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Reforming the economies of the Third World

Saying goodbye to the Space Shuttle

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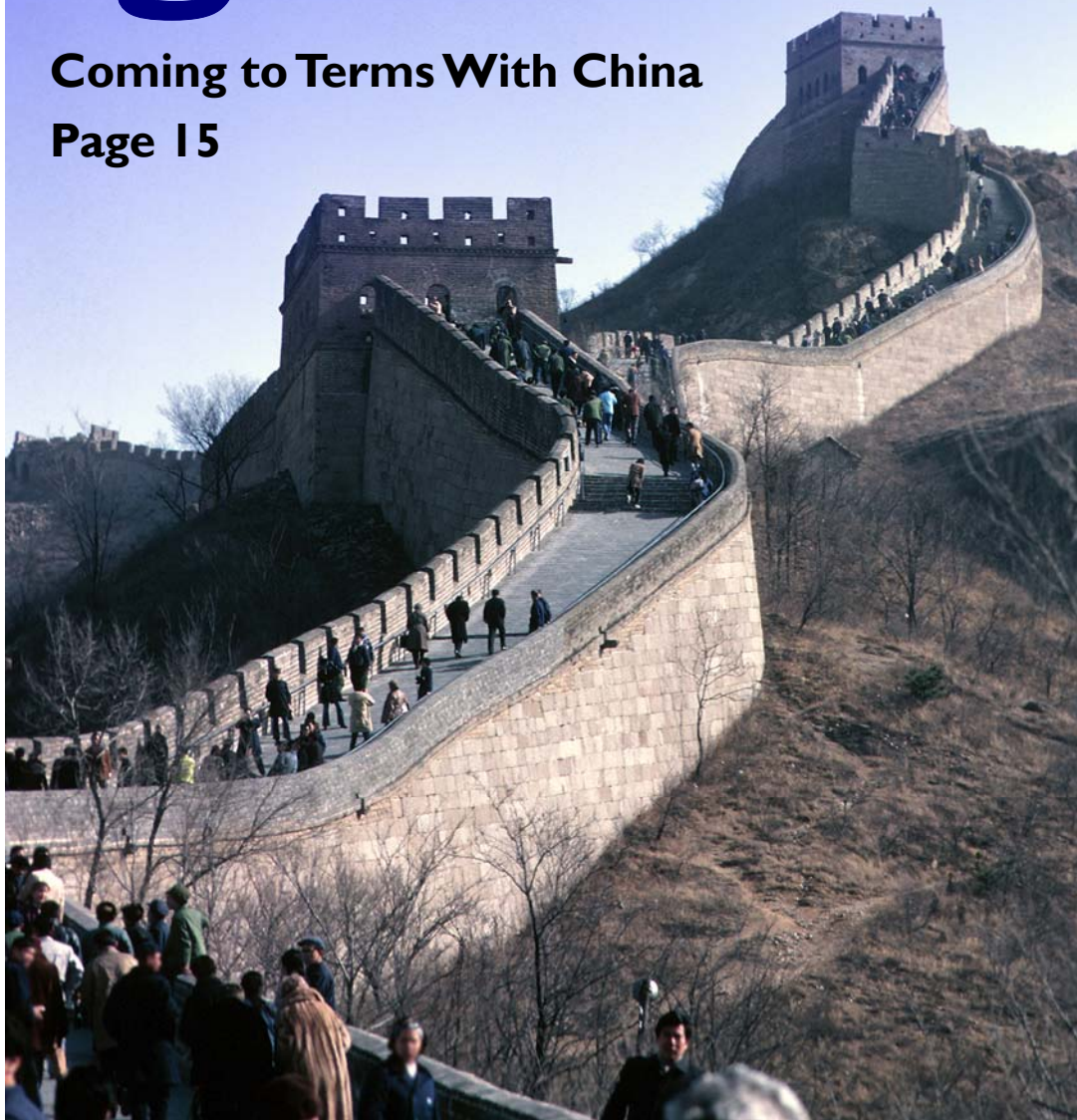
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The *Free Markets, Free People*  
**New Libertarian**

A Journal of Neoliberal Thought

# Hard to Ignore

**Coming to Terms With China**  
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## FROM THE EDITORS

It's quite a wide-ranging issue of *The New Libertarian* this time around. From the Space Shuttle, to Africa, to China, to Sweden, to the Supreme Court. It's been an eventful month, really, with terrorist attacks in London, a new Supreme Court nomination, and a new UN Ambassador appointed as a recess appointment.

China, of course, is the cover issue for this month, and there is much about China with which to be concerned. One key issue with China is the growing demand China can be expected to make on world energy resources. At the very least, the days of \$1 per gallon gas is over for US consumers.

Or is it?

China has been leading the worlds in recent years in a totally new type of nuclear reactor, the pebble-bed reactor. Actually, the design isn't new, it's been around for a long time. But it has never been put into widespread use. Perhaps the time has come to do so. The Chinese certainly appear to think so, and they're working on a simple, modular, pebble-bed reactor design that can be pre-

fabricated, and set up for relatively little cost, even in isolated, rural areas.

The nice thing about the pebble-bed reactor is that it appears to be an extremely safe reactor design, simple to build and maintain, and almost completely resistant to the type of meltdown that happened at Chernobyl—which was, by the way, a reactor design that was banned in the West in the 1950's.

For the moment, the growing economic and military power of China is still a concern

With the widespread use of these reactors, we may be on the verge of having a means to create ample supplies of hydrogen by using these reactors in water electrolysis. Perhaps—*perhaps*—we are on the verge of moving away from petroleum as a primary energy resource. If so, then, one of the primary potentialities for conflict with China will disappear.

But that, unfortunately, still lies in the future. For the moment, the growing economic and military power of China is still a concern. And, even with the move towards a hydrogen economy, the existence of a free Taiwan still sticks in the craw of the leaders of the current People's Republic. Which means that, for the foreseeable future, ignoring China is a perilous policy.



### The New Libertarian



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# EURO-EXCUSEROSIS

## Whistling past the graveyard of economics

Tino Sanandaji

By all relevant measures, the Western European economies are not doing well compared to that of America. GDP per capita is some 40% higher in the US than among the EU 15. Unemployment for many of the welfare states is stuck in double digits, and even higher using comprehensive measures. The relative poverty is reflected in many areas, such as lower private consumption, and lower quality of public services despite higher taxes. One would expect a vivid debate in Europe regarding their economic problems, especially given how resentful many Europeans are of America's superior wealth and power. Europe, though, has chosen a much more painless approach: denial.

"Who says the European economy is doing badly? Our enlightened system is burying the McAmericans! Haven't you heard of 'Balanced Growth'?" There seems to be an entire industry devoted to making up more or less fanciful arguments for why Europe is really doing better than the US. I want to examine and debunk some of those myths. In the process, I also hope to convince you that Americans work less and have more free time than Swedes.

### 1. The Productivity per worker trick

I am sure many of you have heard it: "Sure, Europe may be doing slightly worse in GDP, but in productivity per worker or per hour worked, we are keeping up with the US."

The problem with this argument is simple. The European welfare systems have artificially changed the incentives to work through high minimum wages and high taxes.

These distortions have pushed a large part of their adult population out of the labor force. Thirty percent of Sweden's adult population neither works nor studies. Clearly, this group is likely to be the least productive. When they don't work, their labor productivity goes down to zero, so the "increase" in average productivity only comes from taking them out of the data. Calculating productivity "per worker" is thus likely to be highly mis-

leading. If we only allowed people with Ph.Ds to work, the average productivity of workers would skyrocket, but the country would go bankrupt.

Another "productivity miracle" comes from the policies that make sure it doesn't pay to work too many hours per day. In France and other nations, they have even passed laws making sure people don't work "too much". The last hour worked in a day is likely to be less productive than the first one, so your productivity per hour might look better, but you would still have done much less work and earning less in total.

**"Who says the European economy is doing badly? Our enlightened system is burying the McAmericans!"**

If people could actually choose, without high taxes or strict regulations, they could be expected to make a reasonable tradeoff between work and income themselves. The state forcing them to make other choices is not "welfare". And since we don't consume per-hour or per-worker, only total productivity matters. So beware of Frenchmen bearing productivity per hour figures.

### 2. GDP Data Mining

This was exemplified quite nicely by Sweden's Government, who claimed Sweden had the same per capita growth rate as the US.

The only problem is the base year they just happened to choose: 1994. Sweden was in its worst economic recession since the 1930s. What's more, '94 was the last year of the recession, just before the recovery. The government also finished the comparison when the US still hadn't recovered from the 9/11 recession.

Between the selectively chosen years of 1994 and 2001, Sweden had the same growth rate as the US. But what happens if we take more representative years? Indeed, between 1990-2002, the US had some 12% faster growth per capita than Sweden. In addition, for every year since, the US has outperformed Sweden.

