

Institute Honors Three Beacons of Liberty

Alexis de Tocqueville visited the United States in 1831 and discovered the “habits of the heart” that made the young republic one of the freest and most dynamic societies the world had ever seen. The newest recipients of the Independent Institute’s Alexis de Tocqueville Award, to be honored at *A Gala for Liberty* on November 15, 2011 in San Francisco, embody many of the qualities the French writer described in his book *Democracy in America*.



Lech Walesa Mario Vargas Llosa Robert Higgs

Lech Walesa

In speaking of the fall of communism during the late 1980s and early ‘90s, few names resonate with the same force as that of Lech Walesa. In 1981, as Polish government troops turned their water cannons and truncheons upon protestors in the port city of Gdansk, Walesa and several others rallied workers across Poland against a tyrannical and oppressive government. The new labor union they formed, named Solidarity and headed by Walesa, engaged in a prolonged and bitter dispute with the communist dictatorship. Walesa and thousands of Solidarity supporters were jailed for conducting dissident activities, and hundreds more were killed in the years to come. Walesa himself would be placed under constant surveillance by the Polish secret police and arrested multiple times

before making any progress toward democracy. Yet, despite resistance in his home country, this charismatic spokesman for Poland’s shipyard workers and tradesmen became a beacon of liberty for ordinary people throughout the Soviet bloc.

In June of 1989 the protests and strikes finally paid off as General Wojciech Jaruzelski, Poland’s ruling strongman, capitulated to some of the workers’ demands by allowing the first quasi-free election in Poland in over seventy years. The Solidarity movement won the election in a landslide victory and, in 1990, Walesa became the president of a new Poland, reinvigorated by political freedom, economic competition, and security for private-property rights.

Walesa fought on the world stage during a momentous time, an era when many predicted the fall of emerging free societies in favor of suppressive communist regimes. But Lech Walesa, an electrician from a humble background, showed that as long as enough people stood together to resist oppression, their aspirations to live in freedom and dignity could be realized.

Mario Vargas Llosa

Novelist, dramatist, essayist, politician, and Nobel laureate, Mario Vargas Llosa has lived a life as momentous as some of the characters in his stories. Born in Peru in 1936 and now living mostly in Spain, he has written more than 30 books and is one of the giants of Latin American literature.

In addition to his literary prowess and social commentary, Vargas Llosa is well known for his ad-

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President's Letter

Prime Time for Liberty

With candidates jockeying for the 2012 election, there is likely to be a whole lot of noise and spin in the months ahead. Yet *regardless* of who runs or wins, the challenge remains the same: to build educated, popular support for the truly innovative ideas that can solve our nation's ills.



For the past 25 years, the Independent Institute has produced and disseminated alternative, market-based solutions to our most pressing problems, and today's season of discontent provides the perfect opportunity to make these ideas a reality. In contrast to the current climate in Washington, the Institute operates above partisan influence, empowering individuals with the information necessary to think outside the box. Our mission has not changed, nor has the prescription. Our sound, peer-reviewed research provides sound, workable answers for society's concerns and sets out a course for what is necessary.

We are not blind to what we are up against. Government bailouts, waste, and handouts have become the rule as the voice of the opposition is muted with the pervasive influence of pork-barrel spending for special interests.

To propel the ideas of liberty to new heights, now on our 25th Anniversary we are launching the major communications campaign, **Prime Time for Liberty**. To ensure that our principled, award-winning research continues to be instrumental in redefining and redirecting policy debate, we're turning up our efforts, with important new attention-grabbing publication, media, and social networking initiatives, including our far-reaching **Government Cost Calculator** (at MyGovCost.org) that reveals the personal costs of Washington largess for any American.

We will also be hosting **A Gala for Liberty** on November 15th in San Francisco to present the **Alexis de Tocqueville Award** (see p. 1).

Please join with us in this special campaign and become an Independent Associate Member. With your tax-deductible membership, you can receive a FREE copy of *Financing Failure* (p. 5), *Beyond Politics* (p. 5) and other publications, including *The Independent Review* (p. 3), plus other benefits (see attached envelope).

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The Independent Review

Mario Vargas Llosa • To Fight or Not To Fight

Now in its sixteenth year of publication, *The Independent Review* continues to fascinate readers with its penetrating insights on a diverse range of topics related to public affairs and political economy. Here's a recap of two articles from the Summer 2011 issue.

