Assessing Bush, Obama and Presidential Power

How will future generations rank the presidency of George W. Bush? What must Barack Obama do to become a great president? And what exactly is a great president? These questions were addressed at the Independent Policy Forum, “Assessing the Bush Presidency and the Obama Promises,” held January 7 at the Independent Institute’s Washington, D.C., Conference Center.

Congressman Ron Paul addresses the Independent Policy Forum on presidential power.

Independent Institute Senior Fellow Ivan Eland began by explaining the standards for evaluating presidents that he set in his new book, Recarving Rushmore: Ranking the Presidents on Peace, Prosperity, and Liberty.

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Robert Higgs Dispels Myths in Pioneering Book

American history is a subject saturated with urban legends fostered by intellectual laziness and propaganda pushed by partisan interest groups. In Depression, War, and Cold War: Challenging the Myths of Conflict and Prosperity—now available in paperback (see envelope)—Independent Institute Senior Fellow Robert Higgs clears away the worst misconceptions about the political economy of the United States from the 1930s through the Cold War.

At a time when many politicians are calling for a new New Deal and pundits are debating the full costs of U.S. military commitments, Higgs shows us how government intervention in the economy—including runaway defense spending—creates unintended consequences with enormous hidden costs.

Depression, War, and Cold War begins with a (continued on page 5)
President’s Letter

Obama’s “New” New Deal

“Insanity: doing the same thing over and over again and expecting different results.”

—Albert Einstein

President Obama and Congress are pushing a “new” New Deal to resolve the economic crisis with gigantic levels of spending and controls. Faithful to Keynesian orthodoxy that the crisis is caused by “excess savings” and “systemic risk” by firms “too big to fail” as opposed to the monopoly of the Federal Reserve, Fed Chairman Ben Bernanke believes that “governments around the world must continue to take forceful and, when appropriate, coordinated actions.” Moreover, Obama’s proposal for the housing meltdown that triggered the crisis calls for the same measures that created the mortgage bubble in the first place.

What has been the record of such measures in the past? In our book, Depression, War, and Cold War (p. 1), Senior Fellow Robert Higgs conclusively shows that New Deal policies deepened and prolonged the Great Depression, which did not end until after World War II when federal spending and controls were radically reduced. Initially responding to a similar, Fed-induced bubble in the 1920s, both Hoover and Roosevelt adopted federal largesse based on calamitous measures that were used during World War I.

Could the push again for such remedies simply reflect the kind of foolishness Einstein described? Or, are economic crises being deliberately finessed to undermine our economic system and usher in a collectivist agenda? Interestingly enough, Secretary of State Hillary Clinton told the European Parliament to “never waste a good crisis” in pursuit of a “New Green Deal.” White House Chief of Staff Rahm Emanuel has stated, “You never want a serious crisis to go to waste. And what I mean by that is an opportunity to do things you think you could not do before.”

Whether malicious or not, as Dr. Higgs shows, the solution to the crisis is ending the public on the need to reduce government power. So do the story, the Institute continues to escalate its impact as a source of truth, and we invite you to join as an Independent Associate Member. With your tax-deductible membership, you can receive a FREE copy of Depression, War, and Cold War, as well as other publications, including The Independent Review (p. 3), plus other benefits (see attached envelope).
The Independent Review

Katrina • Ballot Measure Disclosure • Groupthink


Private Enterprise to the Rescue
Governments at different levels failed at almost every stage of the sequence of events that turned Hurricane Katrina into a disaster of epic proportions. In contrast, Wal-Mart, Home Depot, and other “big box” retailers responded quickly and effectively in the aftermath of the storm. Wal-Mart’s emergency command center went into planning mode five days before Katrina hit the Gulf Coast. This enabled it to provide a large amount of free merchandise, including prescription drugs, to those in the worst-hit areas almost immediately after the storm had passed.

It was no fluke that the private sector outperformed the Federal Emergency Management Agency and other government bureaucracies. Private ownership and the price system give competitive firms stronger incentives and better information on which to act quickly and flexibly during disasters, according to Steven Horwitz (“Wal-Mart to the Rescue: Private Enterprise’s Response to Hurricane Katrina”).