Year	US	Sweden
2003	3.0%	1.5%
2004	4.4%	3.5%
2005(e)	3.5%	2.1%

## EURO-EXCUSEROSIS

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### 3. Confusing more specialization with working more

This may surprise you, but Americans actually seem to work less than Swedes and earn more.

To be sure, Americans spend more time working in the market. However, only part of the work we do is in the marketplace. Much of it is unpaid labor in the household, especially – but not exclusively – done by women. Chores like cleaning, washing dishes, and cutting the grass take time. In the US, this represents some 39% of the hours worked.

In Sweden, wholly 47% of hours spent working are toil within in the household. One important reason is the tax wedges on work. With very high taxes on labor, it does not pay to hire services in the market to help you paint the house, rebuild the ceiling, clean, or even cut your kid's hair. Even though many unskilled workers are unemployed, it would still be too expensive to hire them due to taxes.

In Sweden, wholly 47% of hours spent working are toil within in the household.



Both the Swedish statistical agency and the US Department of Labor spend a lot of effort gathering detailed information on how people spend their time (While both data-sets are excellent in themselves, the comparison is not perfect - in part due to certain classification differences). The average American man reports 35.1 hours working per week, compared to 32.8 hours for the average Swedish man.

As suspected, American men spend an average of 2.3 more hours per week on productive market activity - including work, studies and travels to work and studies - than do Swedes. However, Swedish men spend 6.9 more hours per week working in the household, 4.4 hours of which they spend on maintenance. Almost exactly the same relative patterns hold for women. In total, Americans spend some four and a half fewer hours working

per week than we Swedes do.

Maintenance is a classic category where tax wedges of 600-900% force people away from the marketplace. For example, one of my Economics professors painted his own apartment. He didn't enjoy it, wasn't very good at it, and would have been far more productive giving lectures.

Let's say a painter wanted to get \$10 after tax to make it worth his while. He pays 50% taxes (including social security fees), so he would need to bill for \$20. The sales tax is 25%, so the professor had to pay the painter \$25/hour. The professor pays 68% marginal taxes, so due to taxes he would have to earn \$78 so that the painter could receive \$10 in disposable income.

People thus substitute hours worked in the market to unproductive (but untaxed) work in the household, not because they want to, but because the system forces them to. This is simply not seen if you only look only at hours worked per year.

### 4. Making up new categories

Some organizations or magazines get attention by making up arbitrary categories with fluffy criteria. When Sweden ranks highly, our media and the Government uses it as an argument that things are great, meaning that no reform is needed.

Let's keep this simple: Consultants and gurus do not decide what creates economic success. Only the test of reality does that. If Germany really was more competitive than Luxembourg, they would outperform Luxembourg—which they obviously don't.

Ultimately, Europe does have economic problems. Excuses, denial and rhetoric may obscure this fact, perhaps even permanently. But our economic problems will persist until we are willing to accept that, no matter how much legislation they pass and how many speeches they give, politicians can neither create wealth nor repeal the laws of economics. 🐿

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# HAMMERING MICROSOFT

## The software giant gets no respect

**Matt Lawton**

Out of what seems to be wanton envy, corporations and governments have made a career out of trying to bring Microsoft to its knees. The founder of Go has just issued an antitrust lawsuit against them, and this comes right after IBM and Microsoft settled their own dispute – a deal which required the company to hand over \$850 million. Last year, \$2.5 billion dollars was paid out to Novell and Sun in similar cases. We will never know the exact reasoning behind the actions of those who have taken part in this pillaging, but that isn't important. What is important – and certainly more clear – are the statements those actions make.

The assumed reasoning behind Microsoft's punishment is that they have continually used underhanded tactics to drive competition away. But there is a problem in the ambiguity of “underhanded”. Underhanded can mean everything from downright theft to just playing rough. Because of this, it is important to examine one simple question: What kind of tactics? Not surprisingly, the indictments read like a list of innovations, not crimes; they've been accused of packaging a free browser with their operating system, cutting prices, and making sure every PC manufacturer they do business with gets a copy of Microsoft Windows on their machines. The “charges” presented here would be considered complimentary in any other venue. Quite simply, Microsoft is being accused of nothing more than success.

But even if there is validity to the claim that Microsoft uses sneaky tactics to do business, the solution is not to whine to the government about Microsoft not being “fair”; rather, the solution is for the other companies to improve their own business tactics. If a company does not like the way Microsoft operates, it does not have to do business with them. It has no right, however, to demand that they change. If all these companies truly feel threatened by the competition, they can organize themselves against Microsoft, in hopes of gaining a greater market share. Instead, they all act as hypocrites: doing business with Microsoft in the marketplace, then attacking them in the



courtroom.

Did Microsoft ever force anybody to buy their products? Did they ever force any companies to use them? Did they force companies into becoming business partners? The answer to all three questions is a resounding “No!” Microsoft made products, marketed them, and succeeded. It's that simple.

Even if there is validity to the claim that Microsoft uses sneaky tactics to do business, the solution is not to whine to the government

Another claim of these attackers is that Microsoft's tactics have destroyed competition and hurt the consumer in the end. This, however, is purely apocryphal. The notion presented here – that people are being forced into buying Microsoft products – is a fallacy and an insult to the consumer. Look at the three primary attacks upon Microsoft: Windows, Internet Explorer, and Media Player. In all three categories, accusers claim that Microsoft eliminated its competition, but a simple glance at the market indicates this isn't true.

There are hundreds, if not thousands, of Operating Systems. Apple – a sizable competitor – produces OS X. There are hundreds of Linux distributions, most of which are completely free. Red Hat Fedora and Mandrake are two shining examples of user-friendly, completely free, operating systems. One Operating System, Ubuntu, is not only free – they'll send you as many copies of it as you like, without shipping cost.

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## HAMMERING MICROSOFT

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The browser war is far from won, with Mozilla Firefox gaining ground every day. Opera, Netscape, Epiphany, and Konqueror are just a few more examples. The very notion that consumers have no other options here is absurd.

The media player accusation is the largest joke of them all though. For the Windows operating system alone, there exist QuickTime, RealPlayer, iTunes, Napster, Winamp, and a host of others. Microsoft bundling Windows Media Player with its operating system does absolutely nothing to eliminate competition.

In fact, consumers can own any computer, and not use a single Microsoft product. I use Firefox for my browser, not Internet Explorer; Thunderbird for my email client, not Outlook; OpenOffice.org for my office suite, not MS Office; Mandrake for my operating system, not Windows; the list goes on. I don't have a single Microsoft product on my computer because I don't have to. There is no monopoly; there is no coercion. Microsoft succeeds because the overwhelming majority of consumers like its products, not because it has somehow destroyed its competition.

But assume, for a moment, that Microsoft does eliminate its competition. The theory behind the anti-trust lawsuits is that if that happened, they would create a poor product and overcharge. Simple logic suggests that wouldn't and couldn't happen though. If they began to charge too much or worsen their products, the competition would immediately return.

Companies rise and fall based on their ability to compete in the market

People will not stand for prices that are too high, especially for bad products. No private company can have a monopoly on a market, unless the government gives it to them, because it does not have the means to outlaw competition.

There are actually two poignant examples in the computer industry: Apple and IBM, both of whom, ironically, have sued Microsoft in antitrust cases.

IBM once nearly reached the famed monopoly status, but as it controlled more and more of the market, its products decreased in quality. As a result, it faced competition on both the software and hardware front by Apple, Intel, AMD, and Microsoft. It no longer holds that share of the market.

Apple was once a prominent controller of the personal computer market, but they employed a poor development strategy, which significantly hurt them.

While Microsoft actively encouraged others to write programs for Windows and DOS, Apple did not do the same for their own operating system, Macintosh. Furthermore, Apple did not allow its operating system to run on anything but Apple computers, whereas Microsoft allowed theirs to run on almost any computer. On top of all this, Apple charged significantly more than Microsoft. This led to Microsoft winning the operating system wars.

Something many forget about Microsoft is that it is a recent company—one that spawned from innovation, excellent marketing, and remarkable foresight. It was not always a software giant; it had to get there.

Companies rise and fall based on their ability to compete in the market. Microsoft has done an astounding job, but this does not preclude any other company from entering the competition, as evidenced by the very history of the computer industry.

A look at Microsoft's past should yield sympathy, not anger. For years, they have had to endure constant attacks from governments and competitors, while still trying to remain "cutting edge" and please their stockholders. When it comes right down to it, the recent antitrust lawsuits against Microsoft are more akin to a gang mugging than justice. 🐾



# MAKING THE WORLD GROW

## Changing the Third World to a Free-Market economic model

**Dale Franks**

For nearly half a century, large portions of the earth's population have not participated in the economic expansion that we in the West take for granted. Much of this economic lassitude has been concentrated in the nations of Africa and South America, as well as Southwest Asia. The nations of these regions have been collectively referred to as the Third World, although the current term of art is to refer to them as Less Developed Countries (LDCs). Because so many of the LDCs are located in the Southern Hemisphere, and the developed countries of Europe and North America are located in the Northern Hemisphere, this has also led many commentators to refer to this difference in economic development as a tension between the "Rich North and the Poor South".