Mario Vargas Llosa's Intellectual Journey

Mario Vargas Llosa admired the Cuban Revolution well into his writing career, but for more than two decades the 2010 Nobel laureate author has been the most famous exponent of classical liberalism in the Spanish-speaking world. Why did he forsake the radical collectivism of Che and Marx and embrace individual liberty instead?

In his autobiographical works, Vargas Llosa describes his political migration away from the left as a result of his gradual disenchantment with ideology and fanaticism. He also conveys that disillusionment in his greatest political novels, *The War at the End of the World* (1981) and *The Real Life of Alejandro Mayta* (1984), as economics professor **Julio H. Cole** (Francisco Marroquín University in Guatemala) explains in his cover article.

The War at the End of the World is a fictionalized account of a real event—a peasant uprising in North-eastern Brazil in the late 1800s led by a charismatic preacher—but it can also be read as “a rejection of a false dichotomy that has plagued Latin America throughout the twentieth century: revolutionary violence versus military repression,” Cole writes. “Neither of these courses of conduct, Vargas Llosa had come to believe, is the solution for Latin America’s problems.”

The Real Life of Alejandro Mayta, another novel that deals with a real insurrection, portrays the leftist cliques of Peru in the late 1950s as clueless and makes the case that revolutionary violence had been disastrous for Latin America.

Both novels reflect Vargas Llosa’s close study, in the late 1970s and early 1980s, of the writings of historian of ideas Isaiah Berlin and philosopher of science Karl Popper. Vargas Llosa, according to Cole, viewed their works as antidotes to dogmatism and fanaticism, the two great enemies of liberty.

“Mario Vargas Llosa: An Intellectual Journey” is available for free at <http://www.independent.org/publications/tir/article.asp?a=835>.

To Fight or Not to Fight

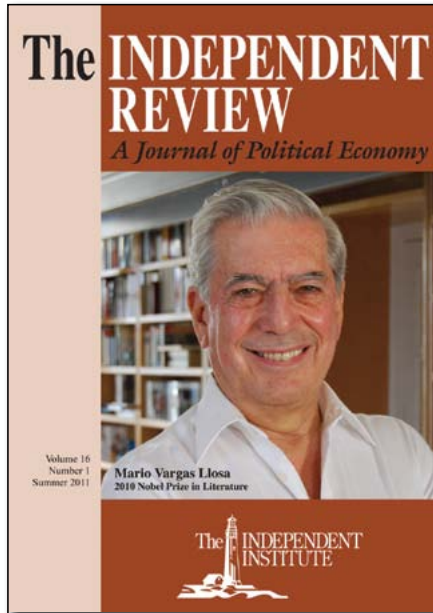
In his contribution to the summer issue, **Robert Higgs**, the editor of *The Independent Review*, raises a question of vital importance: Why have U.S. presidents led the American people into a host of bloody and costly wars against foreign powers that did not pose an existential threat to the nation?

The answer, Higgs suggests, can be illuminated by noting that presidents possess a unique interest in becoming viewed as “great” national leaders, even if this goal conflicts with the general interests of ordinary Americans. (Higgs uses a simple but very helpful box diagram to compare war’s payoffs to U.S. leaders and the American public.)

“Presidents may profit greatly by initiating war against less-than-existential or completely spurious threats,” Higgs writes.

“If they avoid wars against less-than-existential threats, they get little or no credit for doing so, and they sacrifice the enhanced powers, public acclaim, and historians’ credit for greatness that victory in such a war may bring. Worse, their political opponents may *blame* them for not going to war.”

“To Fight or Not to Fight: War’s Payoffs to U.S. Leaders and to the American People,” is available for free at www.independent.org/publications/tir/article.asp?a=842.



The Independent Review, Summer 2011

The Independent Institute in the News

Center on Entrepreneurial Innovation

“Taxes and subsidies, and likewise regulations in various more complex ways, distort the true information inherent in the free market’s pricing process. By responding to the false prices of a government-distorted market system, entrepreneurs may enrich themselves, but only at the greater expense of the economy as a whole, not to mention the sacrifice of economic freedom inherent in the government’s coercive tax-and-subsidy system.” —Senior Fellow **Robert Higgs** in Andrew Breitbart’s *Big Government*

“Even with existing funding systems, transportation finance could be provided by the states in partnership with the private sector, rather than by the federal government. Other federal laws, such as Davis-Bacon, project labor agreements, high-road contracting, and ‘Buy America’ provisions, slow down infrastructure and raise costs.”—Research Fellow **Gabriel Roth** in testimony before the U.S. Senate Finance Committee