“During Katrina, Wal-Mart used its well-honed logistical skills, informed by years of responding to market signals, to operate effectively,” writes Horwitz. “In addition, its strong performance during Katrina will likely lead to increased profits down the road, both through the company’s speed in restoring full operations and through the creation of additional customer loyalty owing to its assistance to the community. Those increased profits provide knowledge about what the company should do, but FEMA receives no comparable signal.”


Mandatory Disclosure for Ballot-Initiative Campaigns
Spending on state ballot initiatives has increased dramatically over the past two decades. States that allow ballot initiatives have responded by requiring initiative committees to disclose their contributors’ names, addresses, contribution amounts, and even employers. Their reports are then made available to the public, often on state websites. This is supposed to improve democracy by making voters better informed, but poll data suggest that it has a negligible or even harmful effect on the democratic process, according to Dick M. Carpenter II (“Mandatory Disclosure for Ballot-Initiative Campaigns”).

Surveyed voters appear to like the idea of disclosure in the abstract, but their support weakens when it involves them, due to reduced privacy and a fear of harassment or negative repercussions, particularly in the workplace. Unsurprisingly, most survey respondents reported themselves less likely to contribute to an issue campaign if their personal information were disclosed.


Groupthink in Academia
Business journalist William Whyte coined the term “groupthink” in 1952 to denote a type of rationalized intellectual conformity characteristic of the elite social engineers he met in Washington, D.C. Since then, social theorists have invoked the

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The Independent Institute in the News

- **Center on Entrepreneurial Innovation:** Senior Fellow Robert Higgs wrote commentary on the economic stimulus for the Pittsburgh Tribune-Review, Christian Science Monitor, and Claremont Review of Books and on price controls for The Freeman. He was quoted by the New York Times, Cincinnati Enquirer, and John Stossel’s nationally syndicated column. Broadcast appearances included Fox Business and the Dennis Prager Show, and his work was cited by the Sean Hannity Show. Senior Fellow William F. Shughart II wrote on the stimulus for the Kansas City Star, Oklahoman, Investor’s Business Daily, Free Lance-Star, and Mobile Press-Register. Research Director Alexander Tabarrok was quoted on unemployment rates by the Washington Examiner and discussed organ donation in an interview on KPCC. Research Fellow Dominick T. Armentano provided op-eds on President Obama’s financial policies for the Providence Journal, Houston Business Journal, and Bucks County Courier Times. Research Fellow George Selgin wrote on Argentina’s coin shortage for the Wall Street Journal and the recession for the American Conservative. Research Fellow Stan J. Liebowitz covered mortgage foreclosures for Investor’s Business Daily and, with Higgs, appeared on PBS’s McCuistion Show to discuss the financial crisis. Forbes.com published an op-ed on transportation funding by Research Fellow Gabriel Roth, while Research Fellow Benjamin Powell examined Japan’s spending initiatives in the 1990s for the Washington Times.

- **Center on Law and Justice:** Research Fellow Stephen P. Halbrook discussed gun insurance laws on CNN’s Lou Dobbs Tonight and Fox News’s Glenn Beck, while his statement before the Senate Judiciary Committee on the nomination of Eric Holder was broadcast on C-SPAN. His accompanying op-ed on Holder was published on HumanEvents.com. Research Fellow Jonathan Bean provided commentary on the ideals of Booker T. Washington for National Review and Birmingham News and on the NAACP’s 100th anniversary for USNews.com. Tabarrok was quoted by the Dallas Morning News on gun buyback programs.

- **Center on Peace and Liberty:** Director Ivan Eland wrote commentary on U.S. foreign policy in Iraq for USA Today and Army Times and on ranking the presidents for the Kansas City Star, Providence Journal, Christian Science Monitor, Record, Fresno Bee, and Connecticut Post. Publishers Weekly and Booklist Online reviewed his books Partitioning for Peace and Recarving Rushmore, respectively. Broadcast interviews included Savage Nation, CNN Radio’s Wall Street Shuffle, ESPN Radio, and Voice of America. Eland’s talk on U.S. presidential rankings, given during a recent Independent Policy Forum, was broadcast on C-SPAN2’s Book TV. Research Fellow Mike Moore wrote on satellite collisions for the Pittsburgh Post-Gazette and ForeignPolicy.com and missile defense for the Havre Daily News. Research Analyst Anthony Gregory covered the digital TV conversion for the Times-Tribune and the Utica/Shelby Source and California’s budget crisis for La Prensa San Diego.
blistering critique of Franklin Roosevelt’s economic policies. FDR’s New Deal did not end the Great Depression—it prolonged and deepened it. By shaking investors’ confidence in the security of their property rights, New Deal–era laws, regulations, and court decisions discouraged the long-term private investment needed to revive the economy. Private investment remained low during World War II and began to rise—for the first time since the 1920s—only after the war.