While the problem itself is fairly easy to define, the solution seems less clear. A number of strategies have been undertaken to attempt to increase the economic growth of LDCs. Some of these strategies have been implemented by policymakers in the LDCs. Others have come about through the efforts of Western policymakers, quasi-governmental transnational organizations such as the United Nations, non-governmental charitable organizations, and international lending institutions. Yet the problem of poor economic growth in LDCs—especially in Africa—has been intractable.

Because of the failure of these efforts, a number of other questions have arisen in connection with this problem. Why have so many programs, from development aid to economic reform, worked more poorly than anticipated? Why has the free-market economic development paradigm of the West been so hard to implement in the context of, say, Liberia, or Peru? Is it because the Western model of economic development so purely an outgrowth of Western culture, and, therefore, inapplicable in other cultures?

The goal of any programmatic solution for increasing economic development in LDCs is fairly straightforward: to increase the rate of GDP growth in LDCs in a

sustainable, reliable fashion, and to do in such a way as to ensure that the benefits of increased wealth are generally widespread through the societies in question. Yet, these simple goals have seemed extremely difficult to implement. To see why this is, and how we may find new approaches to meet our goals, we must look at how we arrived at the current situation.

After the Second World War, the colonial powers of Europe found that they were no longer able to financially sustain the costs of empire. At the same time, demands for independence and local autonomy rose sharply. This resulted in the rise of a number of independence movements, running the gamut from the non-violent independence movement in India to the violent Mau Mau Uprising in Kenya. The colonial nations were unable to thwart this movement towards independence, and in 1960, Great Britain relinquished its control over most of its colonial possessions.

Many of the independence movements of the 1950s were aided and abetted by the Soviet Union, which saw such movements as a proxy in the greater ideological struggle between communism and capitalism. The communist critique of colonialism was that it was a necessary outgrowth of capitalism. As V.I. Lenin put it, colonialism was "the territorial expansion of the

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The problem of poor economic growth in LDCs—especially in Africa—has been intractable.



## MAKING THE WORLD GROW

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system of exploitation of labor by capital". But, as economist Hans Sennholtz has pointed out, this is a fundamental misunderstanding of colonialism, because "[t]he existence of colonies, i.e., underdeveloped territories dependent on a ruling power, is not a phenomenon of capitalism, as its enemies so ardently contend, but of the very absence of it." Colonialism was an outgrowth of mercantilist—not capitalist—economic policies.

If, in the view of the leaders of colonial independence movements, the struggle for national liberation was a struggle between communism and capitalism, and if their subjugation was the result of capitalism, then the natural response was to turn to communism as an answer to their economic problems. As a result, most of the newly liberated former colonies implemented explicitly socialist economic policies. Equally unfortunately, most of the LDC governments were organized along authoritarian, or even totalitarian lines, rather than democratic ones, and governments took a firm hand in centrally planning their economies.

The consequences for implementing socialist economic policy were predictable and colonial nations were unable to increase economic growth through collectivist policy. Increasingly, therefore, the LDCs turned to foreign borrowing through the 1960s and 1970s, in order to finance their economic development. As their debts began to rise, LDCs began rolling over debt, by contracting new loans to finance old debt. Again the results were predictable, as LDC aggregate debt levels rose dramatically from \$130 billion in 1973 to \$612 billion in 1982. This massive increase in debt in less than a decade led to the near collapse of LDC economies, as well as the imminent default of LDC debt in general, in what has become known as the Debt Crisis of 1982.

A default on debt would have exacerbated the desperate economic conditions of the LDCs. Not only would their economies be bankrupt, but a default on debt would have made access to any further foreign funding a practical impossibility. The LDCs, therefore, turned to the IMF and World Bank for help in solving their severe fiscal problems. The response of the IMF was to offer loans to the LDCs to consolidate their debts,

but only on the condition that they radically restructure their economies along more free-market lines through the imposition of Structural Adjustment Programs (SAPs). The LDCs had little choice but to agree. Not because they wanted to, but because, as then World Bank Vice President Edward Jaycox wrote, "their backs were to the wall". As Jaycox put it in 1991, "They entered into SAPs because they were desperate, and when they did so there were no goods on the shelves, no spare parts, no trucks, no batteries and no tires...no drugs in the clinics, no chalk and books in their schools."

Despite the high hopes with which the IMF and World Bank implemented SAPs, the programs were not



**The consequences for implementing socialist economic policy were predictable**

as successful as expected throughout the 1980s and early 1990s, and economic growth was lower in that period than it had been previously. While LDCs that had not accepted IMF or World Bank conditionality saw regular GDP growth between 1%-2% in aggregate during that period, with only a brief period of negative GDP growth in 1989, countries that did accept conditionality saw GDP growth above 1% only twice in that period, and negative GDP growth from 1989 to 1994.

There were a number of apparent reasons for this. Some blame can certainly be placed on the LDC governments. In the face of required cuts in government expenditures, governments refused to cut military spending, or to make cuts in politically favored programs, cutting soft sectors like public health or welfare. This prevented the rationalization of unproductive areas of the economy, while reducing the amount of money available for needed social, health, and anti-poverty programs. Yet, blame can certainly be laid at the door of the IMF and

World Bank for failing to properly estimate, and plan for the amelioration of, the probable secondary effects of SAPs. For instance, one of the conditions of IMF funding was to impose currency devaluation in LDCs, with the goal of making the countries more self-sufficient by making foreign products more expensive, thereby promoting a market in local goods. But, as the UN's Economic Commission for Africa put it, "heavy generalized currency devaluation also makes imported spare parts, fuel and other inputs to African industries more expensive, thereby raising the cost of doing business. And since many African countries do not produce these products, it is not possible to replace them with locally produced ones." Many LDCs, in short, are so lacking in local infrastructure, especially industrial infrastructure, that devaluation led to widespread shortages in vital machinery, equipment, and spare parts to keep them running.

It is important to point out, however, that the comparison between LDCs that accepted IMF loans and the conditionality that went with them and countries that did not is, in many ways, an apple-and-oranges-comparison. Countries that accepted IMF conditionality were in a state of economic near-collapse, while countries that did not were already positioned well enough economically to avoid the Debt Crisis that engulfed their neighbors. Yes, the nations that accepted IMF assistance fared relatively poorly, but it is important to ask a key

### Countries that accepted IMF conditionality were in a state of economic near-collapse

cated guesses as to what would have happened, and it is most probable that even if economies have continued to perform poorly under SAPs, they would have performed even poorer without them."

Finally, it is also important to note that, in 1995, economic performance in the LDCs that accepted IMF conditionality skyrocketed, providing GDP growth averaging above 2.5% per annum in aggregate, while the economic performance of countries that didn't accept IMF conditioned loans remained in the same 1%-2% range of GDP growth, even in the midst of a worldwide economic boom.

In response to these uncertainties, and others, some new thinking has emerged. Economist Joseph Stiglitz has urged that the now-defunct discipline of development economics be reactivated, and that a "one size fits all" policy cannot work on all developing economies. Stiglitz argues that development is not merely an increase in economic growth, or in physical and human capital. Economic development implies a transformation of society. It requires changes in both the institutions of the society and its ways of thinking. This means that development is not a matter of seeing what institutions in developed countries can be adapted to LDCs. Instead, it is a matter of seeing how to adapt the institutions of the LDC by identifying the key characteristics of each country individually, and describing what the macroeconomic effect will accrue from changes to those institutions, and describing how the process of change will alter those institutions. In this theory there is no one-size fits all theory that can be grafted onto every LDC. There certainly are overarching principles that have to be applied, such as the efficacy of free markets and the rule of law, but appropriate attention must also be given to resource conservation, infrastructure improvements, and social conditions. This provides a very useful framework for constructing a strategy of LDC economic reform that can avoid some of the mistakes the IMF and World Bank made in the 1980s.

Based on this new thinking, it might be very useful to create a reform and economic development program that incorporates a more holistic process.

Investigating local conditions is the first step in implementing a reform program. Different societies with



counterfactual question: What would have happened to those countries if they hadn't accepted IMF and World Bank conditionality? As economist Gerry Nkombo Muuka writes "Although counter-factuals are hard to prove, in most African nations it is easy to make edu-

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## THE REVIEW

### A look back at the previous month

After staking out a principled stand on limiting the amount of spending he'd tolerate on the transportation bill (an annual rite in which congressmen load up with pork in the form of home district projects), President Bush threw it away in a single week in order to pass CAFTA. Saying "I congratulate the Congress for completing a highway bill that will improve highway safety, modernize our roads, reduce traffic congestion and create jobs. I am pleased that Congress met these objectives in a fiscally responsible way and without raising gas taxes", Bush threw principle out the window. At this point in the Bush administration, it's hard to tell the free spending liberals from the free spending "conservatives."