“Politicians score cheap electoral points by promising to reduce the federal debt and promote energy ‘independence.’ Denying access to domestic resources while helping Brazil and other nations develop their own reserves is proof positive of the Obama administration’s anti-American mindset.”—Senior Fellow **William Shughart** in *The Washington Times*

“As she steps down from the FDIC chairmanship after a turbulent five years, Bair has said that the type of bailout she repeatedly voted for ‘should be prohibited’ in the future and that Dodd-Frank gives the FDIC ‘the tools to end Too Big to Fail and eliminate future bailouts.’ The real question is why, given

the lack of evidence to support the FDIC bailouts, didn’t Chairman Bair apply such tough talk when it mattered most: voting against the Wachovia, Citigroup, and Bank of America bailouts and the debt-guarantee program?” —Research Fellow **Vern McKinley** in *Forbes* •

Center on Peace and Liberty

“As **Anthony Gregory** of The Independent Institute recently pointed out, Barack Obama, despite riding into office on a huge ‘end the war’ vote, has not only embraced but expanded the

Bush policy of preemptive war—revving up our presence in Afghanistan, widening the war into Pakistan, dramatically increasing our drone attacks and, most recently, launching an undeclared war in Libya.” —**Robert Koehler**, 2011 *Tribune Media Services*.



Research Editor **Anthony Gregory** on Fox Business Network’s “Freedom-Watch.”

“Congress loves nondefense pork in DoD bills—Democrats because they get to spend defense dollars on social programs, Republicans because it buys Democratic collaboration and votes. It also earns praise back home and generates campaign contributions.”—Research Fellow **Winslow Wheeler** in *The Washington Times*

“The framers of the Constitution thought that one of the biggest threats to citizens’ liberty was incurring the cost—in blood and treasure—of profligate wars, which were started by kings and leaders for their own aggrandizement. In light of that, the founders put most of the constitutional war powers, including the power to declare war, in the people’s branch of the government—the Congress—not the Executive. Congress should

‘reassert its constitutional power’ and demand a withdrawal of U.S. forces from the Libya mission. —Senior Fellow **Ivan Eland** in *The Christian Science Monitor* •



Senior Fellow **Benjamin Powell** interviewed on Fox Business Network.

New Books

A History of Bailouts • Why Government Policy Fails

The Independent Institute will publish two books this quarter. *Financing Failure: A Century of Bailouts* looks at federal support for failing banks and other financial institutions. *Beyond Politics: The Roots of Government Failure* illuminates the fundamental flaws in the political system that give rise to long-lasting problems in public education, public infrastructure, environmental policy, tax policy, public welfare, and other government policies and programs.

Financing Failure

Perhaps no issue during the recent financial crisis aroused more passion than financial institution bailouts. Polls conducted during the peak of the crisis in September 2008 revealed an overwhelming objection to the bailouts. Although the crisis has been the subject of numerous articles and books, few have examined the policymakers' decisions to bail out financial institutions, not just during the latest episode but also earlier in history.

Vern McKinley remedies this shortcoming in *Financing Failure: A Century of Bailouts*. McKinley dissects the policy basis for the entire range of financial bailouts and probes the decisions and actions of the Treasury Department, Federal Reserve, Federal Deposit Insurance Corp., and other federal agencies, from their inception to the present. His research reveals several findings overlooked by other studies of financial crises and bailouts:

- History has repeated itself. Far from unprecedented, the latest financial crisis is eerily similar to the crises of the 1930s and 1980s.
- The “systemic risk” rationale for financial bailouts is weak. No clear evidence has been presented that substantiates claims that the failure of an institution that was bailed out would have jeopardized the entire financial system.
- With each passing crisis, government interventions became broader and more entrenched,

with more of the financial industry receiving bailouts and more agencies becoming involved.

- The recent crisis was rife with regulatory breakdowns. Regulatory agencies failed in their role as an early warning system to raise red flags about individual institutions, and they often acted at cross-purposes. Their mistakes have undermined public confidence and sustainable economic recovery.

- The agencies have stonewalled investigations of their decision-making. Anyone truly interested in researching their policies has had to sue them to obtain the relevant internal documents.

Financing Failure shows why government regulators and politicians have become so reliant on bailouts—and it reveals their habitually dysfunctional modus operandi during a crisis. When it becomes clear that policymakers are working under false assumptions, they

respond in a panic, implementing a classic “not on my watch” approach.

