

Liberating the Entrepreneurial Spirit for Good

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Section V: Making the World a Better Place
through Entrepreneurship and Markets



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A. Introduction

In principle, we can create a world in which:

1. There are no environmental concerns because all unallocated commons have been allocated either to private entities or to environmental trusts.
2. All people on earth received an annual Citizen's Dividend based on their share of natural resources.
3. Conscious entrepreneurs were free to create endlessly better and lower cost ways to deepen and delight our experience of the human condition.

Such a world would be a world in which most of humanity, most of the time, was engaged in a life of flow, ever deepening optimal experience in which we devoted ourselves to becoming our best selves in the service of making the world a better place.

But in order to create such a world, we will all have to transcend our tribal political bigotries. As a first step in this direction, I want to share a wonderful article by Tom Atlee on "A Personally Transformational Encounter of Left and Right." FLOW was created specifically because John and I are idealist do-gooders, and to that extent part of the "left," and at the same time we believe that the most powerful solutions for the future are based in entrepreneurship and markets, and to that extent are part of the "right." In reality, of course, we agree with Atlee "The Left/Right model is most significantly a source of poison, rather than a source of wisdom, pleasure or power."

In order to create wise, happy, and potent solutions for the future, first let us cleanse ourselves of this poison.

Perspective: A Personally Transformational Encounter of Left and Right

by Tom Atlee
(Excerpt)

On June 11, 2004 I was privileged to join in a fascinating meeting of Left and Right organized by Lets Talk America and the Democracy in America Project. . . . When we said our good-byes three days later, I knew my worldview had been changed forever.

. . . I came to this weekend largely because of Joseph, the strong conservative who had come to believe that dialogue and deliberation -- and, through them, the emergence of an inclusive, dynamic We the People -- offer better answers to our predicament than win/lose battles over positions and candidates. His journey had brought him to the same place mine had, but through the opposite door. I had tremendous respect for him, but I couldn't relate to his Right wing past at all. Even as I joined him in our common dedication to dialogue, I couldn't quite figure him out through the lens of my progressive analysis.

What I experienced before and during the weekend gave me a gut-level understanding of how my own ideological righteousness could close my mind and heart. Using Google, I researched the people who were coming to the conversation. I read articles by the conservatives and listened to their radio talk shows -- and I got triggered by what they said. I reacted with anger, frustration and rejection of who they were. I thought silent counterarguments and felt the rise of adrenaline. Friends warned me to be careful - - or couldn't even imagine going to talk with such people. The dialogic side of me was despairing. I doubted I was up to the challenge. I knew I should set aside my reactions and try to see these conservatives as people, but the task seemed daunting. I was anxious, determined to work hard to be open, and half expected the whole effort to be a disaster

So what happened? I had a remarkable time. Right at the start, in small mixed breakout groups, we explored what America meant to us when we were 12 years old -- and now. We told each other what we cherished about America. I told my story of growing up in a progressive activist family that sided with socialist revolutions and learned all the bad things America did in the world -- and yet how I still held on to the dream that America had a major positive role to play in the world, a powerfully positive myth to live out for the benefit of all humanity.

We explored our experiences of political difference. I heard a conservative's story of speaking out in a public forum as a college student. A radical progressive student had responded "When the Revolution succeeds, your kind will be the first to be shot!" The audience had cheered the radical, and this man had never forgotten that. I could understand why. We went on to explore the psychological and tribal dynamics of polarization, and what was lost and gained by seeing others as the enemy and by feeling certain we were right (subjects about which I will write more soon). We came to a place where we didn't want to use those labels at all. We were searching for some other ways to relate that had more positive possibility in them.

I talked particularly with one conservative, learning that he, too, was very concerned about the Patriot Act and the current administration's global ambitions. He had other serious disagreements with the current administration that he would never voice in

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public because of his persona as a conservative opinion leader. He shared a fascinating perspective on the history of the abortion issue, suggesting that decades ago the old Dixiecrat Democrats used to favor abortion for racist reasons, so many Left civil rights leaders were Pro-Life, while Conservatives promoted the Pro-Choice position as a matter of personal liberty. Republican encroachments in the Democratic South combined with internal party politics, new prenatal science and the rise of feminism ended up generating a reversal of those stances. He felt many positions on both sides were being held more solidly than was justified by the facts of the matter, and he was intrigued with the possibility of randomly selected citizen deliberative councils investigating important public issues.

It was immensely clarifying to me to find out what lived on the other side of the wall I had built in my own perceptions. I could feel how my determined ignorance was limiting my options, the options of my fellow progressives and, most importantly, the options of my entire country and the world.

I ended the weekend with great new friends and associates -- people who'd started out identifying with the Left or Right but who were now more intrigued with each other as people and with new possibilities to make a difference together.

LESSONS

Perhaps my biggest insight was that if we stepped out of the Liberal/Conservative, Left/Right dichotomies, we would find ourselves individually very different and usefully unique in our perspectives, with vast areas of workable common ground. The Great Political Dichotomies present us with artificially polarized -- and polarizing -- differences and little common ground. They lead us to gather together in our tribes, preparing for war and totally losing sight of our actual differences (as unique individuals), our many similarities (offering many diverse possibilities for alliances) and our real common ground (as human beings with universal needs, living in communities, nations, and a struggling world that require our shared attention).

I see my challenge now as nurturing an open curiosity, with less fear, judgment and preconceptions in engaging with those I see as conservative, as well as with everyone else. If they are spokespeople for the Right -- as several of the attendees at this meeting were -- I now know that their public statements are called forth by the system we live in, as are the provocative statements of the progressive Left or Democratic partisans. I now expect that, on meeting them, I will probably find them different from whatever I may have concluded from their media persona and their Google results. Similarly, if they are ordinary people who happen to be conservative, then I'll likely find, if I really listen to them, that I agree with them more often than not -- and even where I don't agree with them, I'll be able to understand where they're coming from, and be able to see their very real humanity under all their opinions. I may even come away wiser, with a more nuanced sense of the issues we discussed and what they really mean in the big picture. As Lets Talk America says, "What if what unites us is more than we realize, and what divides us is less than we fear."

All that said, I'm not at the point of "loving everyone." I realize there are extremists out there who would not tolerate real dialogue or consider recognizing the humanity and legitimacy of the Other. But I also realize that such people exist on BOTH sides and are often leaders in creating polarization for their own ends. In fact, extremists exist WHEREVER differences have coalesced into "sides" and solidified into polarized

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stereotypes. They are a natural part of polarized systems. BUT the ideologues are seldom the majority -- or even a sizable minority -- of either side. Most people are not that unapproachably righteous and dehumanizing. However, the many people on all sides who could potentially hear each other can only show up as the complex, unique, diverse human beings they are, when they are provided with forums that support them in relating to each other across political divides in respectful, non-threatening ways. Such forums are hard to come by in today's political culture. It is up to us to make them.

THE SHIFT

In the end I experienced a deep, gut-level transformation. I had a profound personal shift away from Left/Right framings that was comparable to my earlier shifts away from sexism and homophobia. As with those other shifts, I still have impulses from my earlier state, but I don't believe in them anymore. I am quite convinced that the whole Left/Right frame is a trap, and that we are deeply embedded in it in ways that are crippling us. It is also clear to me that we have a long, hard slog ahead of us as we try to free ourselves from this worldview, because the deep psychological and tribal impulses driving it are extremely powerful.

What personally struck me most, and with tremendous irony, was that I had bought into a frame of reference that prevents us from achieving true collective wisdom. I was indoctrinated into this framework by my culture, my family, and most groups I have been part of. I accepted Left and Right as real without realizing that, through my acceptance, I was collaborating with those who have conquered whole societies by dividing them using these simple, compelling ideological boxes. I enjoyed the benefits of righteous certainty and was able -- even eager -- to project blame onto others. I dehumanized the Other (in my case, those called "conservatives") in ways that prevented me from engaging with them to discover their fuller humanity and their reasoned viewpoints and, perhaps worst of all, from seeing the systemic dynamics that were driving us apart so we couldn't even imagine working together.

Taking lessons from my brothers and sisters across the political spectrum, I can now say that my addiction to the Left/Right worldview is partly my own responsibility (the conservative view) and partly the responsibility of the social systems into which I was born and socialized (the liberal view).

Just as I have earlier had to face the fact that cigarettes were poisonous before I could stop smoking, I now believe that the Left/Right model is most significantly a source of poison, rather than a source of wisdom, pleasure or power. I believe it is poisoning my own thinking and poisoning us all. Standing in the remnants of my Left perspective, I now suspect that the Left/Right paradigm is killing us far more effectively than the Right ever could. I would hope that some of my colleagues on the Right feel similarly that the Left/Right paradigm is more destructive than the Left. In any case, I personally want to free myself from that poisonous frame of reference so I can better do my work for the world.

So I am done with that. I will dedicate my life to changing the social structures that uphold that polarized way of seeing the world. I will promote and support well-facilitated opportunities to encounter Others in creative, heartfelt, intelligent ways that empower us all to take back our future and make it our own, together. I'm not sure anything short of that will save us from the shadows we fear and free us into more inclusive ways of thinking and living that are filled to overflowing with possibilities. . . .

B. Sustainability

The sleeping giants of China and India have awoken: each month millions of poor Chinese and Indians are taking their first steps into the middle class, purchasing their first wrist-watch, radio, blender, television, bicycle, refrigerator, or other device on the long path to middle class comfort. It is important to understand that, short of total war or similar devastation, nothing will stop billions of people from acquiring middle class comforts. Nor should it – those environmentalists who want to keep the rest of the world poor are simply immoral. We have an obligation to help all of the world's people acquire as comfortable a standard of living as we have. The question is not whether, but how, we do so in an environmentally sustainable way. Those people who claim that such a goal is impossible fail to understand human creativity and how to redirect it more effectively towards environmental sustainability. By means of eliminating harmful subsidies, a green tax shift, and property rights solutions to abused environmental commons, we can shift both production and consumption towards an environmentally sustainable equilibrium.

In the 1970s, Barry Commoner, Paul Ehrlich, and John Holdren developed a formula that stated that Environmental Impact = Population * Affluence * Technology, or $I = P * A * T$. As a consequence of this perspective, many environmentalists came to believe that, in order to create a sustainable world, they needed to fight population growth, economic growth (leading to affluence), and technology (leading to more cars and energy use).