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London suffered a series of murderous bombings during the first week of July in which over 50 people lost their lives. Two weeks later another group staged a failed attempt to duplicate the previous bombings. Thankfully their attempt failed. All of the primary bombers have now been captured. Their capture ought to lend itself to gaining much valuable information as to how these cells are formed and how they operate. Tony Blair noted, "September 11 for me was a wake up call. Do you know what I think the problem is? That a lot of the world woke up for a short time and then turned over and went back to sleep again." It would seem his observation, based on the refusal of many to take the War on Terrorism seriously, is spot on.

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As the nomination for John G. Roberts approaches hearings, the rhetoric is heating up. But Democrats appear to be in a no-win situation. Bush's nominee seems to be a brilliant pick, politically, and conservative enough to satisfy the conservative Republican base without being so conservative that it would justify a filibuster. Remember the agreement penned by the gang of 14 was that the filibuster could only be used when such an extreme candidate was nominated, but all of that group agree that Roberts doesn't fit that description. Look for a

short and fairly loud fight, but an eventual confirmation for Roberts.

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With membership declining and the Union movement undergoing serious internal debate, the AFL-CIO is hemorrhaging constituent labor groups left and right. The loss of power, though, is a problem that Unions created for themselves. After decades of rent-seeking demands for increased government intervention on behalf of the worker, the Labor Movement has gained an ally in the Federal government.

But they've also gained a competitor. It used to be that Unions looked after the interests of workers, while government looked after their rights. But as Union lobbying efforts have succeeded in codifying benefits, the line has blurred and government has become a Union proxy. All of this has rendered groups like the AFL-CIO less necessary. Why, after all, would you negotiate when you can legislate?

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The Bush Administration is rebranding: The "Global War on Terror" is out and the "Global Struggle Against Violent Extremism" is in. What the former lacked in specificity, the latter makes up in awkwardness. The ungainly new acronym "G-SAVE" serves less as an apt reminder of what the struggle really is, and more as a reminder of just how inept the Bush administration's public relations have been, both domestically and internationally. Four years in, we shouldn't still be trying to elucidate a clear explanation of just what it is we're doing.



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Though the body is still twitching, Social Security reform is dead for now. Proponents may be able to say that the campaign laid the groundwork for future reform, but it may be that the SS reform campaign merely laid the groundwork for future tax hikes to cover the shortfalls about which reform proponents talked so long and loud. Once the “something must be done” argument has been made—and with personal accounts off the table—it will be difficult to resist tax hikes by saying we need do nothing.

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What’s more, the SS reform campaign stirred up enough concern about future debt that the Bush administration’s attempt at tax reform may also be jeopardized. In fact, with the size of the future non-discretionary spending shortfalls, it’s possible that any “tax reform” in the second Bush term could come in the form of tax hikes, similar to those of the second Reagan term. In the meantime, tax cuts without corresponding spending cuts is an invitation to fiscal disaster.

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UN Ambassador-designate John Bolton finally took up residence at the UN mission in New York. Rather than wait for the apparently endless Senate confirmation process to come to an end, President Bush waited until Congress left town, then gave Mr. Bolton a recess appointment. With that appointment, Mr. Bolton now has a job at the UN until Congress reconvenes in January of 2007.

Naturally, the response of the Democrats was to Decry the president’s abuse of power. Apparently, it doesn’t matter to the Democrats that, since the recess appointment is specifically authorized by the Constitution, it’s use isn’t actually an abuse of power. For instance, when Bill Clinton gave controversial appointee Bill Lann Lee a top job at Justice via recess appointment, the Democrats all thought it was a fine thing.

One also notes that the appointment of Bill Lann Lee was designed to overcome the objections of the *majority* in the Senate, while the appointment of Bolton was designed to evade the objections of a *minority* of senators. The Democrats have committed themselves to a policy of demanding that the president’s appointees be acceptable

to the Senate’s minority. That’s an...interesting interpretation of the Constitution.

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Congress finished up work on a six-year, \$286.4 billion highway spending bill to send to the president for approval. Once again, that fiscal tally: \$286 billion.

Something seems to happen to whoever grasps the levers of fiscal power in Washington. For whatever reason, it seems impossible to avoid the addiction to spending, no matter who is running the show.

The Republicans’ performance over the last four years has been nothing more than a betrayal of their party’s supposed bedrock principles. The Farm Bill, No Child Left Behind, the Highway Bill; it’s become all pork all the time.

And people wonder why Libertarians claim that there’s not a dime’s worth of difference between the parties.

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Democrats were salivating over the prospect of presidential advisor Karl Rove going to jail for violating the 1982 Intelligence Identities Protection Act. Once they began to realize that might not be applicable, they immediately switched to the Espionage Act of 1917, hoping that would suffice to put the hateful Mr. Rove in a Federal Prison. Actually, the Espionage Act is so broad, it would probably suffice to put *anyone* in jail for practically *anything*.

Once suspects, however, that, apart from Judith Miller, the *New York Times* reporter who’s already in jail for refusing to testify in front of the grand jury convened by the Special Prosecutor who’s looking into the matter, probably no one will go to jail for anything. And even if that weren’t true, putting Mr. Rove in jail—apart from giving Democrats a nice sense of revenge—wouldn’t actually accomplish anything useful for the Democrats. It’s not like the loss of Mr. Rove will hurt the president’s reelection chances in 2008.

It seems like this is nothing more than the type of petty, revenge-motivated, witch hunt that has been the standard fare in Washington since the Clinton Administration. At some point, everyone inside the Beltway should grow up, and realize that criminalizing political conduct is an outstandingly stupid course of action. 🐘

## THE 'SPHERE

### A roundup of interesting items from the blogosphere

#### American Thinker:

In business, when a company has bet its future on a new product, it's very common for the company's sales force to be optimistic because they have the numbers to prove that this new product is steadily gaining market share. What the sales force doesn't see – but what the CEO does – are the numbers which show that the company is hemorrhaging cash. So the question isn't whether the new product will be a success, but whether this new product will succeed fast enough, before the company goes bust. In other words, it's a race against time. ...

In war, public support is the equivalent of cash flow. So the question isn't whether a war is going well, but whether a war is going well enough, and fast enough, to end in victory before public support gives out. And it's obvious that public support for the war in Iraq has begun to erode, which means that from now on we are not only in a battle against our enemy overseas, but in a race against time here at home.

[http://www.americanthinker.com/articles.php?article\\_id=4602](http://www.americanthinker.com/articles.php?article_id=4602)

#### Marginal Revolution:

The volunteer army is a natural check and balance on the executive branch. There is nothing about the democratic process that will stop a popular leader from waging wars. Voters, courts and legislatures are willing to cut the executive branch a lot of slack when it comes to war. However, a volunteer army imposes a strict limit on how many wars the President can fight. Ask yourself this: Would Lyndon Johnson have pursued his relentless

escalation of the Vietnam war if he had only 400,000 American combat troops to cover the entire world?

[http://www.marginalrevolution.com/marginalrevolution/2005/07/the\\_volunteer\\_a.html](http://www.marginalrevolution.com/marginalrevolution/2005/07/the_volunteer_a.html)

#### Protein Wisdom:

FOXNews' "Dayside" today featured in one of its segments an Allegheny County, PA fifth-grader, winner of the "There Ought to be a Law" contest sponsored by Allegheny County legislators. His winning entry? A bill maintaining that all animals need be restrained while riding in moving vehicles. Oh—and that dogs shouldn't be allowed to stick their heads out of car windows. Because of the danger.

Isn't that just so adorable? Cue audience applause!

Well, you'll get no applause from me, sonny. In fact, the idea, so startlingly typical of much of today's legislation -- in its dubiousness of premise, in the burden it places on private property owners, and, most distressingly, and for it's having been drafted specifically for the sake of making a law—should be met with scowls and hisses from any conscientious American, rather than with the kind of drippy feel-goodism exhibited by that Oprahfied studio audience. Because what this contest does is inculcates children to the kind of revolting nannystate impulses that motivate the kinds of petty tyrants that tend to gravitate to local legislatures.

<http://www.proteinwisdom.com/index.php/weblog/entry/18643/>

#### Captain's Quarters:

The NEA published its agenda for its July 7th Assembly, listing all the new action items under consideration and the action taken on each. How long does one have to read down the list before the NEA actually addresses an issue having directly to do with educating students? The first item? Third? Fifth?



How about ... fifteenth?

Here's what comes ahead of education at the National Education Association:

Fighting Wal-Mart

Investigating the positions of financial firms regarding Social Security privatization

Adding "multiethnic" and "other" as options on ethnicity questions

Celebrating the 40th anniversary of the NEA and ATA

Forming coalitions to "protect" Social Security

Explaining the difference between two different pension plans

Requesting an article for their newsletter on "health problems from exposure to fragrance chemicals".