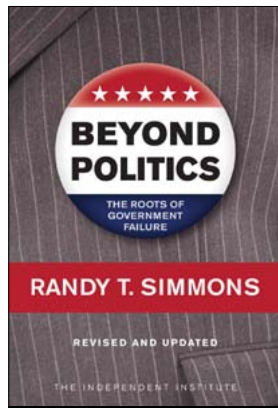
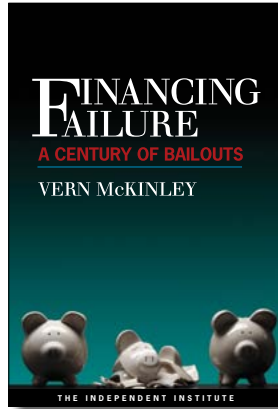
“The usual pattern is that they overreact in the midst of a financial crisis because they feel they have to ‘do something,’” McKinley writes in his concluding chapter. “Most of these actions make matters worse both in the short term, as the panic spreads more broadly, and in the long term, as unintended consequences flow from their initial reaction.”

Beyond Politics

The free market is often blamed for a variety of economic and social ills, but those problems are frequently misdiagnosed. Consider three examples:

- Economic recessions can result from the bursting of real-estate bubbles fostered by regulatory and monetary policies that encourage unsustainable construction in housing.
- Poor families remain trapped in poverty due partly to inadequate government schools, regulatory obstacles to labor-force participation,

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A Gala for Liberty: Institute Honors Three Beacons of Liberty

(continued from page 1)

vocacy of individual liberty—and his opposition to the radical political views he held in his younger decades (see p. 3). An outspoken critic of authoritarian regimes of the left and the right, in 1983 he served on a committee that investigated a massacre of indigenous villagers in rural Peru.

Frustrated with Peru's social unrest and economic problems, Vargas Llosa launched a bid for the presidency in 1990, but his loss to Alberto Fujimori convinced him to return to the writing life. Although his literary output in the ensuing years has been impressive, Peruvians might have wondered whether the corruption and human-rights abuses of the Fujimori administration were too steep a price.

Robert Higgs

Economist and historian Robert Higgs (Senior Fellow, The Independent Institute) is well known for his penetrating analyses of government and liberty in the United States.

In *Crisis and Leviathan* (1987), Higgs set forth his path-breaking thesis that national crises—especially wars and economic depressions—have been key drivers of the growth of government.



The Great Depression and the World Wars, for example, eroded support for limited government, rationalized a host of new federal powers, and set a new baseline for faster government growth after the crises subsided.

Higgs's theory was further corroborated by the U.S. government's response to the 9/11

terrorist attacks, as political opportunists lined up at the public trough, Fourth Amendment protections were given short shrift, and higher levels of federal spending and encroachments on personal liberties became the new norm.

Higgs has extended his analysis of the “ratchet effect” of crises in subsequent works such as *Depression, War, and Cold War* (2009) and *Delusions of Power* (forthcoming). (For a taste of his views on presidents and war, see p. 3.) His study of how New Deal policies and court decisions discouraged private investment and thereby prolonged the Great Depression has been widely cited as crucial in explaining today's economic malaise.

For more information and event registration, contact Sarah Tarvin at 510-632-1366, ext. 152. To register online, visit www.independent.org/gala.

Student Programs

Summer Seminars and Internships Thriving

For more than fifteen years, the Independent Institute has offered summer programs and internships to high school and college students interested in free-market economics and critical public-policy issues.

This year's **Challenge of Liberty Summer Seminars for Students** have proven to be the most successful yet. For the first time ever we offered separate sessions for high school and college students. Our high school seminar, hosted in June at the Institute's headquarters in Oakland, brought together more than thirty students for a five-day program featuring some of our most engaging research fellows.

Our August seminar for college students, held at Notre Dame de Namur University in Belmont,

Calif., featured a more advanced curriculum and a distinguished faculty of speakers, headlined by Institute Senior Fellow **Robert Higgs**.

Year-round internship opportunities for current or recently graduated students have also seen tremendous growth, with a record seven interns working over the summer period, and eleven others working the past year. Our multi-dimensional internship opportunities provide students with hands-on experience in the fields of communications, marketing and student programs, development, publications, acquisitions, and research.

With our unique mixture of internships, seminars, educational resources, and special events, we are excited to share our ground-breaking scholarship with the next generation of leaders. •

New Books: A History of Bailouts • Why Government Policy Fails

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and public policies that hinder the accumulation of savings.

- Pollution and other environmental problems often result from the government's failure to adequately define and enforce private-property rights.

