

The INDEPENDENT

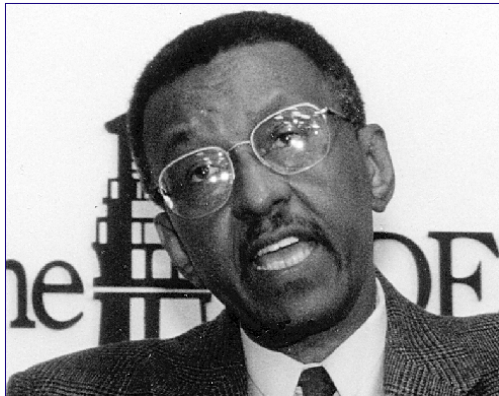
NEWSLETTER OF
THE INDEPENDENT INSTITUTE

VOLUME X, NUMBER 1

Walter Williams Addresses Institute

Should limits on government power be lifted to promote so-called “social justice”? Not if we hope to preserve our liberty and protect equal rights, according to **Walter Williams** (George Mason University). At his July 20th address at the Independent Policy Forum entitled “Liberty and the Failures of Government,” the popular economist and syndicated columnist argued that strict adherence to constitutionalism is both a practical and moral imperative.

Drawing on his book, *More Liberty Means Less Government*, Williams employed his strong



Noted economist, columnist, and author Walter Williams addresses the Independent Policy Forum.

logic and good humor to urge a return to the limited government envisioned by the Founders based on individual self-ownership. He explained the superiority of private to public pro-

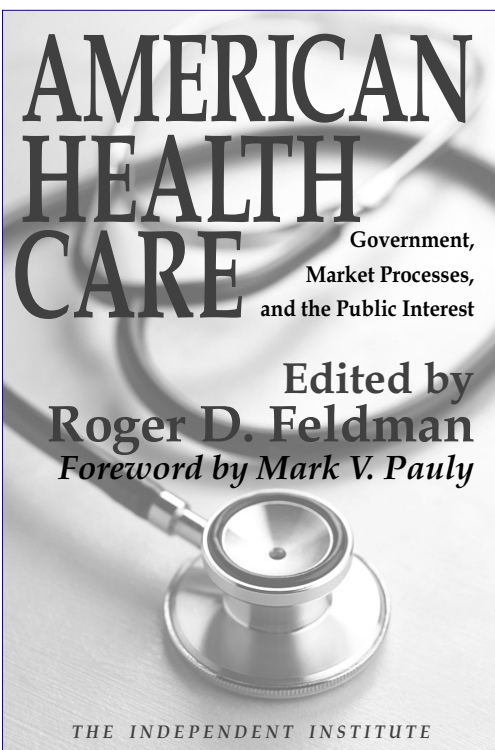
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Book Seeks Market-Based Health Care

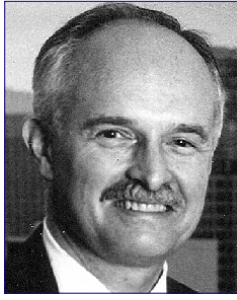
In the U.S. today, one of every seven dollars of income is spent on health care. And, according to a variety of measures, such as life expectancy at birth or age 65, the American health care system performs poorly. The Independent Institute’s new book, *AMERICAN HEALTH CARE: Government, Market Pro-*



cesses, and the Public Interest, now explains why this high-cost system requires fundamental reforms to improve access to high quality, affordable health care.

Unlike most efforts at reform, which would further bureaucratize health care—an approach that was rejected by the public in 1994 and is increasingly being abandoned in Canada, Britain and elsewhere—*AMERICAN HEALTH CARE* argues for practical, market-based policies based on deregulation, privatization, and greater reliance on competitive markets.

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President's Letter:

A Season of Lies?

In this political year, partisan rivals will no doubt once again promise to solve the problems Americans face in health care, crime, education, employment, environment, taxes, and much more. But predictably, the political process and the media that feeds off it will dwell on the superficial and avoid any meaningful assessment of the true impact of government power in American life. Unfortunately, most people who still sufficiently trust in the authority of political power will be led around once again only to be lured into supporting government programs that in the name of the "public good" actually serve to benefit special interests.

Must we simply endure yet another round of made and broken promises? Must we tolerate no one taking responsibility for the predictable problems created by the resulting expansion of government power to socialize the costs, risks, and liabilities of the politically powerful?