Getting outside funding to allow 25 more people to attend the EPA Tools for Schools Indoor Air Quality (IAQ) Symposium

Creating a workgroup on health care

Sponsoring "political training" for Congressional candidates friendly to NEA priorities (see above!)

Opposing "billionaire Eli Broad and any other entities to remove elected school boards from cities"

Repealing the Social Security offset and explaining the differences between states' approach to Social Security for teachers who move Five of the top 20 have to do with Social Security politics. Only two items in the top 30 have anything directly to do with educating children. As Michelle Malkin points out, however, they made room during their efforts to demand a withdrawal from Iraq (number 61), oppose CAFTA, (number 63), and support the boycott of Gallo Wines (number 47).

<http://www.captainsquartersblog.com/mt/archives/004943.php>

## Café Hayek:

"I think a lot of folks think that Wal-Mart doesn't offer health insurance to all of its workers because Wal-Mart's mean or greedy or too interested in profits. A lot of people are mad at Wal-Mart because they pay less

than the average wage in the economy.

There's a simple way to look at it. Wal-Mart doesn't offer health insurance or pay more than they do because they've found that they can attract enough workers with the pay package they currently offer. Period. For other companies, they have to offer health benefits to attract workers. They reason they offer health insurance isn't because they're socially responsible or kind or altruistic. They find that to compete for workers they have to offer it...

Paradoxically, Wal-Mart doesn't determine what it pays its workers or what benefits it offers any more than you can set the price of your house when you want to sell it...

Attempts to force Wal-Mart and similar stores to offer benefits or raise wages is going to punish the people with the lowest skill levels because it will diminish the choices available to them. Wal-Mart will find ways to substitute capital and technology for people. The people who remain employed there will make more money. That will be seen. What will be unseen is the reduction in wages elsewhere in the economy."

[http://cafehaye.typepad.com/hayek/2005/07/why\\_walmart\\_pays.html](http://cafehaye.typepad.com/hayek/2005/07/why_walmart_pays.html)

## R. J. Rummel

To the statement that, "Democracy may have problems but it's better than any other form of government," the people of five Arab countries strongly agreed. See the table below. Note with amazement how this agreement is greater than that for the sample from other regions, such as Western Europe. That for other Muslim nations is a little lower, but still greater than for Latin American and U.S./Canada/Australia/New Zealand.

<http://www.freedomist.net/posts/1122250262.shtml>



## MAKING THE WORLD GROW

(Continued from page 9)

different cultures might respond very differently to a particular tenet of economic reform. In some Muslim countries, for instance, there is strong social resistance to the idea of interest-bearing loans due to the Korans prescriptions against usury. So, even with a free market, how do you create fractional-reserve banking in a society where no one will take out a loan? Fortunately, as it happens, there are Muslim economists doing work on this very question. But it highlights the necessity to fully understand local conditions.

Avoiding economic "shock treatments" is also a wise general rule. While some short-term economic pain might be necessary in implementing reform, too much pain raises the danger that the local population will feel the costs of reform are too high. The pain of a shock treatment is immediate and real, while the promised future benefits, however wonderful, are hypothetical. The IMF has also done substantial work in this field, and IMF Senior Economist Nuri Erbas posits that "[t]he policymaker may value a set of programs, each with fewer conditions, more than an extended program with as many conditions. If greater valuation of a program engenders more explicit and implicit ownership, then programs with fewer conditions may have a better chance of success. Less is more."

Political and economic reform must go hand in hand. Too often in the past, governments have protected favored political elites at the expense of the vast majority of their populations. But to make economic reform both effective and widespread, political reforms are necessary. The more responsive a government is to public audit, the fewer chances there are for the government to short-

circuit economic reform in order to protect politically favored elements.

Developing metrics for success is a key element of economic development. Each element of economic reform should have clearly defined goals, and clearly defined measures for determining success or failure. This should be coupled with regular milestones at which progress can be evaluated.

International aid has often been used as a way for LDC governments to avoid making reforms that would increase economic growth. The proper role of international aid, therefore, should not be to provide aid to governments, but rather to aid people. Direct aid for infrastructure development, poverty amelioration, and other programs, should be given directly to the populace, thus removing from local governments the temptation—or ability—to divert the aid money to other purposes.

Constant re-evaluation of any reform or development program is mandatory. While the theory of free-market reform is simple, the uncertainties inherent in its implementation require constant program review. Part of the process of this review should be an unstinting willingness to applying the lessons learned from the review, and not hesitating to make alterations to the reform program whenever necessary. Changing horses in mid-stream can—and often is—a good thing to do.

Economic development is not an end; it is an ongoing, iterative process that never ends. This is why the free-market economic model is the only one that can ensure continued economic growth in LDCs. The free market performs a similar process of evaluation on every product and service. This evaluation is done on a distributed basis through the individual decisions of every producer and consumer. No other system ever devised has been able to perform this process of constant evaluation and change.

But the transition between a command economy and a free-market economy can be extremely difficult. Widespread economic change can, at least in the short term, cause serious social and economic distress. But a process of reform that proceeds deliberately, cautiously, and is based on empirical results, is the best way to implement the change to a free market economy with the least social dislocation. 🐾



## THE DRAGON IN THE CHINA SHOP

**Taking a closer look at the emergence of China on the world stage**

**Bruce McQuain**

It's hard to ignore 1.3 billion people, but to this point, the US and the rest of the West has been pretty successful in doing just that. But China's rapid economic ascent has changed all of that. A look into the future, as well as an assessment of the present, will lead most to agree that we can afford to ignore China no longer. The question, however, is whether the emerging Chinese dynamo is peaceful or threatening.

China's economy, currently ranked as the sixth largest economy in the world, is expected to take the number two spot by 2030, according to Lehman Brothers. All things being equal, that sort of rise in the numbers brings exponential economic clout to China's future and some trepidation to other nations in the world about China's future intentions.

China seems to have anticipated this problem. It has done its best to reassure the world that while China's influence in economic and security affairs is on the rise, its intentions are peaceful. Critics are not convinced for reasons I'll cover later, but in December 2003, Premier Wen Jiabao used the term "peaceful rise" during a speech at Harvard to signal to the world that China understands the unease caused by a new and rapidly rising power within the world. He reassured everyone of China's intention to do so peacefully.

However, two things stand in the way of China's "peaceful rise". Both are important to the Chinese and the world, and both have the possibility of seeing the "peaceful rise" turn into violent confrontation. They are oil and Taiwan.

With China's growing and expanding economy have come new opportunities as well as new demands. China's history is one of a mostly regional power. Its history finds a more inward looking people than outward. But this is beginning to change. The demands of China's economy, as it navigates the global economy, are becoming such that she is forced to look outside her own borders for vast amounts of resources which her previously ideologically driven and relatively



backward economy didn't require. This is especially true regarding oil.

A year ago, Kenny Kemp noted the following in an article in the London's Sunday Times:

"In 1994, coal accounted for 75% of China's total energy consumption and that will continue until 2020. But China needs oil for the rapid rise in car and truck usage and for its plastics industries, but it has to import it, which means currency flowing out of the country. Having become a net importer of oil only in 1994, China now imports half its daily requirements and is the world's leading importer. According to the International Energy Agency, China was responsible for one-third of the rise in daily global oil consumption last year, and is expected to account for another third of this year's projected two million barrels per day increase in daily demand."

**With China's growing and expanding economy have come new opportunities as well as new demands**

The energy being produced fuels an energy intensive and growing heavy industry sector that uses oil and oil derivatives at a ferocious rate. China already makes 30% of the world's iron and is the biggest steel producer in the world. These industries, combined with exploding car and truck usage have doubled Chinese oil consumption over the past 10 years to around six million barrels a day last year. As a comparison, that's up from an estimated 4.5 million barrels a day in 2001.

Don't look for nuclear power to fill the gap. China

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## THE DRAGON IN THE CHINA SHOP

(Continued from page 15)

has very limited nuclear power capability (China nuclear power is 25.9 terawatt-hours per year as compared to the US with 821.1 terawatt-hours per year), and the long lead time for building nuclear power plants doesn't lend itself readily for consideration as a short-term solution.

The increasing requirements for oil will not only drive the Chinese economy, but its foreign and military policies as well. It will also heighten worldwide competition for oil as well. According to John Malkin at the American Enterprise Institute, oil demand is now near capacity (about 82 billion barrels a year), and continued increases in demand will see prices continue to rise. It's when vital commodities get scarce and expensive that nations get fractious.

For China, the relentless search for more resources has required it make diplomatic and economic overtures in areas in which it has traditionally been absent. For instance, the Sudan now supplies the China National Petroleum Company (CNPC) with half of its imported oil, and China has invested 8 billion in the Sudan's oil industry through CNPC.

Venezuela is also another new oil partner for China, providing 120,000 barrels a month to slake China's oil thirst. This, of course, treads very close to intruding into that which the United States sees as its exclusive area of influence. Venezuela sells about 60% of its output to the US. Still, with leftist Hugo Chavez at the country's helm, Venezuela's ruler finds much more in common with China than with the United States. China has taken full advantage of the opportunity that presents. China reached an agreement with Venezuela that will allow it to operate 15 mature oil fields in Venezuela (which may yield up to one billion barrels of oil) and secure the opportunity to bid on gas exploration contracts this year.

