countries discourage internal migration by limiting urban construction, putting soft restrictions on employment, and controlling the trade in rural land. For millions of people in India, Africa, and even Latin America, these roadblocks are the difference between worrying about having food to eat, heat for the winter, and proper sanitation, and worrying what sort of phone they could afford and how they could sell their skills to a more competitive employer.

Migration policy not only deserves attention, it deserves urgency.
Gala for the Future: 30th Anniversary Celebration

Please join with us to celebrate the Independent Institute’s 30th Anniversary! This elegant gala will be held on Friday, September 22, 2017, at the Ritz-Carlton in San Francisco.

Thirty years ago, Independent began its tradition of boldly advancing the timeless principles of liberty, with its unique combination of scholarly rigor and extensive media and educational campaigns to engage new audiences with innovative, enterprising solutions to major societal challenges.

At our Gala for the Future, we will celebrate our past successes as we look forward by honoring three great champions of liberty: world-renowned technology investor and entrepreneur Timothy C. Draper, Nobel Laureate economist Vernon L. Smith, and heroic North Korean human-rights activist Yeonmi Park. Bestselling author and political humorist P. J. O’Rourke will be our master of ceremonies.

For details, please visit www.independent.org/gala. Until then, please also make a gift using the enclosed envelope, or online at independent.org/donate.