Much has changed since the 1970s that has changed our understanding of each of these variables. Most importantly, it is now universally acknowledged that human population will peak, sometime in the second half of the 21st century, somewhere between roughly 8-10 billion people. As every nation develops economically, average family size decreases from four or five children per family down to two or fewer children per family. Thus insofar as a “population explosion” has caused environmental degradation in many parts of the world, ironically accelerating economic growth, and thus affluence, may be a critical means of reducing the overall peak population. In short, the more quickly each nation becomes wealthy, the more likely it is that global population will peak at roughly 8 billion, or less, rather than roughly 10 billion, or more.

With respect to “affluence,” it is gradually being realized that whether or not “affluence” is environmentally destructive depends entirely on the nature of that “affluence.” The entire “Green” consumer movement is based on the principle that for virtually every product that we purchase a “green” version exists, in most cases with a significantly smaller environmental impact. Advocates of the entrepreneurial creation of a world of green affluence sometimes describe their movement as “bright green,” to differentiate their environmental optimism from the dour picture provided by some environmentalists.

And, finally, “technology” need not mean ever-larger gasoline combustion automobiles and larger, more energy-intensive houses. Technological innovation has, in fact, been at the cutting-edge of environmental improvement, and we expect that this “green through technology” movement is still in its infancy.

Thus we envision a world in fifty years of 8 billion or so happy, comfortable, middle class people, living lives of creative flow, in a sustainable fashion. How do we get there from

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here?

There are three fundamental strategies we support in a movement towards environmentally sustainable free markets:

- i. A Green Scissors Campaign to Eliminate Destructive Subsidies
- ii. A Green Tax Shift
- iii. Property rights solutions to the preservation of environmental commons

Each of these solutions has a nascent transpartisan constituency that is supportive of the needed policy change. We believe that, although there will be political differences regarding exactly how to implement these solutions, each of the foregoing provides a way past costly political battles that often fail to preserve the environment, towards solutions that will ensure environmental sustainability for the long term. Ultimately, if we so choose, by following this path we may create a libertarian world that protects the environment far better than does our existing world.

i. A Green Scissors Campaign

Ending \$650 billion in obsolete subsidies for environmentally destructive activities like clearcutting and fishing, and levying taxes on resource depletion and pollutants like greenhouse gases, could provide \$1.5 trillion a year for income tax cuts, according to The Natural Wealth of Nations, from the Worldwatch Institute, a Washington, D.C.-based environmental research institute. Under this proposal, a U.S. family of four would get a net tax cut of \$2,000.¹

Our top priority should be to eliminate environmentally destructive subsidies – those cases in which governments around the world are actively encouraging environmental destruction. A “Green Scissors” campaign is a tax-cutting campaign focused on cutting those subsidies and returning the saved funds to the taxpayer.² Both environmentalist and conventional libertarians can get behind such a proposal – but in order to create an effective coalition that can out-manuever special interests, the two sides will need to work together.

Everyone who cares about environmental sustainability needs to understand public choice theory or “Why special interests almost always get their way.” For instance, the U.S. government has subsidized old-growth timber clear-cutting in Tongass National Forest at a cost of about a billion dollars over a thirty-year period. The primary beneficiary of this government largess is a Japanese corporation employing a few hundred Alaskan workers. How can this be?

The simple answer is that special interests are constantly focused on getting their way, day in, day out, whereas the rest of us only periodically focus on political issues at election time. At that point, out of the dozens of candidates we elect, and the hundreds of issues to be addressed, we typically only understand, at best, a handful of candidates and a handful of issues. Democratic politics were not designed to manage large, complex systems. As a consequence, any entity that begins receiving a subsidy typically continues its subsidy for decades. Big government consistently fails due to the arithmetic of focus.³

The global activist movement has now been, rightly, denouncing agricultural subsidies

for several years. Most ag subsidies go to large corporate farmers. Yet in the 1930s, during the Great Depression, most people celebrated the creation of subsidies to poor, suffering farmers. Most of the environmentally destructive subsidies have their origin in government subsidies that were originally designed to help someone: homeowners, farmers, ranchers, miners, loggers, or fishermen. The fact is changes in the economy will always result in some people losing their traditional livelihood. Attempts to prevent these natural consequences of creative destruction through government action almost always metastasize later on into monstrous subsidies for corporate interests. The best policy is to avoid creating any or all government subsidies.

More recently, Barack Obama sponsored a bill that would have subsidized liquefied coal for decades at a cost of billions of dollars. The corn lobby has successfully promoted ethanol subsidies for decades now, and we can expect them to do so regardless of whether or not ethanol is the best fuel (and there is much evidence that corn ethanol, at any rate, is not an environmentally optimal fuel). In order to avoid additional monstrous special interests, we should resist such well-intentioned attempts to subsidize new industries.

In the meantime, we need to work together across partisan lines to eliminate existing subsidies by means of a cooperative Green Scissors campaign. When the Bush regime proposed to cut the mortgage interest deduction, however, no environmental groups came to their rescue and the special interests managed to maintain their subsidy. Yet the mortgage interest deduction is one of the most regressive and environmentally destructive aspects of our tax policy: it disproportionately benefits those earning \$100,000 per year or more.⁴ In essence, the mortgage interest deduction is paying wealthy families to buy bigger houses on larger pieces of land farther out in the suburbs – we are bribing Americans to burn more energy and consume more resources, and yet when Republicans tried to stop this, they received little support from progressives and environmentalists.

The existing Green Scissors campaign is more ardently supported by environmentalists than by libertarians. When I discussed this with a scholar at the Cato Institute, he said that he had tried to work with Green Scissors but then he came to regard their target list as partisan and one-sided. But this can be worked through; if the conventional libertarians see a sustained interest in working together to slash subsidies across the board, it can be achieved.

Wouldn't you like to save the environment by receiving a \$2,000 check?

End the Mortgage-Interest Deduction! Why the left should embrace the Bush tax commission's most radical proposal.

By Jason Furman, Posted Thursday, Nov. 10, 2005

Last week, President Bush's critics interrupted their feeding frenzy about wars, floods, hurricanes, torture, and indictments to briefly savage his tax reform commission, particularly its proposal to scrap the mortgage-interest deduction.

The commission targeted the mortgage-interest deduction for several reasons. They say

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it is an unwarranted subsidy for housing that diverts capital from more productive uses in the business sector. The commission was also trying to find a way to limit the Alternative Minimum Tax from encroaching on middle-class families without raising income tax rates.

Outside economics departments, these arguments have been less than persuasive. The proposal has been savaged by critics who insist that scrapping the deduction would raise their taxes, lead to plunging house prices, and in the worst case, send the economy spiraling into recession. Some progressives even suggest that having failed to take away their Social Security benefits, the Bush administration is now trying to evict them from their homes.

Although the commission's two comprehensive tax-reform proposals should be rejected because they are costly and regressive, progressives should rush to embrace many of commission's specific ideas, particularly the mortgage proposal. That's because the plan will increase tax breaks for homeownership for the plurality of American families, likely increasing homeownership and making the tax system more fair.

One of the goals of our tax system is to encourage homeownership, based on the theory that homeownership has benefits that go beyond individual homeowners, making people into better citizens and better neighbors, reducing crime, and keeping neighborhoods cleaner. Whatever the merits of this view (and the evidence for important "externalities" for homeownership is uneven), our current tax system actually does an extremely bad job of encouraging homeownership.

This year the federal government is providing \$200 billion in subsidies for housing, including \$150 billion of tax breaks. The mortgage-interest deduction alone is \$69 billion of that, making it one of our biggest government programs. Families get to take an itemized tax deduction on the interest from home mortgages of up to \$1 million. The richer you are, the better the deal. For every \$1,000 in deductions, a family in the 35-percent bracket would see its taxes go down by \$350, while a family in the 15-percent bracket would see its taxes go down by only \$150. And families taking the standard deduction wouldn't get any tax break at all.

As Gene Steuerle and his co-authors at the Urban Institute have documented, more than 80 percent of the major tax incentives for housing go to the top 20 percent of Americans (they get an average annual tax break exceeding \$2,000) while less than 5 percent go to the bottom 60 percent (who get an average annual tax break of less than \$50). Nearly half of all families with mortgages do not get any housing tax benefit at all.

This fact alone should be enough to give progressives pause when they tout the mortgage-interest deduction as a great boon to the average American. But it's worse: Only a small portion of this housing-tax break could conceivably be construed as supporting the goal of helping American families own their own homes. Since the mortgage cutoff is so much higher than the cost of buying a basic home, the bulk of the subsidies end up encouraging families who would have bought a home anyway to buy a larger house and/or to borrow more against it.

The commission proposes to scrap the mortgage-interest deduction and replace it with a "Home Credit" that allows families to reduce their taxes by 15 percent of mortgage interest on borrowing up to \$227,000 to \$412,000 (the limit is set at 125 percent of the median sales price for each county). Any family with \$1,000 of mortgage interest would

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see its taxes go down by the same \$150, regardless of their tax bracket. And the credit would be extended to nonitemizers who currently get no benefit.

Extending the mortgage-interest credit to all taxpayers would extend the tax benefits to all but 12 percent of families with mortgages, according to estimates by the commission. The fraction of typical families (those making \$40,000 to \$50,000) getting a tax break for their mortgage interest would jump from less than 50 percent under current law to more than 99 percent under the commission proposal. More than 20 million families would get a tax cut from the plan.

Despite these large benefits, the media coverage has focused almost exclusively on a smaller number of families that would see their taxes go up under the commission's plan. The commission estimates that 85 percent to 90 percent of new mortgages in 2004 would have been unaffected by the lower mortgage limit (an even larger fraction of existing mortgages would be unaffected). That's fewer than 5 million people with mortgages large enough to be affected by the proposed cap. Some additional high-tax-bracket families would see their existing deduction curbed by the conversion to a credit.

Some more affluent families would lose not just because of their reduced tax breaks but also because it would likely drive down the value of their homes. One of the reasons there is so much scaremongering is that elites in places like New York and Washington, D.C., are disproportionately represented in this 5 million. Many of these elites would probably be surprised to learn that the median value of owner-occupied houses was only \$140,000 in 2003, the most recent year for which data are available.