China has also reached an agreement with Fidel Castro's Cuba to do oil exploration in Cuba's coastal regions. Last but not least, China clinched deals last year to develop oil fields in Iran. All of these deals have come with substantial costs for China in terms of aid and investment. But the benefit to China's economy is far out-

weighed by these relatively nominal costs.

Of course, these developments have had the US casting a very wary eye toward China. China's aggressive quest for oil has caused tensions between the two countries to heighten. China's oil demand has driven the price of oil up and it appears that it will stay at those higher prices. Oil prices that stay up eventually effect entire economies.

Couple that with China's increased spending abroad and some of its strategic moves, and one might begin to question the seriousness of China's preference for a "peaceful rise". According to a report prepared for Congress, China appears to be "progressively positioning itself commercially and militarily along the key naval choke points between the Indian Ocean (its bases in Burma); the South China Sea (Hong Kong); the Straits of Malacca (the Spratly Islands and Cambodia); the central Pacific (land satellite tracking station on Tarawa), the Hawaiian coast (major ocean mining tract); the Caribbean (Cuba and the Bahamas); and the Panama Canal."

Taken as a whole, some are wondering if the moves China has made are those of a country only interested in peaceful commerce. Obviously though, as ominous as all of this may sound, it would require military might of a size and type which China doesn't presently have to dominate in certain areas of the world such as these choke points. China's military, while large, is not particularly sophisticated, nor does it appear to be trained for any contingency which would place it far outside its country's boundaries. However, as the competition for oil intensifies, that could change. While both sides recog-

The increasing requirements for oil will not only drive the Chinese economy, but its foreign and military policies as well





nize that peaceful trade is best for all, the increased demands for a commodity which, because of capacity, will become more and more scarce could be the catalyst for more direct and violent future confrontations.

Then there's Taiwan. A Japanese possession since 1895, it was ceded to China at the conclusion of WWII. In 1949 the defeated Chiang Kai-shek and his Nationalists fled mainland China and took over the island, claiming Taipei to be the new capital of China. Since that time, China has had the goal of "rejoining" Taiwan with mainland China, claiming to the world that its dealings with Taiwan are an internal matter. China has declared on numerous occasions that it will deal with Taiwan on its own terms, be that through violent or peaceful means. The US has always taken the position that Taiwan is a separate entity from China, and while it recognizes the PRC as the only China, it regards Taiwan as an entity that exists through the self-determination of its people. The US is determined not to let happen to Taiwan that which happened to Tibet.

Since the recognition of China by the US, Taiwan has remained the one true point of contention between the two countries. While there have been diplomatic changes over the years which have the US officially recognizing the "one China" policy, it is also a party to the Taiwan Relations Act, which opposes any unilateral change to the status quo on either side of the Taiwan straits. When asked directly if that meant the US would come to the aid of Taiwan in case of an attack by China, President George Bush said, "If China were to invade unilaterally, we would rise up in the spirit of [the] Tai-

wan Relations Act. If Taiwan were to declare independence, it would be a unilateral decision that would then change the US equation."

China's recent military buildup near Taiwan and its deployment of thousands of missiles opposite the island have raised fears that it has designs on changing that status quo. According to Bloomberg, a recent Pentagon report to Congress noted the following:

"China continues to deploy its most advanced weapons opposite Taiwan and is increasing emphasis on new technologies and strategies with the aim of winning 'short-duration, high-intensity conflicts.'" It also claimed that "China is increasing the number of short-range ballistic missiles aimed at Taiwan across by about 100 per year".

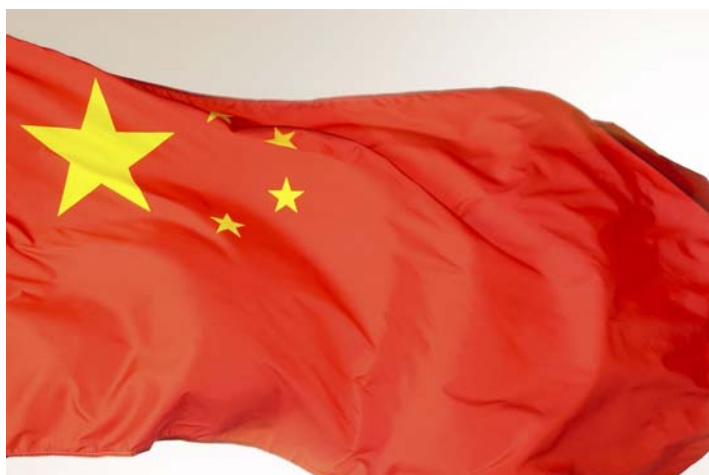
### China's recent military buildup near Taiwan and its deployment of thousands of missiles opposite the island have raised fears

The mobility of China's short-range missiles, coupled with advances in air and naval forces "are scoped for operations beyond" Taiwan, the report said. The report also claimed that continued advancements could provide it with a force capable of conducting various military operations in Asia "well beyond Taiwan".

The balance of power in the Taiwan Strait appears to be shifting toward China due to its expanding economy, growing diplomatic leverage, and improvements in military capability, the report said. Meanwhile, Taiwan's defense spending has declined, leaving vulnerable the island nation China regards as a 'renegade province'.

The question then is will China risk all the goodwill it has built up around the world to make a grab for Tai-

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## THE DRAGON IN THE CHINA SHOP

(Continued from page 17)

wan? The second question is, will the US actually respond militarily in the defense of Taiwan should China attack?

China's strategy and its troop and missile deployments suggest it might make such an attempt if it thought it could get away with it. In addition, its strategy of projecting its power beyond Taiwan indicates a desire to expand its influence through its military as well as its economy. That is disturbing, especially to nations like Japan and those in Southeast Asia. A regional economic power like China is one thing. A regional economic and military power is another thing entirely, and would upset the balance of power in the

region. It is obviously in the interests of the US and other nations in the region to see that the balance is not changed.

Regardless of China's eventual choice, it is incumbent upon the leadership of the US to prepare for either contingency

So the two countries, one an established super power and one an emerging super power, are facing each other over some very difficult and complex issues. Will China actually manage its economic emergence into super power status as a "peaceful rising"? Or will it, as it becomes more prosperous, slowly become arrogant -- impressed with its own political heft and military capabilities -- and try to demonstrate its new found

power in a few "short-duration, high-intensity conflicts", one of those being an operation against Taiwan?

Regardless of China's eventual choice, it is incumbent upon the leadership of the US to prepare for either contingency. If China chooses peaceful trade, the US should do that which is necessary to support such a choice without that assistance becoming a detriment to the American people. But should China choose a more violent path, it is equally important that they be shown, in no uncertain terms, that the US and its allies will not stand idle while those they've pledged to aid are attacked. The ball is truly in China's court. Let us hope that she chooses to pursue vigorously the completion of her "peaceful rising".



## GOODBYE SPACE SHUTTLE?

**Our hopes lie with the crew of the latest shuttle mission. But could this flight represent the end of an era?**

**Max Borders**

The space shuttle is still very much a symbol of human achievement. It has always had the power to captivate us, even when it has frightened us, humbled us, or reminded us of our frailty: "Take note of what you saw here today," said NASA official Michael Griffin. "The power and majesty of the launch, of course. But also the competence and professionalism, the sheer gall, the pluckiness and grittiness of this team that pulled this program out of the depths of despair 2 1/2 years ago and made it fly."

Rebuilding the program is a triumph. But does the latest shuttle flight signify the beginning of the end? For many, the space shuttle has come to represent a passing era—an era of technocrats who believe that if they are just smart enough, prepared enough, and have the resources, they can do anything. This is not just the hubris of the NASA scientist, but the mantra of the bureaucrat. With this launch, everyone is hopeful for the shuttle's success. But we don't need to look very far into our collective memory to find the burning wreckage of Columbia, falling as Daedalus and Icarus to the earth.

NASA has done some marvelous work with the shuttle program -- put satellites into orbit, conducted in-flight experiments, and studied conditions of low gravity. But it seems that for every memorable shuttle success, there is a memorable failure:

- In 1983, Sally Ride becomes the first American woman to orbit the earth. Three years later, Challenger explodes over Florida shortly after take-off. Christa McAuliffe—to have been the first civilian in space—perishes in the accident.

- The Hubble Space Telescope is sent into orbit around the earth. Scientists could observe galaxies Edwin Hubble only dreamt of in higher maths. On a subsequent mission, however, NASA has to outfit the HST with a giant "contact lens" in order to correct a billion-dollar design flaw.

- In 1981, the space shuttle Columbia takes off from Cape Canaveral, Florida. In 2002, the space shuttle Columbia disintegrates over Texas.