One of the most enduring myths is that World War II pulled the U.S. economy out of depression. Higgs shows this to be utterly false. Although defense related-industries did well during the war years, few consumer durables (e.g., cars and houses) and non-defense capital goods were produced. The military draft virtually eliminated official unemployment, but military service at below-market wages cannot be equated with productive jobs in the civilian sector. Real personal consumption, adjusted for population growth, changed very little from 1941 to 1944.

Higgs argues that the current “big business” approach to defense contracting was born in 1940–41. To mobilize for war, the Roosevelt administration had to overcome contractors’ reluctance to bear the risks of converting from civilian to military production. It did so by offering loan guarantees, tax deferrals, contractual adjustments, and government-provided capital. Most defense contracting became concentrated among a small number of giant corporations, where it remains today.

Contrary to the predictions of Keynesian economic theory, the United States economy did not sink into a deep recession after World War II. In fact, the postwar transition to a market economy was one of the most remarkable events in U.S. economic history, Higgs argues. By 1947, real military spending had hit its postwar low of 4.3 percent of GNP, millions of workers had left government service and returned to the private sector, and the country had returned to an economic normality not seen since before the Great Depression.

Although very few economic history textbooks examine it, the Cold War resulted in profound changes in the allocation of resources, Higgs explains. Whereas typically no more than 1 percent of GNP was allocated for peacetime military purposes prior to World War II, defense spending from 1948 to 1989 averaged about 7.5 percent of GNP.

Periodic crises helped maintain the tension, distrust, and insecurity that kept military spending high during the Cold War, but not all crises were genuine, according to Higgs. A U.S.–Soviet “bomber gap” in the mid-1950s, a “missile gap” from 1958 to 1961, and a subsequent “antimissile gap” and “first-strike missile gap” are among the “crises” later revealed to have been false alarms. The National Security Act of 1947 vastly expanded the list of classified documents and thus prevented citizens (and most politicians) from forming well-informed opinions on military spending.

Higgs exposes Congress’s role in the misallocation of defense spending. Defense bills are loaded with earmarks—often pork the armed services do not need or want. From 1978 to 1981, Congress funded the purchase of 56 A-7 attack planes the Pentagon didn’t want, at a cost of $575 million, because the Texas-based manufacturer, the Air National Guard, and a Texas congressional delegation were effective lobbyists.

Public opinion also plays a huge role in defense spending. In a chapter co-authored with Anthony Kilduff, Higgs finds that public opinion from a given year is the single best predictor of military spending in the following year. The public, however, depends largely on the national security elite for its knowledge (such as it is) of military capabilities, the intentions of potential adversaries, and other facts that should inform public opinion.

Expand Your Knowledge with the Challenge of Liberty

Few students have the opportunity to learn the basic ethical and economic principles of individual liberty, free markets, and free societies. So why not use this summer to tackle these important lessons in a fun and challenging environment? One way students can do so is by participating in The Challenge of Liberty Summer Seminars. These stimulating seminars help high-school and college students better understand real-world issues they will encounter throughout life.

Held at the Independent Institute’s Conference Center in Oakland, California, our five-day series of lectures, readings, films, multimedia presentations, and small group discussion teaches students what economics is, how it affects their lives, and how understanding it can help them achieve better lives for themselves, their communities, and the world at large. Informative and inspiring, the Seminars are an ideal way to make summer vacation intellectually rewarding.

If you, or a student you know, are interested, you have two chances to attend. The first session will be held June 15–19 and the other will be held August 10–14. Registration is underway and space is limited, so be sure to sign up early!

To learn more, please see www.independent.org/students/seminars.

The Challenge of Liberty Summer Seminar Schedule

MONDAY: What Is a Market Economy? What is liberty? What are natural rights and natural law? Where do they come from? Which ideas gave birth to freedom and progress?


WEDNESDAY: What Role Does Competition Play in Free Societies? What is an entrepreneur? Is competition wasteful? What is a monopoly? What causes monopoly?