Admittedly, the tax breaks curbed by the proposal are larger than the new tax breaks. This is how it will add tax revenue and perhaps help fund an AMT fix. To the degree that the savings are plowed back into other tax cuts, some of the families losing their mortgage breaks might even see their taxes go down.

Extending tax benefits to so many people would, if anything, increase homeownership, albeit modestly. Curbing tax breaks at the top would not hurt homeownership either: The more affluent would just buy slightly smaller homes and borrow less against them. The effects on house prices are ambiguous and are unlikely to be very large. It is likely to drive up the median house price as more families could enter the housing market, while it would drive down prices at the top end of the market as richer homeowners lose their subsidy.

More important, the mortgage tax credit would end a tax system that discriminates between different homeowners and would make the overall burden of taxes more progressive. In effect, it would pay for a working-family tax cut by raising taxes on some high-income families. I can see why President Bush isn't rushing to embrace his commission's housing proposal, but progressives certainly should.

ii. A Green Tax Shift

More profoundly, a green tax shift will empower millions of green entrepreneurs to become wealthy by means of improving the environment, while penalizing millions of businesses that damage the environment. More importantly, a green tax shift will re-orient our economic growth towards more environmentally benign policies while

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increasing economic growth and thereby improving our standard of living.

Most people who are inspired by the desire to improve the environment are not focused on tax policy at all. They might be interested in ecology, or solar energy, or veganism, but tax policy is generally beyond the scope of their interests. And yet tax policy largely dictates how our society grows. Environmental education, which is often a combination of science, exhortation, and lifestyle advice, will never shift behavior as deeply or as quickly as will changes in tax policy. The vast majority of consumers and the vast majority of businesses make the vast majority of their decisions primarily on the basis of cost – and tax policy intimately impacts the price of every good and service in our society, and thereby influences every decision in our society.

Most importantly, this influence is invisible and insidious. We are acutely aware when we shop at Whole Foods Market rather than Safeway, we are acutely aware when we choose to cross-country ski rather than downhill ski, but it is invisible to us that millions of people decide to buy their homes because of a calculation that they can “afford” a given mortgage due to the mortgage interest deduction, or that chemical fertilizers are cheaper than industrial compost because the cost of their downstream impact is not included in the price calculations of thousands of farmers who have to earn a living, or that expenses for conventional medical treatments are tax deductible whereas expenses associated with healthy lifestyles and alternative medical treatments are typically not tax deductible. For those interested in cultural change, the focus is almost exclusively on the cultural aspect of the cultural change: How do we encourage more positive lifestyles? It is rarely realized the extent to which tax policy typically acts as an enormous anchor in the past, exacerbating cultural inertia and enforcing the old ways of life as a de facto standard.

At any given point in time, some set of entrepreneurial opportunities exist that are likely to provide a positive revenue stream, whereas there are other sets of entrepreneurial opportunities which might be more potent for making the world a better place, but which cannot yet provide a positive revenue stream – and thus which are impossible to create as self-sustaining enterprises for the time being. Many of those who regard capitalism per se as destructive by judging a particular manifestation of capitalism at a particular point in time don't realize that tax and regulatory policy largely dictate which set of entrepreneurial opportunities are viable and which not. Shift tax policy, shift reality.

For most people, again, the left-right poison prevents progress. What most people don't realize is that Hong Kong and Singapore, the two most free market nations on earth, also happen to be leaders in using land taxes to help their poor and prevent sprawl. While hardly eco-paradises, in both cases Hong Kong and Singapore are among the most “Georgist” of nation-states. Henry George was a nineteenth century progressive reformer who believed that ownership of land (and other natural resources) should belong to the people rather than the rich. As a consequence, he advocated a “single tax,” on land – but no tax at all on work, investment, or buildings. In modern terms, in a Georgist world the public would receive the benefits from land and natural resources, and yet there would be no personal income tax, no corporate income tax, no payroll tax, no tariffs or duties on the border, no tax obstacles to enterprise.

And yet by taxing the use of land and natural resources, one is protecting the environment. There are various subtleties concerning how this is best accomplished, but the point is that, in principle, by means of taxing only the use and abuse of the natural world, while eliminating all other taxes, we could fund public services while supporting an

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entrepreneurial world with far greater environmental stewardship.

Most economists regard the payroll tax as the worst tax of all, and taxes on income, investment, and capital gains as similarly damaging to the economy. Why tax entrepreneurial creativity when one can tax environmental destruction?

Green Taxes - Highlights

from the Sightline Institute

http://www.sightline.org/research/taxes/res_pubs/tax-highlights

Taxes are the DNA of the economy: invisible, cryptic, and awesomely powerful. And unfortunately, the tax system penalizes many of the activities northwesterners want more of--such as work, entrepreneurship, and investment, while encouraging activities that northwesterners want less of--such as sprawl and the waste of resources.

Tax shifting--an innovation implemented in a dozen European countries--means reducing taxes on paychecks and profits and replacing the revenue, dollar for dollar, with taxes on pollution, resource consumption, sprawl, and traffic. Phased in over years, tax shifts actually boost prosperity and enhance environmental and human health at once. . . Here are a few examples:

- Tax pollution, untax enterprise and work: Each year, northwesterners send billions of pounds of harmful substances into the region's air, water, and land--many of these end up in living things. Pollution taxes could raise enough money to eliminate most business taxes. And the infrastructure for pollution taxes is already sturdy enough to begin a decades-long transition.
- Tax resource depletion, untax income: Governments could trim income and sales taxes and make up the difference in revenue from levies on water, hydropower, timber, and minerals--activities that cause a disproportionate share of ecological degradation.
- Washington, for example--whose reliance on sales tax makes its system highly regressive--could cut its state and local sales taxes by one-third if it taxed natural resource-depleting activities.
- Tax sprawl, untax buildings: In every Northwest city, vacant lots and rundown, low rise buildings promote urban decay and push people out to the suburbs. Shifting the property tax partially or entirely off buildings and onto land would create a powerful incentive for investment in city and town centers and adjacent neighborhoods--revitalizing downtowns and reducing sprawl.
- Tax congestion, untax commerce: Governments build roads, but then don't charge drivers for their use. Lacking any price mechanism, urban drivers pay for road use with their time, by waiting in traffic. The solution? Transportation experts widely agree that "congestion pricing"--tolls that rise during rush hour--is the best answer.
- Spread clean technologies with "feebates": "Feebates" are point-of-purchase incentives that charge a fee for less-efficient products and given a rebate for more efficient ones. Best of all they create a snowball effect, systematically nudging the market toward cleaner designs.

iii. Property rights solutions to the preservation of environmental commons

In 1968 economist Garrett Hardin analyzed situations in which a “commons,” such as a fishery or water supply was used by many different people. His conclusion was that unless a system was devised to prevent over-use, a “tragedy of the commons” would take place in which they fishery would be depleted, a water supply would be overused or over polluted, or in which the global atmospheric commons would be over polluted. Hardin himself realized that reliance on personal conscience (or “value system” or “mind-set”) would not be adequate to secure such environmental commons for degradation.

It is increasingly being recognized that indigenous peoples often relied on property rights to ensure the sustainability of the natural resources on which they relied. This description of how the Alaskan Tlingits managed their salmon fisheries before the arrival of the white man is one such example:

House or family groups controlled access to locations where the sockeye could be caught, while the clan determined the fishing locations. Each group had exclusive rights to its fishing locations. When an outsider infringed on a location, the trespasser was required to compensate the owners or potentially face violent consequences.

The eldest clan male, the yitsati, generally possessed superior knowledge about salmon runs, escapement, and fishing technology and became the “custodian or trustee of the hunting and fishing territories”. He also assisted in parceling out goods that had been produced collectively to members of the clan. Rights initially could not be transferred to those outside the group. This allowed the exclusion of those who might not abide by customary norms.⁵

The important fact with respect to sustainability about this anecdote is that the Tlingits did not rely on a “value-system” or “mind-set” alone, but rather on specific institutions: a set of property rights and corresponding norms about transfer of those property rights.

In the tribal context in which we evolved, it made sense to influence those around us by means of persuasion and criticism. Just as we have an evolutionarily propensity to eat fats and sugars, so too we have an evolutionary propensity to criticize those who are engaging in harms to the community and to the environment. Indeed, in a tribe of 150 who lived their entire lives together, such criticism was an effective force for constraining behavior. But praise and blame, our natural tools for socializing each other, are no longer adequate tools as our communities become larger than the evolutionary tribe.

The Tlingit population of southeastern Alaska was about 15,000 at the time of contact with the white man. The “value system” or “mind-set” of their original culture had most likely been an inadequate means of managing the salmon fisheries for many thousands of years. There is a fascinating research showing that under many circumstances, people spontaneously develop norms for resource allocation; Robert Sugden gave this famous example in his ground-breaking article on norms, “Spontaneous Order,”

In a fishing village on the Yorkshire coast there used to be an unwritten rule about the gathering of driftwood after a storm. Whoever was first onto a stretch of the shore after high tide was allowed to take whatever he wished, without interference

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from later arrivals, and to gather it into piles above the high-tide line. Provided he placed two stones on the top of each pile, the wood was regarded as his property, for him to carry away when he chose. If, however, a pile had not been removed after two more high tides, this ownership right lapsed (...)

No doubt, many generations in the past, the Tlingit began to involve norms for fishing salmon fishing rights much as the Yorkshire villagers had evolved norms for driftwood gathering.

Formal property rights, now enforced by law throughout most of the world, are an essential pre-requisite to the large scale, complex societies in which we now live. These property rights originated in tribal customs, but have since been integrated into our current system of legal documents, courts, and policing.⁶

There is a sense in which all of our environmental challenges are the result of the fact that property rights solutions, similar to what the Tlingit independently discovered thousands of years ago, have not been created rapidly enough to keep up with the pace of economic growth and population growth. This does not mean that such solutions are not possible; it simply means that we need to focus our energies on creating such solutions.