**Does the latest shuttle flight signify the beginning of the end?**

If any more disasters or major errors befall the shuttle, it will have to go even before the program is due to expire five years from now. The shuttle has already begun to experience "mission creep," or the tendency for bureaucrats to expand a program beyond its original goals—usually after initial successes (or despite catastrophic failures). According to Wikipedia, "the total cost of the program has been \$145 billion as of early 2005 (\$112 billion of which was incurred while the program was operational) and is estimated at \$174 billion when the Shuttle retires in 2010."

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## GOODBYE SPACE SHUTTLE?

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Even when one adjusts for inflation, the shuttle program has cost a lot more than was first projected. So, if the space shuttle is a symbol of human achievement, it is also a symbol of bureaucracy—i.e., human imperfection cloaked in red tape, waste, and old laurels.

But there is another symbol on the horizon. It's the symbol of a coming Space Age, where success is driven not-so-much by nationalistic space race or a taxpayer-funded "search for understanding", but by the baser motivations of those willing to pay a premium for experience.

On October 4th, 2004, SpaceShipOne launched into



history as the first privately-funded manned craft to fly into space twice within a two-week period. SpaceShipOne took the ten million dollar Ansari X-prize and thrust commercial space travel into the domain of viability. Now a number of teams are poised to offer amateur astronauts the opportunity to experience space travel. Both interest and investment are growing.

Most would scoff at the notion that NASA's hegemony is being challenged by a ship that looks like little more than a space-age frog. But this little craft represents a coming juggernaut – one that will be impelled by the forces of human desire, various and sundry. Not only by

scientific understanding for its own sake - but by the forces Adam Smith described so well: "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their self-love." These are the forces of creative destruction -- the forces of capitalism.

Most would scoff at the notion that NASA's hegemony is being challenged by a ship that looks like little more than a space-age frog

If you don't believe the market represents a threat to our national space program, consider an analogy in the relatively recent race between the government-funded Human Genome Project and the privately-funded Celera Genomics. Each program effectively tied at mapping the genome, but Celera started much later in the game. (In a way, therefore, Celera won.) The little company out of South San Francisco, CA took voluntarily provided funds and gave the tax-supported

goliath a run for its money.

We can predict a similar race between our public and private space industries. Indeed, if politicians don't over-regulate this infant enterprise right out of the gate, it will be a race NASA is doomed to lose, for NASA - like other centrally-planned bureaucracies - is a wasteful, inefficient dinosaur that is virtually unaccountable. Dismantling our favorite government agency out of principle will never be politically viable. But allowing market forces to push it into obsolescence is something we can expect, and hope for. 🐸

## PEAK LIBERTY

### Has the demand to restrict liberty outstripped our desire to preserve it?

Brad Warbiany

From the very beginning, America has been a nation that values liberty. Liberty was on the brain in 1787, and a Constitution was produced to ensure freedom... including freedom from the tyranny of government.

There were flaws at that time, to be sure. Our nation did not always live up to the Constitutional promise. "Freedom to all" meant freedom to land-owning white males. Everyone else was out of luck. Eventually, however, millions of people helped to change that fact. The souls of hundreds of thousands of young men were lost in a war to free the slaves, and it took another hundred years to bring true equality with the end of Jim Crow. Racial and gender equality eventually came to pass. Even today, these battles are still being fought for the rights of same-sex couples. Since the day this country was founded, you have seen the liberty of unpopular groups gain hold and reach parity with the rest. In a country that is based upon the right to be safe in unpopularity, the march of history has been remarkable to make that a reality.

But there's also another current at work. We are slowly seeing social liberty for all groups reach parity. Parity, however, can be equally great or equally poor. As unpopular groups have raised their level of acceptance and been granted the same rights as those of the popular, liberty has been defined down for all.

We have reached a point, socially, where government regulation intrudes on our lives and decisions from the time we wake until the time we retire and all through our slumber. Rights are decided by government. Free speech has mostly survived, though political speech is becoming increasingly regulated. The 2nd Amendment is still alive, though we have to apply for a license to exercise that right. You have the right to be safe from unreasonable search and seizure, provided, of course, that you never visit the library. Seemingly innocuous laws such as the requirement to wear a seat belt in a car or a helmet on a motorcycle may be in your own best interest,

We have reached a point, socially, where government regulation intrudes on our lives and decisions from the time we wake until the time we retire and all through our slumber

but *forcing* such behavior inhibits liberty nonetheless.

Economic liberty has suffered most. The land of the founding fathers was one where government and business were more separate than religion and government are now. From the anti-trust acts, through Wickard v. Filburn, to the Sarbanes-Oxley legislation of 2002, the government has a hand in regulation of every business in this nation. On the personal level, nearly every monetary transaction performed is taxed through a myriad of different

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## PEAK LIBERTY

(Continued from page 21)

local, state, and federal rules, you only own as much of your income as government allows, and likewise you only own as much of your property as government allows. You exist economically not as an individual, but as a serf of the state.

It is obvious, that as some personal liberties may be slowly advancing, many other liberties are quickly dying. Perhaps we should think of it as *Peak Liberty*. Just as world oil production **may** eventually peak and rapidly decline, perhaps the demand to restrict liberty has outstripped our political interest in preserving it.

Perhaps we've peaked and have entered liberty's long emergency. As with peak oil, defining peak liberty might not be clear except in hindsight. Was it the Civil War? Was it *Brown v. Board of Education*? The Sherman Anti-Trust Act? The Civil Rights Act of 1964? Was it landing on the moon? Is the slippery slope to tyranny inevitable? Does it require nothing less than a revolution to reverse course?

There are many possible peaks. Slavery was ended by the Civil War, but the concepts of federalism were greatly weakened and the federal government made much more powerful. The New Deal may have prevented a popular revolution for outright socialism, but it incorporated the seeds of socialism into our government and our culture. The 60's saw the greatest achievements of the civil rights movement, but they also ushered in the welfare state and victim politics of the Great Society.

As a theory, Peak Liberty certainly has flaws. Liberty, after all, is a non-rival resource, and greater liberty can be enjoyed by all without diminishing the liberty of others. No matter what happens, it *can* be reversed. Or perhaps an equilibrium point will be reached, with the competing demands for liberty and security achieving some sustainable balance. Unfortunately, history has shown that people do not respond to the lack of liberty until it is too late.



It is obvious, that as some personal liberties may be slowly advancing, many other liberties are quickly dying

Peak Liberty, like Peak Oil, can happen. It can also be avoided. To change the trends, we need political organization and public outreach. We need to make our ideas a part of the public discourse in this country. We can't change government without changing the minds of voters, so let's get cracking. There may be dangerously little time left. 🐦

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Brad Warbiany blogs at *The Unrepentant Individual*,  
[UnrepentantIndividual.com](http://UnrepentantIndividual.com)

# IF YOU THINK HEALTH CARE IS EXPENSIVE NOW...

**Wait 'til you see what it costs when it's free**

**Jon Henke**

General Motors is struggling under the enormous burden of the gold-plated health care plan that the Auto Workers Union has insisted upon, with health care related costs per-car-sold cresting \$1,500 this year. And it doesn't just apply to current employees. GM has incurred an obligation to retirees and dependents, as well, with a total of about 1.2 million people under the GM health care umbrella – of which only about 160,000 are current employees. All of that cost GM about 5.8 billion dollars last year.

Under the UAW-employee plan, beneficiaries pay no deductible, no monthly premium, only modest co-pays for medication and doctor visits, and yet still enjoy broad coverage for all manner of health care issues, including serious problems, minor annoyances and elective surgeries.

Even as GM is posting billion-dollar losses, their health care plan recently added employer coverage of Lasik surgery and other elective measures, as well as continuing extremely generous prescription drug coverage that leaves employees paying next to nothing, even for brand name drugs.

So, of course, Rick Wagoner--CEO of GM—is pushing for government health care reform to help lessen the burden on General Motors. Meanwhile, Democrats and liberals are pointing to GM as an example of the damage that our broken health care system can do to US companies, and noting that universal health care coverage would relieve them of this competitive disadvantage.

There's something to that argument, but it doesn't address the fundamental problem that led to GM's multi-billion dollar health care fiasco. Instead of solving the broken market, universal health care merely nationalizes the problem.

Instead of private one-size fits all, third-party subsidization that increases prices with little connection to actual value and no obvious rationing mechanism, Democrats would have us switch to public one-size fits all, third-party subsidization that increases prices with little connection to actual value and no obvious rationing

mechanism.

That would certainly be good for GM and for those people to whom the subsidy is extended, but let's remember that GM is fast going bankrupt under this health care model. Democrats would not save us from the broken health care system under which GM struggles; they would extend it to all of us.

Yes, soon we could all have GM health care.

And who will pay for that? A rent-seeking GM might be able to offload their looming fiscal disaster onto the general public, but the US government has no such backstop. If the public is freed from such minor concerns as "scarcity" and "rationing", one can be certain that health care goods and services will be rationed as if their value was far less than it is.