Now breaking this syndrome is The Independent Institute's expanding program of publications, events, and media programs. For example, our new book, *American Health Care* (see p. 1), examines the true development of health policy and why de-bureaucratization and economic liberalization are essential to make health care services affordable and accessible. Our **Open Letter** (see p. 3), signed by 539 economists and other scholars, notes how further bureaucratization through price controls would be disastrous for those most in need. And, our acclaimed journal, *The Independent Review* (see p. 5), pioneers the comprehensive analysis of privacy rights, immigration, and much more.

Similarly, recent **Independent Policy Forums** (see p. 1) dissect such issues as civil rights and economic liberties, firearms and crime, and virtual money and e-commerce. Upcoming Forums will further examine race preferences in education and employment, the official lies in warfare, and the war on drugs (see p. 8).

Politics may never be the same.

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Open Letter Critiques Health Price Controls

Efforts to impose price controls on health care products and services, including proposals to implement controls on pharmaceuticals through Medicare reform, were critiqued during the week of February 17th by 539 economists and other scholars in a message sponsored by The Independent Institute that *price controls are a cure worse than the disease*.

The message was conveyed in an **Open Letter on Health Care Reform**, which was published in the Capitol Hill newspapers *Roll Call* and *The Hill*. The Open Letter builds upon a similar open letter the Institute organized five years ago, criticizing the use of price controls contained in the health care plan proposed by President Bill Clinton.

Signatories of the Open Letter include past presidents of the American Economic Association, Western Economic Association, Southern Economic Association, and Eastern Economic Association, as well as economists from

Harvard, Yale, Stanford, Princeton, Chicago, UCLA, Michigan, Columbia, Dartmouth, Johns Hopkins, Illinois, Emory, Texas, Duke, NYU, and many other colleges and universities in all 50 states and the District of Columbia.

Publication of the Open Letter was paid for by the National Taxpayers Union and co-sponsored by the following organizations: Association of American Physicians and Surgeons, Cancer Research Institute, Hispanic Business Roundtable, Independent Women's Forum, International Patient Advocacy Association, Liberty AIDS Education Foundation, National Kidney Cancer Association, Non-Commissioned Officers Association of the U.S.A., Small Business Survival Committee, and United Seniors Association. These organizations represent about 1.2 million people.

(Find the **Open Letter on Health Care Policy** with signatories at <http://www.independent.org/tii/news/OpenLetterHealthCare0002.html>.) ●

Open Letter on Health Care Reform

From 539 Economists and Other Scholars from all 50 States

Dear President Clinton and All Members of Congress:

For thousands of years, governments have tried to control prices. The universal experience has been that price controls produce shortages, black markets, reduced quality, and economic hardship.

Now, once again, programs to control health care prices are on the policy agenda. Under the guise of controlling Medicare costs and shielding the elderly from "unfair" prescription-drug prices, current proposals would restrict discounts on drug prices, cap health care spending, and limit insurance premiums. Among those adversely affected would be hospitals, members of managed care organizations, public health clinics, and government programs such as Medicaid and the Veterans Health System, which, because of their mass-buying power, are able to negotiate favorable drug prices for patients.

In countries with price controls, health care services are severely rationed. Patients wait months and sometimes years for surgery, suffering significant harm to health, even death, as a result. Government bureaucrats, rather than doctors or patients, select treatments. Pharmaceutical innovation languishes.

In recent decades, American health care firms have created hundreds of new drugs, devices, and other medical products that have saved millions of lives, not only in the United States but around the world. The best way to save millions more is to enhance the incentives to research, develop, and market new health care products. Existing price controls and other trade restrictions affecting health care goods and services should be removed in order to encourage dynamic entrepreneurship in competitive markets. The result will be lower prices, greater innovation and higher quality.

Despite claims to the contrary, price controls do not reduce medical costs. Nor do they call forth improved health care services. Instead, they produce lower-quality medical care, reduced innovation, and costly new bureaucracies to monitor compliance, adding to the burdens of health care providers already entangled in red tape. Price controls harm consumers of medical services, especially those most in need of health care services.