In order to get a sense of how such solutions might work in the modern world, and what new institutions need to be created, let's look at some recent institutional innovations in contemporary fisheries management. In order to see the power of well-designed institutions, it is worth reviewing the history of Alaskan halibut fisheries, which show the dramatic contrast created by good institutions:

The Alaskan halibut fishing season once lasted for almost ten months. When regulators decided that overfishing was a problem, they began reducing the length of the season. Before long, however, the season was down to 48 hours, with almost no change in the amount of fish caught. The motivation to catch as many fish as possible, as quickly as possible, remained, and so ingenuity and technology overcame restrictions.⁷

I happened to live in Homer, Alaska, when the halibut season was 48 hours long. Thousands of fishermen, owning hundreds of millions of dollars worth of big, fast, fishing boats with sophisticated fishing detection equipment would prepare for weeks for the race to the halibut grounds. Although most of them had other jobs or participated in other fisheries at other times of the year, the halibut fishery represented a significant portion of their annual income. Their families depended on them to get out there fast and catch as much as they could.

The result was grim:

To take advantage of this narrow window, crews went out for 48 consecutive hours, working through the night and - at times - in dangerous weather conditions. Boats and lives were lost. With no time to waste, crews wouldn't bother struggling with tangled long-lines. They would simply cut them loose and cast new ones, even though the old lines continued to lure and kill fish (a destructive process known as "ghost fishing"). There was no time to sort each haul either, so undersized halibut and other species that would normally be released were torn apart and thrown overboard dead or dying. "Bycatch," as these innocent victims are called, is always an environmental cost of fishing, but this cost escalated significantly during the 48-hour season.⁸

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Millions of tons of fish were simply left in the water to rot, the sort of sickeningly wasteful behavior reminiscent of the massive buffalo slaughter of the 19th century. In the eagerness to get their way, fishermen would sabotage each other's boats, shoot at each other when another boat came near them, and cut each other's fishing lines, thus wasting more fish in the horrid feeding frenzy.

It is very important to realize that this wasteful and vicious behavior was not caused by "western civilization," or "capitalism," or "value systems," or "mind sets." It was caused by poorly designed institutions – a lack of property rights in the halibut fishery. In 1995, a system of property rights in the halibut fisheries was created based on "Individual Transferable Quotas" (ITQ) whereby a total limit of 37 million pounds of halibut to be caught each season was allocated among existing fisherman based on a complex (and controversial) system of historical catch.⁹ The ITQ could then be traded, though it remained a provisional privilege granted by the government rather than a real property right.

Immediately after the ITQ system was implemented the insanity of the halibut fisheries came to an end. Again, the fishermen's behavior did not change because they had a new "value system" or "mind-set." It changed because they faced far more sensible incentives. After the ITQ system was passed, they halibut season once again extended to months and fishermen settled into less wasteful practices. The beliefs or personalities of the fishermen had not changed.

Critics of the halibut fishery in Alaska after ITQ point that the Alaska fishermen are still not pro-actively investing in the fishery. But once again, the problem is not values, mind-sets, or beliefs: it is flawed incentives. New Zealand hoki (a flaky whitefish that is New Zealand's most important fishery) fisheries have combined a more flexible ITQ market (closer to a real property right) along with weaker anti-trust laws (fishermen cooperating on ITQ shares would violate U.S. anti-trust law); as a result the hoki fishing community has been more proactive. Because the hoki fishermen have secure property rights, a futures market in ITQs had developed, and because it is in the fisherman's long term interest to increase the value of the ITQ, they now have an incentive to preserve the fishery.

After the system was established, the hoki fishermen collectively decided to catch 50,000 metric tons less fish than the government proposed not because they had become environmentally enlightened, but because such a decision increased the long-term value of their fishery. Because of these well-designed institutions, there is every reason to believe that the hoki fishery is now sustainable; the fishermen are proactively committed to ensuring that sustainability.

At the most mundane level, people like the Alaskan halibut fishermen do not regard themselves as bad people – they are just ordinary folk out to earn a living. Again, the problem is not extraordinary greed (among the Tlingit or the halibut fishermen) but merely ordinary people engaged in ordinary behavior.

Environmental Trusts: A Property Rights Solution Beloved by Environmentalists

For the past forty years, we have thus been stuck between a rock and a hard spot: Economists point out that the government is reliably poor at managing environmental

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assets, and environmentalists point out that corporations are sometimes actively destructive of environmental assets. It appeared to be a choice between a long slow death of all public assets via government vs. random destruction of some percentage of those assets that had been privatized.

Gus Dizerega, Randal O'Toole, Peter Barnes, and others have recently developed a fundamentally new strategy that brilliantly reconciles the best solution in terms of overall long-term sustainability, property rights solutions, without allowing for the occasional total destruction that had prevented environmentalists from previously embracing outright privatization as a solution. In Barnes' version, an environmental trust is created which has a legal obligation to preserve the environmental asset in perpetuity, and if the trustees fail to fulfill the conditions of the trust, they may be sued (if the Forest Service pays to clear-cut all our national forests, they couldn't be sued).

Moreover, any revenue derived from the environmental asset would go directly to the citizens via a Citizen's Dividend, modeled after the Alaska Permanent Fund. For several decades now, oil revenues from Alaskan state lands are put into a trust and each Alaskan citizen receives a check from the fund (it ranges in value each year, but has often been around \$1,000 per year). Thus Barnes' vision of environmental trusts has the virtues of simultaneously creating incentives for responsible resource management as well as sharing any monetary value from the asset directly with the relevant set of citizens.

At present, land trusts are common, and there are also a few water and aquifer trusts. But Barnes' idea could be applied to any environmental asset including, in principle, the global atmosphere – his book *Who Owns the Sky?* proposed a global Sky Trust to solve climate change. In principle there could be specific environmental trusts for national parks, national forests, rivers, lakes, aquifers, the ocean, regional air quality, and the global atmosphere.

There could be habitat trusts that were designed to protect specific habitats that crossed various geographical features; a salmon habitat trust, for instance, could have a functional property right that gave it control over, and responsibility for securing, salmon habitat both at sea and in the spawning rivers. If a farmer wanted to build a bridge across a salmon stream, instead of dealing with government regulators she would negotiate with the salmon habitat trust to determine what features the bridge, and its construction, would need to have so as not to interfere with salmon spawning. If pesticide run-off from farms was damaging the salmon eco-system, the salmon habitat could sue those farmers responsible for the pesticide, or in urgent circumstances get a cease-and-desist order. Although this sounds hypothetical, bass fisherman's organizations have sued polluters in order to preserve water quality in bass fishing streams and rivers. Habitat trusts would ensure that not only those species that were popular to an existing interest group, such as bass fishermen, but any species that we wanted to protect, would have a legal advocate.

Capitalism, Commons, and Divine Right

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THE ROLE OF TRUSTS

When we think of capitalist institutions, the one that immediately comes to mind is the corporation. But there is another institution that is as old and as firmly established as the corporation, and that is the trust.

The essence of a trust is a fiduciary relationship, i.e., one that is based on the beneficiary's confidence in the trustee. A trustee holds and manages property for another person or for many other people. A simple example is a trust established by a grandmother so that her grandchildren will have money to go to college. She then appoints a trustee, a bank for example, which by law has a fiduciary responsibility to manage the assets on behalf of the beneficiaries and to assure that the trust's purpose is achieved. Other trusts include pension funds, charitable foundations, and university endowments.

The rules of trust management, which are defined by state statutes and by centuries of case law, include the following:

- Managers must act with undivided loyalty to beneficiaries. If a manager fails this obligation, s/he can be removed and penalized.
- In most cases, managers must preserve the principal. It is acceptable to spend income but it is not acceptable to invade the corpus.
- If the beneficiaries of a trust span many generations, the trustee may not favor one generation over another.
- Managers must assure transparency. Information about money flows must be readily available to beneficiaries.

These rules are enforceable by the courts. The basic mechanism is that an aggrieved beneficiary can bring suit against a trustee, and the trustee must then prove that s/he acted prudently to carry out the mandate of the trust. This is in contrast to the state: the government can give away whatever it wants with impunity. There is no legal recourse, except on rare occasions; the politicians have a free hand.

If we were to design an institution to protect pieces of the commons, we couldn't do much better than a trust. The goal of commons management, after all, is to preserve assets and deliver benefits to broad classes of beneficiaries. That is what trusts accomplish.

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What, then, can we say about the state's capacity to serve as a commons trustee? In theory, the state represents all citizens equally and should be able to protect our common assets. But in reality, the track record of the state as trustee of the commons has been far from exemplary. There are at least five reasons for this:

1. The elected officials who run the state do not have a long-term perspective. Just as corporate leaders are focused on the next quarterly statement, political leaders are focused on the next election. They like to please constituents here and now, not worry about future generations.
2. Elected officials, alas, need money to get re-elected. It is tempting to trade common assets for private campaign contributions.
3. Elected officials are not accountable to beneficiaries in the same way private trustees are. They can give assets away with virtual impunity whereas private trustees, because of their fiduciary responsibility, cannot.
4. The state and its leaders have many other things to do besides manage common assets. It's easy for this task to get neglected.
5. The state's finances are huge and complex. All sorts of funds are commingled. It's extremely difficult for the public to track money from common assets or to ascertain whether these assets are being well managed.

Many of my liberal friends get nervous when I make these arguments. They think I'm aiding and abetting those conservatives who believe the state is always incompetent and the market is always right. So let me be clear that this is not what I'm saying. At heart I am an old New Deal liberal. I believe in limiting corporate power and in achieving a fairer distribution of income and property, but I am a pragmatist when it comes to the means to achieve these ends. I think the state is good at some things and not good at others.

When it is a matter of defending the commons, the state does have a critical role to play. That role is not to own and manage the commons directly but to assign common property rights, to nurture the commons with as much vigor as it nurtures the market, and to maintain a healthy balance between the commons and the market. The problem today is that the state has abandoned this balancing role and has become a single-minded champion of the market. This is what we must change.

The Unlimited Resource

The only unlimited resource is human initiative and imagination.¹⁰ Therefore the most important thing not to tax, and not to limit without good cause, is our ability to create, innovate, and enterprise. No human being has any idea what all transformations would take place in the economy if, say, gasoline was \$10 per gallon due to a carbon tax. It could be that a low-carbon bio-fuel would be developed that completely eliminated our dependence on oil while having very little impact on our way of life. Or it could be that we would develop entirely new building techniques, entirely new recreations, or entirely new lifestyles. It could be that some aspects of our way of life might change very little, whereas other aspects, that right now seem trivial, might change dramatically.

