In the mid-twentieth century, and going up through the 1970s, the economy was envisaged like a bathtub. One spigot was monetary policy and the other was fiscal policy, and an economist’s task was to turn those spigots on to make sure the water rose to the level in the bathtub that was consistent with full employment.

Austrian school economists Ludwig Von Mises and Friedrich Hayek stood in complete opposition to that view. What Mises and Hayek understood is that this whole way of thinking about the economy reflects a “pretence of knowledge”—that we can somehow know what the full employment output level would be, that we could know exactly how much water to let in and how much to let out. In reality, if we make a mistake with any part of that equation, the water comes gushing out all over our bathroom floor, or it drains completely out and we have nothing. This belief that social sciences should be like social physics is built on an assumption that Mises said you could not make.

As I examine in Living Economics, our true free-market heritage can be found in the earlier writings of Thomas Aquinas and other Christian scholars in the Middle Ages; later Adam Smith, Jean-Baptiste Say, and Frederic Bastiat; then Austrian School founder Carl Menger, and Mises and Hayek in the twentieth century.

In recent years, many have questioned the market’s inherent ability to recover from recession without government intervention. Currently, we find ourselves on the road to economic ruin, with big bailouts that have failed to restore consumer confidence. Americans have this big bill in the form of a crippling national debt. There’s anger out there—that politics is no longer connected to the people, but rather to special-interest groups. However, they aren’t just frustrated with Nancy Pelosi and Harry Reid—they’re not big fans of George W. Bush’s record, either. Their quest for

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Ending the Era of Big Government

T he 2012 elections are indeed historic and the issues of Big Government and Obamacare are critical. American voters should be outraged over runaway government spending that has put the U.S. $16 trillion in debt.

Yet, neither Congress nor the President has even raised meaningful proposals to end the massive federal deficits—the yearly increase is moving the needle in public opinion toward opposing runaway spending. Our books, including Crisis and Leviathan (by Robert Higgs; see p. 5), Boom and Bust Banking (edited by David Beckworth; see p. 5) and Financing Failure (by Vern McKinley), are at the forefront in discrediting the fallacious belief in government mandates, spending binges, and bailouts.

Our Government Cost Calculator at MyGovCost.org reveals the personal costs of Big Government for any American. MyGovCost’s total print impressions exceed more than 7,250 million, with broadcast impressions reaching about 2 million people. Our fan base on the MyGovCost Facebook page has reached over 122,000 followers. Combined with the Independent Institute Facebook page of 170,000 fans, posts from just any one week alone have received more than 27,000 likes, 10,000 shares of content, and 500,000 views on Facebook.

To accelerate this work—especially during these difficult economic times resulting from Big Government—we really need your help!

Please join with us as an Independent Associate Member. With your tax-deductible membership, you can receive a FREE copy of either Living Economics (p. 1), Crisis and Leviathan (p. 5), Boom and Bust Banking (p. 5), or Financing Failure, and other publications, including our quarterly Journal edited by Robert Higgs, The Independent Review (p. 3), plus other benefits (please see the attached envelope).
Investing in Liberty • Markets Promote Morality

Edited by Robert Higgs, The Independent Review presents highly readable—yet rigorous—analysis of economic policy, political theory, and related issues. Here’s a look at two articles from the fall 2012 issue.

Investing in Liberty

Liberty-minded philanthropists have managed to foster a vibrant network of scholars and organizations engaged in advancing the ideals of a free society. For example, donors to the Independent Institute have, over the course of 25 years, funded numerous award-winning, pro-liberty books that otherwise would not have been published and have introduced hundreds of young minds to the principles of free markets and personal liberty.

Many donors who have underwritten the liberty movement have also attempted to make colleges and universities across the United States more conducive to the spread of these ideas, but their efforts have been largely unsuccessful, as Lenore T. Ealy explains in her cover article, “Investing in the Ideas of Liberty: Reflections on the Philanthropic Enterprise in Higher Education.”

The problem is both institutional and ideological. Federal laws from the Pendleton Act of 1883 to the Higher Education Act of 1965 have diminished the independence of colleges and universities and made higher education a tool of statecraft. Administrators worry primarily about accreditation, compliance, and fundraising. Moreover, despite an increase of freedom-minded scholars, academia itself, Ealy writes, is “still largely dominated by progressive ideology (and worse).”