**Soon we could all have  
GM health care.**

That may mean prices will continue to rise, or it may mean queuing and other shortages, but the laws of supply and demand will not be revoked by legislation. As Milton Friedman wrote in a 2001 essay, "[once] the bulk of costs have been taken over by government, as they have in most of the other OECD countries, the politician does not have the carrot of increased services with which to attract new voters, so attention turns to holding down costs."

There's not a lot to be said for our current mixed system of health care where per capita health spending is approximately \$5635 (according to the OECD Health Data 2005 Report), but then per capita spending on GM-covered employees is over \$4800. That's still almost twice as much as the OECD average. And if you want to see the result of gold-plated government provided health care in the United States, look no further than TennCare, where 1.3 million people are covered at an estimated 2005 cost of \$8.7 billion – a per capita rate of over \$6600.

If Republicans don't offer genuine, market-based health care reform – and soon – then we will soon have universal health care...no matter what it costs. 🐻

# SUPREME DEFERENCE

## The Supreme Court courts irrelevance

William Westmiller

The Supreme Court isn't always wrong, but more than half wrong is all that counts. The majority got it wrong in several major rulings of its last session, but not for the reasons cited.

In a widely protested decision on eminent domain, the Court ruled 5-4 that "public use" referred to any government purpose that required the taking of private property. In a stinging dissent to the *Kelo v. New London* ruling, Justice Sandra Day O'Connor observed: "Under the banner of economic development, all private property is now vulnerable to being taken ..." under the majority's Constitutional interpretation. Both anti-mercantilists and private property advocates protested and promised to pursue strict state limits on property takings. However, the real problem in *Kelo* was not eminent domain.

The Court was similarly split on the application of the commerce clause to state medical marijuana statutes. In *Gonzales v. Raich*, the Court ignored the fact that no commercial activity was involved and ruled that the commerce clause granted the federal government the power to shut down any possession of marijuana for any purpose. Justice O'Connor again dissented, recognizing that state "core police powers have always included authority to define criminal law." However, the real problem with *Gonzales* was not federalism.

The critical issue in these two, and a dozen other cases, was deference. The Court deferred to the will of Congress, state, and even local legislators to pass any law they pleased, in spite of the clear intent of the Constitution. This was particularly evident in *Kelo*, where the majority invoked deference a dozen times, bowing to the New London City Council's "carefully considered" judgment that taking private homes was necessary, wise and useful for the "public welfare". The Court essentially surrendered its power to overturn constitutional rights violations whenever a majority of elected representatives find it convenient to do so. It isn't our task, said the Court, to "second guess the wisdom" of a city council.

The Court is not insensitive to political rhetoric. The majority seems to have heard the rants against "activist judges" and the glorification of "democratic will", scribbling out the enumerated powers and original intent of the Constitution to placate popular sentiments. Unless a law is publicly recognized as clearly irrational and illegitimate, the Court will wash its hands. In doing so, the Court has conceded its power to defend any individual rights against the encroachments of the state.

Justice Salmon P. Chase, nominated as Chief Justice by Abraham Lincoln, defended the original intent, that the Court should not grant deference to legislative excess:

"There are acts which the Federal, or State, Legislature cannot do, without exceeding their authority. There are certain vital principles in our free Republican governments, which will determine and overrule an apparent and flagrant abuse of legislative power; as to authorize manifest injustice by positive law; or to take away that security for personal liberty, or private property, for the protection whereof the government was established. An Act of the legislature (for I cannot call it a law) contrary to the great first principles of the social compact, cannot be considered a rightful exercise of legislative authority." *Calder v. Bull*, 1798

Defense of individual rights has been politically incorrect for a long time

Such a defense of individual rights has been politically incorrect for a long time. The Justices, says President Bush, "have a duty to faithfully interpret the law, not legislate from the bench," as though the Court had ever written a single law. Their purpose, under the Founder's concept of separation of powers, was to constrain legislative power; to discard laws that violated constitutional principles and individual rights. It seems that the current fancy is that the Court only interpret the expressed will of any legislative majority. Since legislators notoriously and intentionally evade clear language, the Court is left to simply review the assertions of the winners to determine their intent ... and then apply it strictly

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to their decisions, with little regard for the Founder's intent.

This kind of extreme deference to majority rule would have been roundly condemned by James Madison, who noted that "democracies have ever been spectacles of turbulence and contention; have ever been found incompatible with personal security or the rights of property; and have in general been as short in their lives as they have been violent in their deaths." Yet, our legislators and executives sanctify the wisdom of democracy everywhere in the world, abandoning the Founder's ideal of a limited, constitutional republic.

In this political environment, Justices cringe in fear of being labeled "activists", for having impeded the popular will; for being so crass as to overturn a law that only violates a few individual's rights. Vocal advocates demand judicial obeisance to their agenda, without regard to enumerated powers or the Bill of Rights. In every respect, they chant, the Court must defer to popular whims. The majority of the justices have capitulated, rather than defend liberty.

Since the Court can only overturn laws, not write

them, libertarians should earnestly hope for activists who will wield Justice's sword against six decades of federal and state excess. Even with the best judges, it will take years to overturn the deferential precedents that have allowed a steady expansion of executive powers and legislative violations of individual rights.

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With the pending retirement of Justice O'Connor (not effective until her successor is confirmed), the Court will lose two of its most consistent defenders of original intent. While we might have hoped that Justices like Janice Rogers Brown (a fan of Hayek and Rand) would be elevated, the President has nominated a supremely deferential supplicant: Appeals Court Justice John G. Roberts. In the few cases where he has ruled, he has upheld legislative intent, echoing the majority opinion in *Kelo* and favoring a legislative ban on flag burning, in spite of the First Amendment.

As ever, the pursuit of justice will remain a political challenge, requiring persistent advocacy of liberty ideals in public forums and electoral campaigns. A solid display of courage from a new Court is now very unlikely, and it can get much worse.

To an astonishing degree, the present Court has revealed its cowardice and proclaimed its own irrelevance in the administration of justice. It has abandoned its obligatory defense of the individual and deferred to whatever the legislatures consider necessary means to their own "reasonable and wise" ends. A new Court, with Justice Roberts will continue to deferentially bow and curtsy, rather than stand up for the ideals of the Founders. 🐾

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## THE LAST WORD

### The Editors



*"When you're the minority, you need to fight. When you're the governing majority, you need to produce." – Newt Gingrich*

For many years, gridlock was the general state of Washington DC, with the Republican and Democratic Parties splitting control of the Executive and Legislative branches. In elections, both parties appealed

to their core values, with the Democrats promising expanded benefits and Republicans promising a more limited government...if they could only achieve a governing majority. That was a big "if".

The Democrats had their chance shortly after the election of Bill Clinton, and—as promised—they tried to push through a massive expansion of government benefits in the form of national health care. The Republicans ran to their principles of limited government, produced the "Contract with America" and won Congress in a landslide, bringing the Democrats governing majority to an end. In 2002, the gridlock ended, with Republicans picking up control of both executive and Legislative branches...the elusive Republican "governing majority".

After 3 years of the Republican governing majority...

...discretionary outlays have far exceeded those under the Clinton administration.

...Republican Senators refuse to enforce the budget cuts submitted by the White House.

...the Medicare Drug bill, whose original cost was touted at "only" \$400 billion over 10 years, was passed

into law. It immediately became apparent that the real cost was closer to \$1.2 trillion.

...Congress passed a pork-packed \$286 billion Transportation bill, as CBS described it, "stuffed with thousands of ... projects big and small that influential members of Congress have put in to by-pass state highway department priorities and make a splash in their home districts". Bush initially threatened to veto any bill that topped \$256 billion...but ultimately decided that, hey, what's an extra \$30 billion?

...Congress passed a \$14.6 billion Energy bill loaded with subsidies and corporate handouts.

...Congress passed CAFTA, but had to include so many handouts and restrictions to get the bill passed that even free trade proponents think the result is only a mild net improvement.

...rather than eliminating the Department of Education, the Bush-backed No Child Left Behind Act has almost doubled federal spending on the Department.

Whatever benefits we've seen from the Republican Parties governing majority, "limited government" has not been one of them.

Whatever benefits we've seen from the Republican Parties governing majority, "limited government" has not been one of them. A Republican governing majority, apparently, is virtually indistinguishable from the Democratic governing majority that Republicans warned us about when the Republicans were the minority party.

Last year, at a Club For Growth panel meeting, an audience member stood and asked: "Bush spends like Carter and panders like Clinton. ... Is there any betrayal that we wouldn't support?" As the betrayals continue, the question grows more and more compelling. If Neoliberarians are to exert any influence on any Party, our allegiance cannot be unwavering. We ought to seriously consider the possibility that the Republican Party needs to lose to return to its principles. We also ought to consider the possibility that the Republican Party is most useful to our cause when they stand on the principles of limited government – something they only appear capable of doing as a minority party. 🐦