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Everything we buy is produced through a long chain of decisions involving the cost of energy, but even this information does not allow us to predict how life would be different if energy costs changed. At any point in that long link there could be innovations in production, design, relative cost of inputs, or otherwise that could lead to either an increase or a decrease in the final cost of a product. Current guesses regarding what products and services are likely to be “sustainable” are really just guesses. While in the short term, with modest changes in energy costs such guesses may have some validity, in the longer term with larger changes in energy costs no one knows.

For this reason as well, it is important that proposed changes be based on “taxing harms” rather than “subsidizing goods.” As we saw above, a subsidy for an alternative fuel today is likely to survive for many decades, regardless of whether or not that particular alternative fuel is actually an improvement on our present fuel system. This is why the existing ethanol subsidies, really agribusiness subsidies, rightly make many people uncomfortable. There is every reason to believe that corn growers and agribusinesses will promote the idea of ever increasing subsidies in perpetuity despite the inefficiencies of corn ethanol.

In the meantime, it is important for the sustainability movement to support the movement towards green innovation. Worldchanging.com, leading innovators of the concept of a bright green future through innovation, recently published a book, also titled Worldchanging, that includes 600 pages of “bright green” innovations. Their website offers extraordinary access to many thousands more examples. In the language of Alex Nicolai Steffen, Worldchanging’s founder:

With climate change hard upon us, a new green movement is taking shape, one that embraces environmentalism’s concerns but rejects its worn-out answers. Technology can be a font of endlessly creative solutions. Business can be a vehicle for change. Prosperity can help us build the kind of world we want. Scientific exploration, innovative design, and cultural evolution are the most powerful tools we have. Entrepreneurial zeal and market forces, guided by sustainable policies, can propel the world into a bright green future.¹¹

Steffen is correct. Entrepreneurial zeal and market forces, guided by sustainable policies, can propel the world into a bright green future.

Al Gore gets this:

Free market capitalist economics is arguably the most powerful tool ever used by civilization. As the world’s leading exemplar of free market economics, the US has a special obligation to discover effective ways of using the power of market forces to help save the environment.

In the short run, we need a transpartisan consensus to create a successful Green Scissors campaign, so we quit using taxpayers’ money to destroy the environment. This will shift prices slightly towards a more sustainable future.

In the medium run, we need a green tax shift that will more completely align day-to-day decision-making for all with environmental sustainability while simultaneously liberating the economy from harmful taxes. This, too, can be based on a transpartisan consensus by means of a forthright appeal to reduce or eliminate taxes on work, effort, and investment.

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And as we are working on these provisional approaches, we also need to begin working on a long, steady movement towards lasting property rights solutions to environmental problems, including either privatization or environmental trusts for all land, water, air, and habitats that we want, or need, to preserve. Once these private solutions have been established, and government is no longer involved in managing environmental assets, we will then have created a permanent foundation for a bright green sustainable future for all.

C. Global Peace and Prosperity

At present, the world's poorest four billion people don't have access to property rights, rule of law, and economic freedom. This is why they are poor. Once they have access to a world-class business climate, they will rapidly become engaged in positive entrepreneurial activity, poverty will vanish, and the pressures that lead to violent conflict will gradually diminish.

Poor legal infrastructure, combined with arbitrary obstacles to economic freedom, is the leading cause of poverty on earth. Hernando de Soto has shown that it often takes a year or more of full time work and thousands of dollars to legally create a business in much of the developing world. The Fraser Index of Economic Freedom, which is based on objective measures of data, shows that Scandinavian nations, often regarded as "socialist," regulate business less than any developing country.¹² If every developing nation had been as "free market" as Dubai, Hong Kong, or even Finland or Denmark, for the past forty years, there would be no more poverty on earth.

The 2007 Economic Freedom of the World Index includes a ranking of those nations on earth which regulate business least:

1. Finland
2. Iceland
3. New Zealand
4. Denmark
5. Singapore
6. Sweden
7. Norway
8. Hong Kong
9. Canada
10. Australia

The U.S. is 16th. These rankings are based on objective third party data. The seventeen nations that regulate business the most:

- 120 Niger
- 121 Lesotho
- 122 Madagascar
- 123 Egypt
- 124 Mali
- 125 Haiti
- 126 Nigeria
- 127 Chad
- 128 Central Afr. Rep.
- 129 Mauritania

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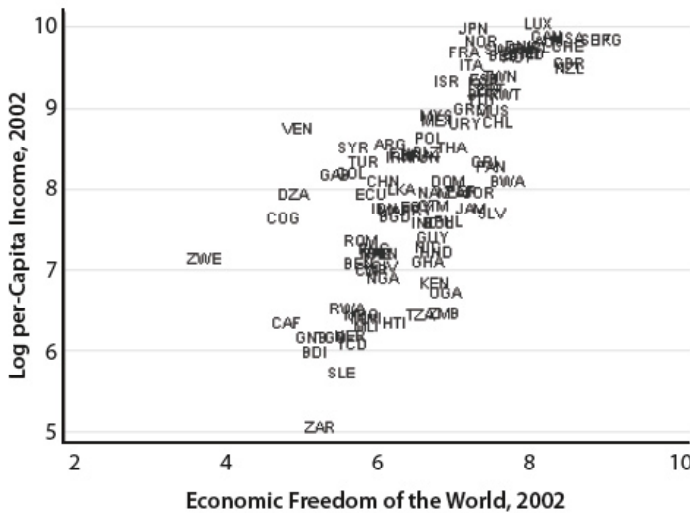
- 130 China
- 131 Zimbabwe
- 132 Congo, Rep. of
- 133 Cameroon
- 134 Venezuela
- 135 Congo, Dem. R.
- 136 Angola

One of the authors of the report acknowledged that their methodology does not work for China, because in China's free zones they are among the most free countries on earth (similar to Hong Kong) but that the rest of the country remains unfree. Other than China, Haiti (the poorest nation in the western hemisphere), and Venezuela (rapidly being destroyed by Chavez), the nations that regulate business the most are all African and all very poor (Cuba and North Vietnam are not ranked, but would be even lower).

The amount of business regulation is one component of economic freedom. Economic freedom is closely correlated with per capita income. The wealthiest nations have the most economic freedom, the poorest nations have the least economic freedom. If we want to eliminate poverty, we need to increase the amount of economic freedom in poor nations around the world.

The following diagram, from William Easterly's article "Freedom vs. Collectivism in Foreign Aid," in the Fraser Institute Economic Freedom of the World: 2006 Annual Report, shows the correlation between per-capita income and economic freedom:

Figure 2.2: Economic Freedom in the World, 2002, and Log per-Capita Income



Few correlations in the social sciences are as clear-cut as is the correlation between economic freedom and prosperity.¹³

In the past forty years Hong Kong and Singapore have gone from poor to rich by means of economic freedom. It is worth recalling that in 1960 they were both poorer than most

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African nations, and now Hong Kong has one of the highest GDPs per capita in the world, exceeding that of both Switzerland and the UK. Singapore's is now higher than that of Germany and Japan. In the last twenty years Ireland and Estonia have gone from poor to rich by means of economic freedom; in 1990 Ireland was the second poorest country in the EU, and now it is the wealthiest. In 1992, after the collapse of the Soviet Union, Estonia's GDP per capita was 30% of the EU average; it is now 65% of the EU average and converging fast. Any nation on earth could become wealthy by means of increasing economic freedom to Hong Kong levels. But obtaining nation-wide policy changes requires unusually visionary leadership and greater cooperation across partisan lines than is usually possible at the nation-state level.

We consistently rely on the Fraser Index of Economic Freedom as the most objective measure of economic freedom available. Fraser measures economic freedom using publicly available data in five categories:

1. Size of Government: Expenditures, Taxes, and Enterprises
2. Legal Structure and Security of Property Rights
3. Access to Sound Money
4. Freedom to Trade Internationally
5. Regulation of Credit, Labor, and Business

Economic freedom empowers entrepreneurs to create their dreams, much as intellectual freedom empowers thinkers, scientists, and artists to innovate in their fields. In order to alleviate poverty and war, and to make the world a better place, we must learn to value economic freedom as deeply as we value freedom of thought and speech.

Entrepreneurs, Economic Freedom, and Wealth Creation

Entrepreneurs, when provided with an opportunity to do so, create wealth. In order to create wealth, entrepreneurs need secure property rights, enforceable contracts, and the freedom with which to manifest their visions. Based on the work of the Fraser Institute, I will describe this system of property rights, fair contract enforcement, and freedom as "economic freedom." Economic freedom is the fundamental tool of entrepreneurial creativity, as essential to the work of wealth creation as a camera is to a photographer or paints and paintbrush are to a painter. Given these tools, the amount of wealth that may be created through human ingenuity is unlimited.

Entrepreneurs also need the traditional inputs, labor, land, and capital. But speaking globally, there is abundant labor, abundant land, and for most practical purposes, abundant capital. There is no reason to suspect a shortage of entrepreneurial energy and, indeed, there are grounds for believing that by means of entrepreneurial education, mentoring, and ultimately the creation and dissemination of entrepreneurial culture that we can provide an unlimited supply of entrepreneurial talent. The single greatest constraint on wealth creation on earth is the shortage of economic freedom.

No jurisdiction with abundant economic freedom has remained poor. Economic freedom, including a well-designed legal infrastructure, allows creative individuals to build enterprises through which people's time and talents are organized so that they may provide value to other people. This enhancement of the value of the people results in increased earning power to the people. While the enhanced earning power may be small at first, every nation which has provided its people with economic freedom has seen a steadily increasing upward spiral in which more people are provided with more

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opportunities for greater earning power. In every nation with economic freedom, economic growth through entrepreneurial creation has ultimately resulted in a steadily increasing average standard of living.

This process took place in Britain and the U.S. in the 19th century, Holland, Germany, and Belgium in the late 19th century, and the rest of western Europe in the first half of the 20th century. It then took place in southern Europe, Japan, and the four Asian Tigers (Hong Kong, Singapore, Taiwan, and South Korea) in the second half of the 20th century. The process has taken place quickly in Ireland, Estonia, and Dubai in the past fifteen years. It is taking place now in China and India, Chile and Costa Rica, and to a greater or lesser extent in various other nations in Asia, eastern Europe, and occasionally in Latin America and Africa.

By increasing economic freedom we can alleviate poverty, and reduce the probability of violent conflict, anywhere on earth. By increasing economic freedom, we can create peace and prosperity for all.