What’s a principled philanthropist to do? Ealy counsels them to “weigh the costs of reform against the opportunities of entrepreneurship.” Seeking new ways to reach students, she explains, is likely a better investment than trying to reform institutions plagued by entrenched interests and hostile ideas.

Markets Promote Morality

Markets are remarkable institutions: They reduce poverty, decrease discrimination, and provide opportunities for constructive social and economic advancement far more reliably than do government programs. And yet, many people are skeptical of the moral case for markets, as if the market’s encouragement of the pursuit of material self-interest ipso facto disqualifies markets from moral praise.

As economist Dwight R. Lee writes in The Independent Review, “Stereotypical market behavior fails to satisfy the conditions that people associate emotionally with morality.”

Markets don’t get the appreciation they deserve because the public underestimates the many positive results that they bring. One of the most beneficial effects of the market, according to Lee, is also among the most overlooked: Markets help soften some of our darkest emotional tendencies—especially our proclivity to view the world in terms of “us” versus “them” and to succumb to that emotion by initiating violence against others.

“By creating positive-sum opportunities on a global scale, the mundane morality of markets makes it possible for us to see strangers as allies in our efforts to improve our lives rather than as enemies to be plundered and eliminated before they plunder and eliminate us.” Lee writes.

Lee concludes by urging his fellow economists to educate the public about how markets foster social cooperation and to show how economic thinking can shed light on moral issues in ways that resonate with a large audience.

“I can think of no better way to begin than by acknowledging the importance and emotional appeal of magnanimous morality in small groups, while also pointing out with compelling arguments that this morality has a brutal dark side that is best moderated by the mundane morality of markets.” Lee concludes.

This article is available at www.independent.org/publications/tir/article.asp?a=900

This article is available at www.independent.org/publications/tir/article.asp?a=902
The Independent Institute in the News

**Priceless: Curing the Healthcare Crisis**
Independent Institute Research Fellow John C. Goodman spoke on his highly readable book and took a comprehensive look at alternatives to government control of the healthcare sector at BookExpo America, New York; FreedomFest, Las Vegas; the Heartland Institute, Chicago; the Heritage Foundation and Competitive Enterprise Institute, Washington, DC; as a featured presenter at “Newt U,” at the Republican National Convention in Tampa, FL; and before the Association of American Physicians and Surgeons, San Diego, CA. Goodman also addressed the Congressional Health Care Caucus and testified before the U.S. House Committee on Oversight and Government Reform in Washington, D.C.

Dr. Goodman has discussed *Priceless* in interviews and articles appearing in Newsmax, CBN News, the Daily Caller, Barron’s, the Mike Huckabee Show, C-SPAN, CBS Radio, FOX News, Forbes, Roll Call, the Washington Examiner, the Hannity Show, Psychology Today, the Wall Street Journal, USA Today, and more.

**Center on Entrepreneurial Economics**
Senior Fellow Robert Higgs’s staunch analysis of the parallels between the Great Depression and the Great Recession continue to be prominently contrasted against Keynesian Paul Krugman and others’ views, including on radio (The Peter Schiff Show), TV (Stossel), print (the Wall Street Journal), and conferences and forums, including our own Challenge of Liberty Summer Seminars (page 6).

Senior Fellow Randell Holcombe was cited by Investor’s Business Daily in its “Obama’s Stimulus Spending A Grave Threat To Capitalism.”

Breitbart and others have featured Research Fellow Vern McKinley’s pathbreaking findings, culled from multiple Freedom of Information Act (FOIA) cases upon which his Independent Institute book, *Financing Failure: A Century of Bailouts* was based: “But once again, the Obama administration refuses to provide basic information related to its supposed ‘oversight’ of the private sector. I suspect it is because this ‘oversight’ is more about politics than about the public interest.”

**Center on Global Prosperity**
Senior Fellow Alvaro Vargas Llosa reviewed The Man Who Saved Colombia for the Wall Street Journal—highlighting the progress of a democratic model for the continent—while our Spanish-language website, blog, and social media attract and engage the hundreds of thousands of Latin Americans and other Spanish-speaking peoples seeking the blessings of liberty. (www.elindependent.org).