We urge you to oppose all forms of price controls in any health care reform. ●

The Independent Institute in the News

- In the wake of major police scandals in Los Angeles and New York, the Institute's book *To Serve and Protect*, by senior fellow **Bruce Benson**, has been favorably reviewed in an article titled "A Libertarian-Communitarian Bridge?" in *The Responsive Community* (Winter), *Times Literary Supplement* (London) (2/4), *New York Law Journal* (1/14) and *Public Choice* (vol. 102, pp. 175-178). An op-ed by Benson crediting private security measures for falling crime rates ran in the *Daily (NC) Record* (11/25), *Detroit News* (12/16), *Business First* (12/23), and *East Bay (CA) Business Times* (12/23) and his more in-depth article appeared in *Ideas on Liberty* (January).
- An excerpt from *The Independent Review* article, "The Soul of Classical Liberalism," by Nobel Laureate and Institute Advisor **James Buchanan** appeared in the millennial edition of *The Wall Street Journal* (1/1).
- The Institute's book, *Winners, Losers & Microsoft*, by research fellows **Stan Liebowitz** and **Stephen Margolis**, continues to garner attention. *Reason* published a thoughtful and positive review by Steven Postrel (April). The *San Francisco Examiner & Chronicle* Book Review (1/23) also examined *Winners, Losers & Microsoft*, as did *Choice* (February) and the *Harvard Business Review* (November-December). An op-ed on the Microsoft antitrust case by Liebowitz ran in *The Dallas Morning News* (1/30), *Northwest Arkansas Times* (2/20), *New Haven (CT) Register* (2/21), and *Birmingham (AL) News* (2/27). A separate but related op-ed appeared in *The Wall Street Journal* (1/14) after the AOL-Time/Warner merger was announced. More op-eds have appeared in the *National Post (Canada)* (11/8), *Montgomery (MD) Journal* (12/13) and *Tonawanda (NY) News* (12/20). Editorials mentioning *Winners* appeared after Judge Jackson made his findings in the *Orange County (CA) Register*, *Delta Democrat Times (MS)* (11/9); *Appeal-Democrat (CA)*, *Gaston (NC) Gazette*, *Sun Journal (NC)*, *Times-News (NC)*, (11/10); *Colorado Springs Gazette*, *Daily Press (CA)*, *Free Press (NC)*, *Valley Morning Star (TX)* (11/11), *Brownsville (TX) Herald*, *Lima (OH) News*, and *Porterville (CA) Recorder* (11/12). Comments by Liebowitz appeared in news articles in the *New York Daily News*, *Tacoma (WA) News Tribune* (11/6), *The Industry Standard* (11/9, 11/12) and *Interactive Week* (11/15). Liebowitz also was interviewed by Bob Lee of KALL Radio (12/15), appeared on a panel at the National Press Club broadcast live on C-SPAN (2/25), and debated Thomas Lenard of the Progress and Freedom Foundation at a Manhattan Institute luncheon in New York.
- Senior fellow **Richard Vedder** appeared on Pat Campbell's nationally-syndicated radio program (2/25) to discuss his Winter 2000 issue article on immigration in *The Independent Review* (co-authored with **Lowell Galaway** and **Stephen Moore**).
- Research Director **Alex Tabarrok**'s op-ed calling for the resignation of Drug Czar Barry McCaffrey for manipulating the content of primetime TV shows ran in the *Morganton (NC) News Herald* (1/17), *Tonawanda (NY) News* (1/20), *Pittsburgh (PA) Tribune-Review* (1/20), and the *Tallahassee Democrat* (1/26). The *East Bay (CA) Business Times* quoted Dr. Tabarrok on the growing disparity in incomes (2/4) and public affairs director **Rob Latham** on ownership of the human genome (3/24).
- Research fellow **Fred Singer** and his Institute book, *Hot Talk, Cold Science*, received mentions in the *Williamson (WV) Daily News* (12/13), *Greenville (DE) Community News* (12/14), *Hockessin (DE) Community News* (12/16), *Wilmington (DE) News Journal* (1/18), *New York Times* (2/29). Singer's articles also appeared in the *Tonawanda (NY) News* (1/26), *Pittsburgh (PA) Tribune-Review* (1/26), *Washington Times* (12/20, 12/30, and 2/28).
- President and founder **David Theroux** was interviewed by nationally-syndicated radio host Mike Hambrick (1/15) and in *Full Context* magazine (March/April).
- *Environmental Protection Week* published *The Independent Review* article by **Roy Cordato** titled "Market Based Environmentalism vs. The Free Market" (1/24).
- Op-eds by research fellow **William Shughart**, editor of the Institute book, *Taxing Choice*, appeared in the *Pittsburgh (PA) Tribune-Review* (1/2), *Christian Science Monitor* (1/5), *Arlington (VA) Journal* (3/2) *Fairfax (VA) Journal* (3/2), *Sandusky Register* (3/23), and *Vacaville (CA) Reporter* (3/26). ●