Why is there a global shortage of economic freedom?

There are six intimately-related “belief obstacles” that are largely responsible for the global shortage of economic freedom:

1. The benefits of economic freedom are incremental and invisible, whereas the harms resulting from economic freedom are often sudden and visible.
2. The harms of government destruction of economic freedom are subtle and invisible, whereas the benefits of government action are often sudden and visible.
3. Popular media, to sell content, and politicians, to get votes, each amplify the informational asymmetries of points one and two.
4. Interest groups have a vested interest in protecting their own turf by destroying the economic freedom of others and by working with media and politicians to do so, as well as supporting the amplification of harms due to economic freedom and the benefits due to government action.
5. Academia, intellectuals, educators, and the creative classes have, for the most part, been bigoted against economic freedom for more than a hundred years.
6. The same group has been, for the most part, blind to the process and value of entrepreneurial creation.

Due to these obstacles, economic freedom nearly vanished in the first half of the 20th century. But fortunately the second half of the 20th century saw a steady revival of interest in, and commitment to, economic freedom. We have seen a steady increase in the supply of economic freedom since the 1970s, in particular.

That said, much of humanity remains poor, war remains common, and many people in the developed world are clearly unhappy. Despite the welcome increases, we still have a dramatic shortage of economic freedom. For the sake of the world's poor, we need to increase the supply of economic freedom.

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Once we surmount the “belief obstacles,” how do we increase economic freedom?

In addition to the foregoing “belief obstacles,” core elements of economic freedom, including secure property rights and the rule of law, are social institutions that often take time to develop, even when thought leaders are supportive of their development.

There are two basic strategies for increasing the supply of economic freedom:

1. Policy change within nation-states.
2. The creation of islands of economic freedom, typically by means of creating privately-managed free zones within nation-states.¹⁴

For the sake of the poor, the ongoing effort to increase economic freedom by means of policy change should continue. There is evidence that thought leaders are becoming increasingly sympathetic to increased economic freedom. Unfortunately, even when and if economic freedom gains the moral high ground among thought leaders, policy changes that increase economic freedom will still face opposition based on self-interest.

Because special interests will be opposed to economic freedom even once the moral battle has been won, in most nations it is likely to remain easier to create islands of economic freedom by means of free zones than it is to create changes at the nation-state level. In addition, the private creation of jurisdictions with secure property rights and rule of law will accelerate the creation of economic freedom in those nations currently lacking in property rights and rule of law.

Well-designed free zones, which through government concessions are authorized to provide high quality legal infrastructure within a designated geographical area, provide for rapid wealth creation by means of creating appropriate economic freedoms and legal safeguards within the designated area.¹⁵ Taiwan and South Korea both moved from poor to rich in the past forty years due to special economic zones. In the past fifteen years Dubai has grown from nothing to become the leading commercial center in the Middle East by means of free zones. China’s global manufacturing dominance was sparked by the creation of coastal free zones modeled on Hong Kong. Any region on earth can become wealthy by means of increasing economic freedom by means of world-class free zone concessions. Indeed, insofar as most of the developed world has less economic freedom than Hong Kong, the overall logic described here applies as well to poor regions within the developed world, though because the discrepancy is much less we would expect the beneficial results to be considerably more gradual.

Finally, the creation of such islands will accelerate the rate of increase of economic freedom by means of policy change within nation-states due to both competition from, as well as the positive desire to emulate, the successes of such islands of freedom. Successful islands of freedom will attract both capital and, more importantly, human talent. In order to compete nation-states will have to increase their supply of economic freedom. In addition, the greater dynamism, happiness, and well-being of jurisdictions with economic freedom will encourage both returning emigrants and existing citizens to support, or even advocate for, increased economic freedom in their homelands.

“Is Economic Freedom for Everyone?”

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by Hernando de Soto
Excerpt

You Americans began your revolution somewhere about 1811, creating the wider possibility of having business organizations—the first one was in New York—formed without authorization of government or Congress if it had to do with wool or with cotton or with other materials. Pennsylvania followed in 1836 and then Connecticut in 1837. In 1860, about 14 states had general incorporation acts, but it was only at the end of the 19th century that in the United States anybody could form a company and get people together in a productive enterprise.

We think that that was absolutely crucial to the great U.S. economic success story: If you do not have companies—that is to say, the possibility of associating people with different specialties that may not be part of your family—you're not going to be able to produce those 48,000 pins of Adam Smith. You're going to be forced to work within your family. So if you open up the market and there are enormous possibilities but you're not given the legal tools to organize and cope with the information that comes from the market, the market's going to overwhelm you. This is what's happening today in developing countries and many former Soviet Union countries, where most people are not organized to create a complex organization that allows them to discriminate this enormous amount of information the market produces and detect just what they need to build a product and then get it all together in one place—a legal company that now has the legal tools to grow productively and expand into wider markets beyond family and acquaintances.

... The main characteristic of the advent of the market is the downfall of the traditional patrimonial and feudal institutions, which were like a rope pulling us into one direction, the state and the people. We're now realizing that to be able to honor the division of labor, we don't need a rope but fine threads that unite us not to government, but to the rest of society. Those fine threads are legal instruments—such as contracts, property rights, and especially the means to create more productive business organizations.

... So our question at the Inter-American Development Bank and as we went down the west coast of Latin America from Mexico to Argentina was how many Latin American companies have any of these qualities: the property rights, the asset shielding, the capacity to issue shares, etc.? And the reply is 8 percent. In other words, when we sign a free trade agreement with you or you sign it with anybody in the world, you are signing with 8 percent of the businesses in those countries. The other 92 percent are the people who don't understand how you get at that large swirling mass of the universe which people call the market, because they don't have the legal tools to get into the market or the identities or the contracts with which you can actually globalize.

The first thing you have to do if you are going to get into international trade is to fill in a bill of lading on an airway bill. You're going to have to fill in the first thing, which is your name. I'm going to say de Soto. What's your address? Well, what happens if most of us Latin Americans don't have official addresses? We can't even fill in the second line. It's a totally alien world. You can't do without the companies. And that means that in the field of research, which is where we're really at, we have forgotten how important it is to have instruments, legal instruments, to allow us to put things together. We've lost respect for those things.

There used to be a time when we knew that things which in themselves didn't look like they had much value but that held things together were extremely important. For

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example, as I was reading the other day, Thomas Jefferson wrote a letter to a friend who had asked what he was doing. He said, first of all, I've got various family responsibilities. In my family, to begin with, I am the nail maker. In those days, making nails was very important because that's what held the houses together. That's what held carriages together. We hadn't yet learned how to make nails by cutting wire, so nails had to be forged and made right, and they had to have a certain type of sharpness to put things together. They were so valuable, as a matter of fact, that the whole history of your conquest of the West is about people making log cabins, advancing a few miles or a couple hundred miles, and then deciding to move further west—and then they burned down the log cabin just to recuperate the nails.

Things that fasten and bind other things together are always very important things. And all those legal instruments I'm talking about are nails. Per se, they're not particularly dramatic, but they actually help you put things together. They may not give you the shape of things, but without them, you cannot put things together. And if you look around this room, there is not one thing here that has been built by one person. Everything has required thousands of persons.

There is this wonderful Leonard Read example of how many companies it actually takes to put together a simple pencil, which has got wood or cedar from Oregon, which has got graphite from Sri Lanka that's wedged down with candalia wax from Mexico and sulphuric acid from France. All of that takes about 1,600 companies. Before you were able to put the wood together with the graphite, you had to get the owners or the people who are going to deliver these goods, their hopes, their beliefs, their promises, their statements onto enforceable statements or that wasn't going to work. The law had to work, and that is essentially business law. . . .

So are we all ready for freedom? The reply is, yes, we are. We just haven't all picked up on it. . . .

. . . In effect, when the United States and other Western European countries began creating companies, they were creating the devices that allow you to process the information and that allow you to make sense out of huge, unruly markets. What brings the rules into place are essentially what companies have got, which is business law and property law. That's what allows you to pass from a society based on uniqueness to a society based on individuals.

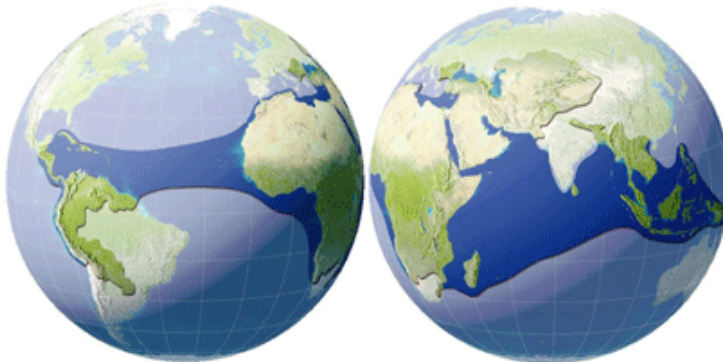
Interestingly enough, we have looked at this with a very recent friend of ours, Ashraf Ghani, who is the Chancellor of Kabul University and before that the Minister of Economy and Finance of Afghanistan. We are trying to form a coalition of Third World universities so that we can figure out how we create a career path for people that are concerned with this eclectic science of connecting law to local customs, which we think is the missing link to make markets work and to make a Western-type order available to all countries. At that time, when we're able to deal with those things, we will then be able to establish a regime of freedom for the world.

So my reply to the question . . . —Are we all ready for economic freedom?—is that I'm convinced we are. What happens is that it's more difficult than we thought. It's a very sophisticated process. It has to be documented. It has to be taught. And once we do learn that it's not only about macroeconomic rules, but how people can get organized and are getting organized even in the most backward parts of the world, we will be closer to success.

The Urgency: A World of Peace or a World of War

The most obvious need is based on social justice. Those nations that have effective legal systems are pulling ahead of those nations that do not. In the meantime, a majority of the world's poorest people now have access to radio, television, or both. The world's poor have become hungry spectators of our extraordinary wealth. At the same time, few of them have access to accurate information concerning how a nation moves from poor to rich. Thus they are ready consumers of theories that appeal to envy, resentment, and hatred, propagated by demagogues and tyrants who use the carefully cultivated hatreds to support their power.