Senior Fellow Art Carden helped enlighten Americans that outsourcing enriches everyone on Stossel: “The fundamental thing about trade is that it makes everyone better off. . . . We get more at lower prices.”

Research Fellow John C. Goodman is interviewed on C-SPAN2 BookTV.

Research Fellow Art Carden appears on the Fox Business Network’s “Stossel” show.
New Books

The New Case Against the Federal Reserve

Two books just published by The Independent Institute are notable for their timeliness as well as their path-breaking content. The first deals with the recent financial crisis and recession. The second is about the long-term growth of government.

The financial crisis and the Great Recession brought an end to several decades of macroeconomic stability in United States. Unfortunately, most attempts to explain these events have underestimated the importance of the most powerful economic actor on the world stage today: the Federal Reserve.

In the new Independent Institute book *Boom and Bust Banking: The Causes and Cures of the Great Recession*, editor David Beckworth (Assistant Professor of Economics, Western Kentucky U.) and eleven other economists remedy this deficiency by explaining why the U.S. central bank bears most of the blame for the calamity.

The Federal Reserve, the book shows, not only precipitated an unsustainable housing bubble with its easy monetary policy, but it also took the wrong tack when the economy began to contract: it tightened monetary policy at a time when the demand for money was increasing rapidly. Instead of dealing with this increase in money demand, the Fed focused on becoming “lender of last resort” on a scale so vast that it became a central planner of credit allocation.

After eight chapters devoted to the Federal Reserve’s role in causing the housing bubble, the financial panic, and the Great Recession, four chapters examine how to create a better monetary system. Some contributors argue that the Fed should adopt a monetary rule aimed at stabilizing total current-dollar spending, a policy that might have avoided the boom and bust. Others argue that

Crisis and Leviathan, 25th Anniversary Edition


First published in 1987, this classic work introduced to the reading public the notion that national crises—the Great Depression, the two World Wars, the Cold War, and sundry lesser “crises,” real or imagined—have been the pivotal events that have fostered Big Government since the turn of the twentieth century.

An early turning point came during the Progressive Era, when the nation’s intellectuals and many business leaders came to favor federal activism. This change enabled unprecedented government activism when the United States entered World War I, including the federal takeover of shipping, price controls, and the draft.

Although the government scaled back after the war, precedents had been set. When the Great Depression hit, collectivist sentiments and institutions were reactivated; the Wartime Finance Board served as a model for the Reconstruction Finance Corp. Decades later, many programs and agencies begun during the New Deal remain in place. But these interventions were only a prelude to the bigger ones enacted during World War II.

Although much of the administrative apparatus of control was quickly dismantled after the war ended, a host of legacies remained, including government-financed plants and equipment, a host of legislation inspired by wartime practices, a voracious and effective federal income tax system, a massive foreign aid program, and a money hungry military-industrial complex.

Most important, the notion of a “peacetime
Student Seminars’ Global Reach

The Challenge of Liberty Student Seminars—now in its 17th year—trains the next generation of the defenders of liberty—grounding high school and college students in the principles of liberty and empowering them to enlighten their peers on issues such as the dangers of reckless government spending. We work with many groups including the Institute for Principle Studies (a program for homeschooled high-schoolers), National Forensic League (the major public high school debate organization), National Christian Forensics and Communications Association (the major homeschool debate organization), Students for Liberty and Young Americans for Liberty (national student groups on college campuses), Leadership Institute, Intercollegiate Studies Institute, Institute for Humane Studies, Students in Free Enterprise, Foundation for Economic Education, and CPAC (The American Conservative Union). In addition, we utilize innovative outreach through social media, including Facebook and email campaigns.

As a result, this summer’s seminars attracted a record number of participants: more than 40 students, from 22 universities, and nine countries. These powerful seminars build a strong foundation in the economic and ethical principles of liberty among the next generation, and we look forward to further expanding their reach through expanding the seminars geographically, as well as through the Internet.

Watch highlights from the seminars, and see testimonials from the students, at www.independent.org/students/seminars/videos.asp.

Here’s what some of the students had to say about the seminar program:

“Conferences such as this are intellectual treats for students like myself who spend much of the year with students who earnestly hate capitalism.”

“With an impressive line-up of brilliant speakers and informative lectures, this seminar has truly opened my eyes to new concepts.”