*The Independent Review:***Privacy Rights • Immigration**

The Institute's quarterly journal, *The Independent Review* (*TIR*), showcases scholarship that challenges conventional wisdom, and merits congressional and media attention:

- Although Big Brother, the watchful government oppressor in George Orwell's novel, *1984*, isn't upon us, a law that would have required Americans to carry a national identification card starting this year—a provision hidden in the Immigration Reform Act passed in 1996—was repealed last fall, thanks to a successful campaign led by civil libertarians and privacy advocates concerned about the card's potential for misuse.

But could Big Brother still be lurking just around the corner? The evidence points strongly in that direction, according to economist **Charlotte Twight** (Boise State U.). Despite having defeated the national I.D. card, civil libertarians have been unable to block the passage of a host of other anti-privacy laws over the years.

In "Watching You: Systematic Federal Surveillance of Ordinary Americans" (Fall 1999), Twight reports that after many years of collecting tremendous amounts of personal data on ordinary Americans, "[government] databases now empower the federal government to obtain an astonishingly detailed portrait of any person: the checks he writes, the types of causes he supports, what he says 'privately' to his doctor. . . . The logical outgrowth of such all-encompassing federal collection of personal information has increased government power and concomitant individual dependence on government."

Congressman **Ron Paul** and Senator **Michael Crapo** have circulated copies of this *TIR* issue to members of Congress with a "Dear Colleague" letter recommending Twight's article.

Twight is especially concerned that government bureaucrats eventually may put this information to ill use, as when government authorities used U.S. Census data to identify Japanese-Americans for internment during World War II:

1. De Facto National I.D. Numbers. In 1943, President Franklin Roosevelt issued Executive Order 9397, authorizing federal agencies to use Social Security numbers (SSNs) to track individuals. SSNs have since become integral to monitoring law-abiding citizens.

2. Labor Databases. A 1992 amendment to the Job Training Partnership Act ordered laying the groundwork for a nationwide database of private-sector workers' "quarterly earnings, establishment and industry affiliation, and geographical location of employment." Ad-

ditional legislation strengthens this effort.

3. Medical Databases. Although the federal government already has access to millions of medical records through Medicare and Medicaid, the national electronic database of health information authorized by the Health Insurance Portability and Accountability Act of 1996 widens the scope for bureaucratic prying into private medical records. That law requires the Department of Health and Human Services to develop plans for a "unique health identifier for individuals" based on such traits as fingerprints, retinal scans, DNA, or other "biometric" identifiers.

4. Educational databases. The National Center for Educational Statistics now has



statutory authority to collect data on children's scholastic achievement, socio-economic status and misbehavior.

5. Financial Databases. Amendments to the Bank Privacy Act of 1970 require banks to report to the government any changes in individuals' bank accounts greater than \$5,000. Although the U.S. Treasury and FDIC withdrew the "Know Your Customer" proposal (which would have required banks to create customer profiles and report *any* transaction inconsistent with that profile), the government still has enormous power to investigate financial records. For example, the Right to Financial Privacy Act (1978) has sixteen "exceptions" to the right of privacy.

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Independent Policy Forums: Government Failure • Crime • Internet

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grams for solving problems like social security, education, and racism.

“If you look at the expenditures of our government, most of them consist of nothing more than legalized theft,” Williams said. “We have to recognize—as the framers of the Constitution, our founders, recognized—is that in general government is the enemy of the people because the essence of government is coercion.”

“We need to have government to stop you from taking my money, or stop me from murdering you. So we do need government. The only role for government in a free society is to stop one person from coercing another,” he concluded.



(left to right) **Joyce Malcolm**, **Don Kates**, **Richard Rahn**, and **Peter Thiel** addressed Independent Policy Forums; **Walter Williams** autographs his books for participants at the Independent Policy Forum.