This is why U.S. military analyst and Defense Department advisor Thomas Barnett has created the



Barnett's explanation for the dark regions is succinct:

Show me where globalization is thick with network connectivity, financial transactions, liberal media flows, and collective security, and I will show you regions featuring stable governments, rising standards of living, and more deaths by suicide than murder. These parts of the world I call the Functioning Core, or Core. But show me where globalization is thinning or just plain absent, and I will show you regions plagued by politically repressive regimes, widespread poverty and disease, routine mass murder, and—most important—the chronic conflicts that incubate the next generation of global terrorists. These parts of the world I call the Non-Integrating Gap, or Gap.¹⁶

Barnett portrays a world in which the developed world, whether or not the U.S. is involved, is constantly attacked by terrorists and is either involved in wars or is ignoring wars in the Gap. And “ignoring wars” is not a benign option; the deadliest war since WWII took place in the Congo from 1998-2002, and more people have died in African wars in the past fifty years than in all other wars on earth. Reality is very grim for billions of people in these nations.

Moreover, even those nations included by Barnett in the “Functioning Core” are not necessarily secure from mass violence. The possibility remains of mass violence in China,

India, or Brazil, based in mass poverty and persistent inequalities. Closer to the U.S., many observers were rightly concerned that the close election in 2006 in which Mexico City Mayor Obredor refused for six months to concede electoral victory to President-Elect Calderon could have resulted in mass violence. Existing U.S. concerns over illegal immigration are nothing compared to what would take place if civil war broke out in Mexico. It is in everyone's interest to work towards a capitalism that works for all, around the world, as quickly as possible.

It is important to note that whatever benefits that may result from foreign aid, public and private, there is no evidence that any magnitude of foreign aid will result in sustained economic growth in the absence of improved legal frameworks. To be blunt, in the absence of improved legal institutions that support greater economic freedom, both public and private generosity will not provide the world's poor with sustained hope for a better future. Aid and charity may provide temporary comfort, and should be supported in those situations in which it is providing such succor, but there should be no illusions regarding the long-term ability of aid to transform economies.

At the extremes, we face two versions of the 21st century:

1. One in which the great mass of humanity is raised to the standard of living of the developed world in a generation or two, and in which the world's poor are aware of some member of their extended family that is benefiting from the rapid economic growth, thus providing them with direct experience of hope.
2. One in which billions are left out, watching our wealth from their televisions as they experience suffering and death all around them, with generations of despair willing to die violently, or kill proudly, rather than suffer impotently.

We must work together to ensure that the first version is our shared reality for the future.

Women's Empowerment Free Zones

by Michael Strong and Mark Frazier
Excerpt

Throughout the developing world, after a piece of land has been designated as a free zone with Singapore- or Hong Kong-class business climate improvements, the value of the land climbs by 500% to 3,000% or more. A plot of land that was worth a million dollars at the outset can rise to five million and thirty million in value following introduction of credible, world-class incentives and institutional practices. From four to twenty-nine million dollars may be created in a short interval due to the increased confidence in a secure legal environment for business. The amounts vary based on particulars of the situation, and it takes time for the higher values to be achieved; businesses must come to trust that a world-class business environment has been securely established before they begin competing to get into the free zone, the factor that drives up land prices. In the San Isidro free zone in the Dominican Republic, land values rose 2,000% after the land was freed of taxes, customs duties, and telecommunications monopolies. In Dubai and Freeport Bahamas, property value increases have been on the order of 8,000% over the initial 12-year period following introduction of free zone incentives. In Shenzhen, China, the World Bank has noted that the country's pioneering Special Economic Zone

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has attracted four million immigrants and led to annual economic growth rates averaging 34 percent throughout its first 15 years of operation. This compounds to a parallel rise in property values of at least 12,000 percent.

Consider the implications of this process of near-instantaneous wealth creation: Advocates of foreign aid claim that for \$160 billion per year we could eliminate poverty. Developed world governments then engage in extended arguments over who will pay how much. Moreover, as mentioned earlier, realistically \$160 billion per year in foreign aid would only eliminate poverty if policies in poor nations also changed. Indeed, there is evidence that unless foreign aid is very carefully invested, it can actually harm nations by supporting corrupt governments. Those of us who want to solve problems are frustrated by the endless political battles.

What if instead of lobbying governments to spend \$160 billion per year in foreign aid, which may or may not do any good, we simply created \$160 billion per year – that went directly to local and regional women’s and children’s causes instead of into the hands of corrupt or ineffective governments – by means of Women’s Empowerment Free Zones?

The best way to ensure lasting revenue streams for women’s community trusts in a free zone project is to use a Build-Operate-Transfer (BOT) approach.¹⁷ BOT approaches have been successfully implemented in dozens of privately-financed, multi-billion dollar infrastructure projects (including power plants, airports, tollroads) in emerging economies. OpenWorld is now applying and extending these BOT precedents in toolkits for municipalities to launch private business and tech park projects benefiting from improved business climates in Eastern Europe. Under such BOT approaches, a free zone developer, who takes on most of the risk and initiative for making a business park or tech park a reality, starts with a 75% stake in the free zone in order to ensure adequate incentive to complete the legal process and build the infrastructure needed to attract business. The developer may be an experienced local organization, a multinational development firm, or an experienced free zone developer such as Dubai or Singapore. In addition, the governments that commit lands for the concession are also given a share in the free zone, say 15%, in order to incentive them to streamline and support the legal concession. This percentage may be complemented by a Singapore-inspired compensation strategy in which government employees are given bonuses in proportion to free zone economic growth to ensure they have an incentive to maintain a transparent business climate for firms of all sizes.

Phase I partners include the local business along with local and global educational institutions that organize a small “quickstart” demonstration area. They can be vested in the overall venture (including expansion areas) and its success by means of a 5% stake. It is important that the initial free zone partners include high quality educational partners, including innovative educational partners that support entrepreneurial culture and rapid development of core skill sets rather than traditional educational partners alone.¹⁸

The remaining 5% in this model is given immediately to women’s community trusts designed to provide funding for women’s credit organizations, domestic violence support, and vouchers for children’s education and health care. But a key element in the BOT design is for the percentage stake of the developer to steadily decrease over a thirty-year period, and the percentage stake of the community trust to steadily increase. To preserve the quality of the zone, it is important to keep the developer, governments, and Phase I partners vested at some level, say 35% of the equity. But after 30 years, the community trust could be receiving income streams that represent 65% of the equity of the free

zone.

Elements of this vision have become a reality; now it is time to integrate the pieces to create powerful changes that benefit all. We have already mentioned the economic growth due to numerous free zones around the world. ZonAmerica has proven that IT-based free zones can be as successful as manufacturing free zones have been, and the explosion of growth in tech and outsourcing will ensure that demand for world-class tech park free zones will continue to increase. Vinod Khosla, a founder of Sun Microsystems and one of the most renowned venture capitalists of Silicon Valley, estimates that within a decade remote services will be the largest industry on earth. OpenWorld has pioneered its BOT model for new business and technology park opportunities in Eastern Europe. Dubai and Singapore have proven that their free zone expertise can be transferred to other regions of the world.

D. Creating the Conditions for Flow for the Most Marginalized

The most important long range approach to creating the conditions for flow among the most marginalized in the developed world is to liberate entrepreneurs of happiness and well-being by creating economic freedom in education, health, and community formation. But many people are more concerned with material impoverishment among the marginalized in the developed world than they are with the happiness and well-being of the marginalized in the developed world. Thus here we will focus primarily on securing the material preconditions for a life of flow among the marginalized, and in the next section we will discuss the benefits of liberating entrepreneurs of happiness and well-being.

Globalization through economic freedom will provide extraordinary benefits for billions of the poor around the world. At the same time, it has the potential to make conditions even more challenging for the least skilled and least capable people in the U.S. and other developed nations. Unless governments improve circumstances for those in the developed world who must compete with those in the developing world, there will be endless political obstacles to creating global social justice by allowing the free global flow of goods, services, information, capital, and labor.

We propose two strategies for helping the poor in the developed world:

1. Reducing the costs and improving the quality of housing, health, education, and other essential goods.
2. Providing "Citizen's Dividends" that provide direct financial support.

The former is ultimately the most important goal. Unless and until we allow entrepreneurs to create endlessly improving housing, health, and education at steadily decreasing prices, we will be faced with chronically decreasing quality and increasing prices. Here housing along will be addressed in this matter. The section on happiness and well-being will touch on health and education, and future articles will explore these topics in greater depth.

The Citizen's Dividend option is not ideal because it does not address the more serious obstacles to happiness and well-being on the part of the poor. That said, there are ways to reduce the domestic challenges of globalization by means of direct financial support that do not thereby distort the economy or create self-serving bureaucracies.

As much as possible we want to remove individuals from the control of the custodial state. It is better to allow people to make their own decisions poorly, and thereby learn, than to have them become increasingly helpless and incompetent.

Getting Serious About Helping the Poor in the U.S.

By Michael Strong

Call her Ishmael.

She is on the margins of homelessness. Every month she begs friends and family for money to pay her rent. If she doesn't get enough, she will be kicked out. If she gets kicked out, she has no place to go. Her most likely option would probably be to find a man who would let her sleep with him. She might be able to turn such a situation into a relationship, or she might be able to fake a relationship for a while, or he might kick her out after he's had all the sex out of her that he wants. In either case, she has to start out all over again. At some point, she could easily end up on the street or working more or less as a prostitute.

She could hitch a ride out of L.A. and go live with a family member. She took in her niece a few years ago; perhaps her sister would take her in? Of course, her niece had run away from home because her father beat her regularly with a belt until she bled; he is not a nice man. Her sister, who had been sexually abused by their father (whom she accurately describes as having been "evil"), is out of her mind on a good day. Thus staying in that home would mean living with a physically abusive man who might well, given the state of her sister, decide that she is "lookin' good" some night after a few beers. Once again, "moving in with family" may mean having a roof over her head at the cost of being prey to a physically abusive sexual predator. If she is going to do that, she is better off picking up a stranger in a bar to whom she is at least somewhat attracted and who might not be abusive.