“I have learned a great deal at the seminar this June and have used much of what I learned in conversations with family and friends.”

“It’s been an incredible time, and the knowledge gained through these lectures only strengthened my beliefs in the libertarian movement and Austrian economics.”

Photos by Steve Babuljak

Peter Boettke: A Passion for Economic Liberty
(continued from page 1)

answers leads them to watch Glenn Beck, who may
sometimes reference classical liberalism. Then,
they start reading Hayek. Thus, it's irrelevant to
the scholarly assessment of the ideas of Hayek to
point out that Glenn Beck likes him, just as we
shouldn't look at Paul Krugman's ideas differently
because Rachel Maddow likes them.

As I explore throughout Living Economics, the
ideas of individual choice are a means to an end.
Although the greatest teachers of economics have
stressed this, economics as it is currently taught
often deemphasizes studying real-world problems
and dwells too much on nonessentials. We need
to return to the discipline of economics’s original
mission: to make sense of human action, exam-
ine the puzzles and problems that captivate most
people, and communicate the findings to a public
sorely in need of understanding. Greater economic
reasoning and analysis can vastly enrich our under-
standing of political decision-making, civil society,
property rights, and the legal system. By putting the
“political” back into political economy (the name
for the discipline in its early days, when it focused
more on public issues), economists can greatly
improve economic literacy and greatly improve
human well-being.

New Book: Boom and Bust Banking
(continued from page 5)
such a rule would be insufficient to prevent future
banking crises, given the political incentives and
knowledge constraints of central banks and the
public's perception that large insolvent banks
would continue to be bailed out.

The final chapter makes the case for a radical
alternative to central banking: free banking with
competitive note issue. Under such a system,
individual banks would know on a daily basis,
via the level of interbank clearings, whether to
increase or decrease their issuance of banknotes
in response to changes in money demand; and
collectively their actions would tend to stabilize
total current-dollar spending.

New Book: Crisis and Leviathan
(continued from page 5)
Constitution” was lost, and the prevailing ideology
moved decisively toward acceptance of a large role
for government in the economy.

As Higgs shows, each crisis led to a host of new
federal programs, activities, and functions that left
legacies—including greater acceptance of bigger
government—that endured long after each crisis
passed. The result was not only a higher baseline
for further growth, but also a government more
intrusive in the lives of ordinary citizens and more
resistant to meaningful reform.

To purchase Crisis and Leviathan, visit www.
independent.org/crisisandleviathan/.
Donors Proudly Support Ideas Over Partisanship

During 2012, and thanks to our generous donors, The Independent Institute has broken significant barriers in spreading our ideas to a whole new audience!

As demonstrated by our growing numbers of likes, and increasing numbers of exchanges on our Facebook pages, the ideas of liberty are compelling a new generation into action. In just the last week alone, our Independent Institute and MyGovCost Facebook pages received more than 27,000 likes, 10,000 shares of content, and 500,000 views on Facebook—that is a huge success!

From issues of government dictating our healthcare and dietary choices, to out-of-control government spending and interference in the economy, we are there to stand up and support scholarly voices refuting Big Government! With continued contributions from liberty advocates like you, we can loudly promote solutions to the growing $16 trillion debt and the loss of individual liberty with which politicians are saddling future generations.

Through generous support to date, we have been able to strengthen our media campaign so that our scholars were able to articulate their ideas through Fox News, Fox Business, C-Span, CBS Radio, The Hill, Washington Post, Washington Times, Wall Street Journal, Fox News.com, New York Times, USA Today, and the National Review, among a long list of other prominent media sources.

With continued support, our innovative ideas and timely publications such as Priceless: Curing the Healthcare Crisis, informative Independent Policy Forums, and our student programs will continue to reach increasing numbers to produce the shift we need back towards individual freedom and responsibilities.

But we can only continue to make such a tremendous impact on public policy and discourse with the support of committed friends of liberty such as you! As the holiday season approaches, please consider giving one of the most meaningful gifts there is—a gift in support of furthering ideas that will revive freedom and prosperity in this great nation.

Did you know that the Independent Institute also accepts gifts of stocks and/or bequests? For more information on the benefits of these gifts, please contact Associate Director of Development, Sarah Galt at SGalt@independent.org or at 510-632-1366.

Thank you for your kind consideration of support for the Independent Institute!