Williams’ talk, which drew 250 people, was videotaped and shown repeatedly on C-SPAN’s “American Perspectives” show.

● **GUNS AND VIOLENT CRIME** (September 21): Historian **Joyce Lee Malcolm** (Bentley College) and civil rights attorney **Don B. Kates, Jr.**, discussed the historical and legal context of current debates over gun control, self-defense, violence, and the Second Amendment.

Constitutional scholarship, Malcolm (author, *To Keep and Bear Arms*) explained, has taken a major turn in recent years. Scholars increasingly believe the Second Amendment protects not a collective “right” of an armed militia, but an individual’s right to self-defense—a tradition which sprang from a legal duty of Englishmen to own firearms and help capture local criminals.

“The most important proof that an individual right and not a common right was intended was that the Senate was offered the phrase ‘for the common defense’ to be added after ‘to keep and bear arms,’” Malcolm said.

“If they had accepted that clause, then I think that the argument that it was just a collective right would have some ground. But they rejected that clause. They specifically left it out just as the English had in their right, coming

down in favor of it being an individual right and not just for people to have for their common defense.”

For Kates, history is replete with cases in which gun control, or its equivalent, has failed, the worst cases being the mass slaughter against unarmed groups, whether they be Jews in Nazi Germany or, more recently, East Timorese in Indonesia.

● **VIRTUAL MONEY, PRIVACY AND THE INTERNET** (October 20): As the battle over taxing Internet commerce makes clear, the digital revolution represents an enormous challenge to government power. Will government mount a successful counter-offensive? On Oc-

tober 20th, economist **Richard Rahn** (President, Novecon, Inc., and author, *The End of Money*) and **Peter Thiel** (Chairman and Chief Executive Officer, Confinity, Inc., and Research Fellow, The Independent Institute) discussed these and related issues.

Since 1970, the U.S. government has increased its surveillance of bank transactions, under the mis-named Bank Secrecy Act. But the new technology is making it easy to transfer funds anywhere in the world almost instantaneously and in complete privacy, Rahn explained. “As the digital revolution takes hold, laws that were written for another era will become increasingly difficult to enforce,” Rahn said. “Americans can choose either to jettison these laws and take advantage of new technologies and the opportunities they create, or keep the laws and pay the price in economic inefficiency, technological backwardness and government intrusiveness.”

One outcome of the digital revolution, Rahn and Thiel argued, might be the replacement of government paper money with private electronic money. “There are incredible technological forces pushing us in the direction of digital currency, of a world of limited government, and of

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The Independent Review: Privacy Rights • Immigration

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(This article can be viewed online at <http://www.independent.org/tii/content/pubs/review/TIR42.html>.)

● The AFL-CIO's new stand on illegal immigration—urging the federal government to grant amnesty for illegal aliens—signals an historic shift toward the view held by many economists that immigrants pose no real threat to the economic well-being of American workers. However, many Americans remain steadfast in their opposition to more open immigration policy because they believe that immigrants impose a special burden by allegedly joining the welfare rolls in disproportionate numbers.

In “The Immigration Problem: Then and Now” (Winter 2000), economists **Richard Vedder, Lowell Gallaway and Stephen Moore** dispute the claim that immigrants wind up on welfare more often than native-born Americans. The truth, they say, is just the opposite: Not counting the special case of *political* refugees, immigrants to the U.S. resort to welfare *less* often than native-born Americans.

“The evidence cited to prove that immigrants are now taking undue advantage of the

welfare state is exaggerated or just plain wrong,” the economists conclude. Their finding, which disputes the claims by Harvard economist George Borjas and others, has broad public-policy implications, given the success of California's Prop. 187 and other measures to deny illegal immigrants public services.

“The high and increasing welfare participation of modern-day non-refugee immigrants is revealed to be illusory when three conditions are taken into account,” Vedder, Gallaway and Moore write. These three factors are:

1. The increase in the relative numbers of immigrants in the population.
2. The tendency for immigrants to settle in high-income, high-welfare-benefit states.
3. High welfare participation of refugees.

Simply put, immigrants on welfare usually receive welfare payments larger than the national average because they settle in states with higher average incomes, which also happen to pay above average welfare benefits.