THURSDAY: What Are the Solutions for Bad Schools and Poor Public Transportation? Are pollution and traffic congestion caused by markets or by government failure? What about high housing costs, poor schools, expensive health care, and crime?

FRIDAY: What Causes the Business Cycle of Boom and Bust? What is inflation? What’s a Bull or Bear Market? What causes recessions? Unemployment?

The Independent Review: Groupthink in Academia

concept to explain fiascos such as the Bay of Pigs, escalation in Vietnam, Watergate, and the Iran-Contra affair—cases where even the policymakers themselves later admitted to lapses in collective judgment.

Could those entrusted with teaching young people to think critically and independently—i.e., college professors—themselves fall prey to groupthink? Unfortunately, the answer is yes, according to Daniel Klein and Carlotta Stern (“Groupthink in Academia: Majoritarian Departmental Politics and the Professional Pyramid”).

Groupthink may arise in academic departments in the United States because ideological diversity has decreased. From about 1972 to the present, for example, the ratio of Democrats to Republicans teaching in the humanities and social sciences (excluding two-year colleges) rose from 4:1 to 8:1.

Moreover, ideological conformity can be self-reinforcing when the dominant group does not take dissenters seriously. Thus Ph.D. students who pursue topics that challenge the in-group’s beliefs and values—e.g., the pervasive coercion of the social-democratic state, the wastefulness of most mandatory recycling programs, or how American labor laws have harmed the poor—may find limited opportunities for advancement.

"Some of these fields have alternative centers and associations that might pursue such ideas," write Klein and Stern, “but these generally remain peripheral to the professional pyramid.”

Too often, according to Eland, historians and others have esteemed a president for his charisma and “energy” during a crisis—even if he helped create or abet that crisis. Similarly, good presidents have been overlooked too often because they drew little attention to themselves: rather than expand the powers of the presidency, they stayed closer to the role envisioned by Constitution’s Framers. In fact, presidents who adhered more closely to their constitutional role often did a superior job at avoiding war and promoting prosperity.

In the case of Bush, Eland suggested that historians would probably consider the Iraq War a major mistake even if Iraq became a democracy. “But to me it’s doubtful whether a democracy will hold in Iraq,” he added.

Bush’s worst mistakes, according to Eland, stretched the imperial presidency into a “hyper-imperial” one. “His transgressions include eliminating habeas corpus, illegal and unconstitutional warrantless wiretapping, torture, and kangaroo military tribunals.”

Despite such lapses, Eland said Bush was not the worst U.S. president. Others such as James Polk, he said, “started wars for even more questionable reasons or pursued wars that had much greater implications.”

Congress’s resolution allowing Bush to go to war against Iraq is a clear example of the legislature ceding power to a president in order to avoid exercising its constitutional responsibilities, but there have been many others, Paul said, such as the negotiation of trade deals. Paul also expressed skepticism that Obama would bring meaningful change to U.S. foreign policy.

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When the Going Gets Tough...

There’s an old adage with which most of us are familiar that states, “When the going gets tough, the tough get going!”

Well, times are tough. With gigantic government bailouts, huge deficits, continuing wars in the Mideast, increasing bankruptcies and unemployment, economic decline, and massive government frauds ravaging our country’s well-being, we can all agree that we’ve seen better days. To make matters worse, President Barack Obama has proven himself to be a proponent of even more government pork and controls in his unprecedented new “New Deal,” including socializing health care and energy, increasing taxes and debt, federalizing education, and nationalizing banks and other businesses.

In light of this, the Independent Institute will continue to take the message of liberty further. We need your support, and moreover we would propose that if there has ever been a time to give, the time is now! As recent Gallup, Rasmussen, and other polls show, more and more people are now disenchanted with politics-as-usual and the foolish worship of Big Government.

Thomas Paine once said, “When men yield up the privilege of thinking, the last shadow of liberty quits the horizon.” As so many friends of the Independent Institute have done consistently over the years, we invite you not only to donate money, but also to volunteer and share our ideas with your friends, family and neighbors. There is no more important time than now.

For further information on giving to or volunteering with the Independent Institute, contact Julianna Jelinek, Development Director, at 510-632-1366 x153, by e-mail at JJelinek@independent.org, or by visiting www.independent.org/membership.

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