Why do government policies often fail? In *Beyond Politics: The Roots of Government Failure*, economist and political scientist **Randy Simmons** (Utah State Univ.) explains several factors that contribute to useless—or harmful—public policies.

The causes of government failure often fall into one of two broad categories, Simmons explains. The “knowledge problem” refers to the difficulty of methodically gathering and disseminating the information relevant to the choices people face. Politicians and bureaucrats often presume to have the answers, but their efforts are typically much slower and clumsier than the way free markets convey tradeoffs via the price system.

But even if policymakers could articulate all the information relevant to the policy tradeoffs the public faces, the “incentive problem” creates another huge challenge.

Simply put, politicians, bureaucrats, voters, and special interests have narrower interests that conflict with those of the other groups. Elected officials have incentives to divert problems onto non-constituents; bureaucrats have a stake in growing the size and authority of their agencies; voters often seek benefits funded by future generations; and interest groups lobby for special favors whose costs are dispersed across society at large. Thus the incentive structure of democratic politics practically guarantees a certain level of failure in the policy realm.

After explaining the roots of government failure, Simmons shows how matters have gone awry in case studies of producer-rigged markets, consumer protection, government exploitation via the tax code, public education, environmental protection, social welfare, and macroeconomic policy. He concludes by drawing out the core lessons of

Praise for *Beyond Politics*

“Throughout the world, publics are looking for a new conception of government and its role. Happily, there is a whole new theory that fills the bill called ‘public choice,’ which is clearly and persuasively presented in the excellent book, Beyond Politics.”

—**Robert L. Bartley**, Pulitzer Prize winner and late Editor, *The Wall Street Journal*

“There is a need for a public philosophy that would provide a framework for discussion of appropriate spheres for markets and government. . . . The seeds of such a public philosophy are to be found in this book.”

—*American Political Science Review*

“Simmons makes a lucid case for a market economy and limited constitutional government. Beyond Politics is the most effective introduction to this topic that is now available.”

—**William A. Niskanen**, former Chairman, President’s Council of Economic Advisors

“The best primer on political reality, Beyond Politics will revolutionize your thinking.”

—**Pete DuPont**, former Governor of Delaware

“Beyond Politics is a cogent and readable book examining what Public Choice is all about.”

—**Norman J. Ornstein**, Resident Scholar, American Enterprise Institute

this analysis and offering guidelines to improve public policy and create a climate for liberty.

Originally published in 1995 with co-author William C. Mitchell, *Beyond Politics* has been thoroughly revised and updated to provide readers with insights about the financial crash of 2008, America’s fiscal crisis, and other realities of twenty-first century political economy. After reading *Beyond Politics*, no one will ever be surprised to see public-policy outcomes diverge—often drastically—from political promises, and no reader will lack useful ideas about how to improve the public sphere. •

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Planning Ahead and Donor Intent

Benjamin Franklin might have been correct in saying that nothing is certain but death and taxes, but at least with some forethought one can avoid exacerbating the tragedy of the former by minimizing the latter via the estate tax bite. Leaving a legacy gift to a favorite non-profit is a great way to do so. But in examples great and small, we've seen the real tragedy of money that was earned through good ideas and hard work in a free market posthumously diverted into causes that would have been anathema to the legatee, with countless heirs having badly debased the legacies with which they were entrusted. At the same time, institutions can change drastically over the years, as with a beloved alma mater where the treasured teachings of 20 years ago have since been replaced by relativist propaganda.

It is thus worth giving serious consideration to leaving specific direction for posthumous gifts, and making sure that they are directed to organizations one is certain will stay true to principle.

A good example of a wise giver is our dear friend **Bernard Baltic**, whose passing was much grieved across the freedom movement, honored

through a tribute to him on the floor of Congress by Rep. Ron Paul.

While the Independent Institute produces a plethora of books, studies, articles, forums, etc., across a wide variety of issues, Bernie apparently read and followed them all, and prodigiously corresponded with and shared our materials with friends and strangers alike—from letters to his local editor, to correspondence with scholars whose work he ran across on TV. He also took a special interest in cultivating young scholars from abroad, directing many our way, and was instrumental in **Gabriel Gasave** joining us from Argentina. Gasave is now Research Analyst for our Center on Global Prosperity and director of our Spanish-language electronic initiatives: our website, **Elindependent.org**, and our incredibly popular Spanish-language blog and social media (Facebook and Twitter).

By planning ahead and leaving specific direction, Bernie can rest easy knowing that his legacy is being used to further the ideals he held dear. We take pride in his trust and work hard every day to ensure our work lives up to it. Thank you, Bernie!•



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