(This article can be viewed online at <http://www.independent.org/tii/content/pubs/review/TIR43VGM.html>.)●

Book Seeks Market-Based Health Care: *American Health Care*

(continued from page 1)

Among the book's highlights:

- FDA restrictions on advertising prevent firms from informing consumers of the full benefits of medicines. As a result, consumers are less healthy and pay far more.
- Rather than price controls, seniors seeking to reduce the price of prescription medicines should seek to restrict the FDA—which raises the cost of new medicines through regulations. FDA delays in the approval of medicines—now lasting about eight years—cause tens of thousands of deaths each year.
- Medical malpractice laws should be reformed to discourage frivolous lawsuits and encourage health-care providers to focus on actual treatments instead of “defensive medicine,” thus decreasing insurance costs.
- Medicare and Medicaid costs quickly exceeded projections after becoming law—some doubling in the first year! Caps, controls, and transfers to states have failed to rein in runaway expenditures on health care.
- Medical Savings Accounts would make

health coverage portable and affordable, and reduce the number of people uninsured.

- Privacy is threatened as health records go online. The Health Insurance Portability and Accountability Act, authorizing the “health information” collecting and assigning of citizen “unique health identifiers,” should be repealed.

Edited by **Roger Feldman** (U. of Minnesota), **AMERICAN HEALTH CARE** features the work of **Ronald Hamowy** (U. of Alberta), **Charlotte Twilight** (Boise State U.), **Gail Jensen** (Wayne State University), **Clark Havighurst** (Duke U.), **Richard Epstein** (U. of Chicago), **Michael Morrissey** (U. of Alabama), **Ronald Hansen** (U. of Rochester), **Paul Rubin** (Emory U.), **Noel Campbell** (N. Georgia College & State U.), **H. E. Frech, III** (U. of Calif. Santa Barbara), **Shirley Svorny** (Cal. State U. Northridge), and **Patricia Danzon** (U. of Penn.). (**AMERICAN HEALTH CARE**, 429 pp., available \$24.95 postpaid; for information online, see http://www.independent.org/tii/catalog/cat_AmerHealthCare.html.)●

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INDEPENDENT SCHOLARSHIP FUND

In order to improve children's access to a high-quality education in both public and private schools, The Independent Institute launched the **Independent Scholarship Fund (ISF)** in August 1999. The ISF provides tuition assistance to low- to moderate-income families in the San Francisco East Bay area seeking a private school education for their children. In its first year, the ISF awarded 107 merit-based and need-based scholarships of up to \$1,500 to children entering grades K-12 to attend the private schools of their choice. Nearly 400 applications were received—a clear indicator of the dramatic level of dissatisfaction with the local education system.

This Spring, the ISF is reopening the application process to new and returning students for the 2000-2001 academic year. The ISF will again award tuition scholarships to students, who demonstrate a desire to learn and excel in school and to those who otherwise could not afford to attend a private school based on family income. Funds permitting, ISF hopes to award up to 500 scholarships.

As the Independent Scholarship Fund continues to expand, it will increase dramatically the educational opportunities of disadvantaged children, while prompting significant school reform measures through increased competition among schools in order to improve quality and reduce costs for all families.

For further information or to make a tax-deductible contribution, please contact:

Ms. Katherine Shearer, Director, Independent Scholarship Fund, The Independent Institute
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Government Failure • Crime • Internet

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limited tax authority and ability," said Thiel, whose company makes a hand-held device for the transfer of funds. However, Thiel cautioned that government resistance will ensure that this transformation will not be completed soon.

Independent Policy Forums are available as audio tapes, videos, or transcripts (\$18.95, \$27.95, \$5.00 postpaid); online, see <http://www.independent.org/tii/forums/events.html>.) ●

INDEPENDENT POLICY FORUM

April 25: RACE PREFERENCES: Pro & Con

William Bagley, Regent, University of California

Ward Connerly, Regent, University of California; author, *Creating Equal*

May 24: PEARL HARBOR: Official Lies in an American War Tragedy

Robert B. Stinnett, former reporter, *Oakland Tribune*; author, *Day of Deceit*

June 21: THE FAILED WAR ON DRUGS

Alexander Cockburn and Jeffrey St.

Clair, co-editors, *CounterPunch*; co-authors, *Whiteout*

Jonathan Marshall and Peter Dale Scott, co-authors, *Cocaine Politics*

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