She has been looking for a job for eighteen months. She is signed up with a temp agency and has had various contract jobs. She has superb secretarial skills but a poor work history with frequent job changes. Despite her skills, she looks like a high risk to an employer. She has had a few brief temp assignments but not nearly enough to live on. At \$10 per hour, she would net about \$1300 per month if she got full time work. Her rent, however, in the L.A. area, is \$800 per month, almost 62% of her projected income. At the California minimum wage of \$6.75 per hour, she would net about \$900 per month, in which case rent would take 89% of her income. When middle class families seek mortgages, they are told to budget no more than 30% of their income for the mortgage. For low wage earners, housing is the budget killer.

There are places advertised in the L.A. area in the \$400-500 per month range. She has bad credit, no steady work, and no money for a deposit, so she is not eligible for a real apartment. Most of the super low-end rents are either in dangerous neighborhoods or are apartment share situations. As a single woman, she is not eager to live in a dangerous neighborhood. At some point, rooming with another person may be again a necessity for her. Someone with a nice room they are renting cheaply is apt to be picky about who they choose. They may not want to pick an uneducated middle-aged woman with a poor work

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history.

If she is able to find a rental for \$400, and is able to keep a job that pays \$10 per hour, she will then have gotten her housing budget down to 31% of her income. Those of us not worried about where to sleep next week can cheerily say “Well I hope she gets it!” and go on with our lives.

Conservatives might say: “Well, she shouldn’t have left so many jobs! She should try harder!” These exhortations do nothing to help her.

Progressives want to pass living wage laws to force employers to pay more and rent control laws to force landlords to charge less. As a high-risk employee and prospective tenant with no steady income, Ishmael is precisely the kind of person who would be most seriously harmed by such policies. Any employer, for profit or non-profit, will become even more cautious about hiring high-risk employees if they have to pay higher wages. And rental units in a rent controlled market will most certainly go only to those prospective tenants with a good credit history. Thus such so-called “progressive” policies are more likely to leave her homeless or in the bed of an abusive man.

Up until the 1970s, Single Room Occupancy (SRO) hotels provided cheap housing to those who could not obtain an apartment, either due to a lack of income or a bad credit history. They were often merely a room, with a shared bathroom down the hallway, but they were cheap. The waves of homelessness that began in the 1980s are the direct result of “urban renewal” movements that eliminated the “unsightly” SROs. Zoning laws, passed by self-righteous advocates for the poor, required a bathroom (and various other improvements) in every living unit.¹⁹ The residential hotel, at a much more costly \$800 per month in L.A., is the new result.

Harvard economists estimate that at least 40% of increased housing costs since the 1970s are due directly to regulation and another 50% may be due to increased housing quality (in the case of housing for the poor, much of this increase may also have been a by-product of regulation). Only 10% of increased housing costs appear to be due to increased land values, and construction costs have actually decreased. Housing costs on the whole have increased 72% since the 1970s. Ishmael’s \$800 room might have cost less than \$500 were it not for increased housing regulation. But we can do better than that, and for the sake of the American poor we must do better than that.

In many states and municipalities, labor unions and contractors alike have supported specific codes that required specific (and costly) building practices to be followed; in Chicago, for instance, the plumbers union supported a building code that required that lead pipe be used long after it had been shown to cause brain damage in children because they made more money than they did by installing plastic pipe. Many European building codes are more open-ended, and stipulate performance standards rather than specific materials and building practices. This allows for greater innovation.

Manufactured housing, where allowed, provides for dramatically cheaper construction than is usually possible through site-built housing. Migrant agricultural workers in Florida pay \$15 per month for lodging in trailers. The median family income of renters of manufactured homes decreased in constant dollars from \$19,000 in 1974 to \$15,000 in 1993 (again in constant 1993 dollars).²⁰ The median family income of owners of such housing is \$20,000. This is the range at which minimum wage earners can afford housing. At present such options are often only available in rural areas.

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What if manufactured housing techniques were allowed for high-rise apartments, using cheap materials, with units manufactured in Mexico or China? What if we had a Wal-mart of housing producing millions of affordable units and bringing prices down industry-wide? The price decreases caused by Wal-Mart alone have saved the average individual consumer almost \$900 per year since 1985.²¹ If we allowed for innovative design using new materials costs might dramatically decrease.

We don't know what such an industry would look like or what kinds of cheap housing could be created. Chicago's Field Museum had an exhibit last year titled "Out of the Box: Design Innovations in Affordable Housing" in which some of the world's top designers created elegant models for manufactured housing. As Roberta Feldman, the curator of the exhibit points out:

It would be very expensive to produce a prototype of many of [the innovative home designs]. At this point they read like boutique housing, but it doesn't have to be boutique if it were produced in large numbers. The Model T Ford, if they only produced one or a hundred, would have cost a fortune. . . . Maybe we should be questioning why we're not building houses the way we build cars.

And then she acknowledges that unnecessary regulation prevents the economical mass production of these units.

I realize that regulatory analysis doesn't have the visceral moral satisfaction that people seem to get from shouting about living wages and rent control, but for Ishmael the implications of intelligent housing policy might just come down to whether or not she gets to keep her body to herself so that she doesn't have to sleep on the street. Maybe some of us will have to use our minds so that others don't have to let their bodies be used.

How to end poverty while reaching out to left and right

Mark Satin

Author of The Radical Middle Online Newsletter, and of
"Radical Middle: The Politics We Need Now" (Westview / Perseus, 2004).

Poll after poll has shown that Americans would do something significant to end poverty -- IF that something were affordable and offered some possibility of real success.

But nobody seems to have an approach that's viable and affordable now; and the approaches all seem to occupy different and fiercely competing ideological paths:

- The Rich-Uncle-State Path, favored by radicals such as those in Randy Albelda and Ann Withorn, eds., *Lost Ground* (2002). Would provide ever-more people with ever-increasing amounts of welfare, few questions asked. Downside: cost. Also, encourages dependency, as innumerable studies have shown.
- The Nanny-State Path, favored by liberals such as Peter Edelman (former Assistant Secretary of Health and Human Services under Clinton) and Michael B. Katz (author of *The Price of Citizenship*, 2001). . . . Would provide a wide variety of carefully crafted economic benefits and social services to "qualified" poor people -- a much

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more targeted approach than that of the radicals, above, but (downside) for that reason arguably even more bureaucratic and expensive.

- The Daddy-State Path, favored by big-government conservatives such as those in Lawrence Mead, ed., *The New Paternalism: Supervisory Approaches to Poverty* (1997). The subtitle says it all. Would put tough-love conditions on welfare (e.g., drug testing or attending night school) in order to improve poor people's lives and teach middle class values . . . or at least enforce public order. Downside: cost. Also, is social engineering desirable, or even possible in a heavily bureaucratic context?
- The Absent-Parent-State Path, favored by libertarians such as Ed Crane of the Cato Institute and -- until recently -- Charles Murray, author of *Losing Ground* (1984). Would eliminate most or all welfare state activities and rely on communities and charities to step in and do what's really needed to help the poor. Downside: suppose they don't? Also, politically infeasible, to put it mildly.

A healing path

Clearly, a new path is needed, one that builds on the best of what the four old paths had to offer but goes beyond them.

Several attempts to forge such a path have already been made by radical middle thinkers, ranging in approach from Harvard professor Christopher Jencks's scholarly *Rethinking Social Policy* (1992) to Evangelicals for Social Action president Ron Sider's passionate *Just Generosity* (1999). But they've all been pitched at too high a level of abstraction and / or idealism to have much impact on the public policy debate.

Last month a new path was proposed by a totally unexpected source -- Charles Murray -- in his new book *In Our Hands: A Plan to Replace the Welfare State* (2006). Murray is, of course, one of the creators of the old "Absent-Parent-State Path," above, and is currently a chaired scholar at the conservative American Enterprise Institute.

Partly because of Murray's stature in the Washington DC public policy community, his proposal has already begun catching the jaded eye of journalists and policy analysts across the U.S.

Murray doesn't have a term for his new path yet, so he calls it simply "the Plan." But I like to call it the "Healing Path" since it takes every other Path's concerns into account, and since Murray himself proposed introducing the metaphor of healing into public-welfare discourse in his unjustly ignored and heavily Abraham-Maslow-influenced book from 1988, *In Pursuit of Happiness and Good Government*.

"I am a libertarian," Murray writes, "but . . . there ought to be some way to extend a hand across the political divide between libertarians and social democrats, offering a compromise that provided generous assistance for dealing with human needs without entailing the suffocating and soulless welfare state."

One only wishes that this veteran of three decades of partisan ideological warfare had expressed such sentiments before his 64th year on Earth.

Down the Healing Path

According to the Plan, everyone over the age of 21 would get a \$10,000 / year grant from the government. For life.

It could be relatively cheaply and easily administered -- electronic deposits would be made on a monthly basis to our bank accounts.

To make sure well-off people wouldn't unduly benefit, a surtax would be levied on the grant once a person's income reached \$25,000 / year.

To pay for the grant, the Plan would eliminate all transfer payments (i.e., programs benefiting some citizens but not others), and Murray means ALL: Social Security, Medicare, Medicaid, welfare programs, social service programs, agricultural programs, "corporate welfare," the works.

On the basis of extensive calculations (described in some detail in the text and in various Appendices), Murray estimates that the Plan would cost about \$350 billion more per year than we're spending on transfer payments today. But we'd be spending less on the Plan after the first six years or so, since total government spending on transfer payments is rising many times faster than spending on the Plan is likely to rise.

In other words, the Healing Path would not only empower people financially (it's hard to be poor when you're given a \$10,000-a-year leg to stand on). It would enable us to cut social spending in the not-so-long run. And that would make it at least possible for us to begin to bring federal spending under control, one of the looming national security threats that nobody wants to address.

Not just a free-for-all

I live in inner-city Oakland now; my block is full of Section 8 tenants. I respect & care deeply about some of my new neighbors, but I can readily imagine what some of them would do with the "free money" they'd receive under the Plan. They certainly wouldn't use it to pay for health care or for their retirement. In fact, probably I wouldn't use it for those essentials either!

It is to Murray's great credit that -- despite his libertarian, let-them-fend-for-themselves instincts -- he's built human imperfection into his Plan. (That's one reason it's a Healing Path.)

For example, he'd require everyone to use part of their grant to buy health insurance -- gritting his teeth, he even admits he'd have the government withhold those monies (probably around \$250 / month) from the monthly paychecks.

And how does he figure \$250 / month? Well, this once strongly libertarian-identified thinker, author of the book *What It Means to Be a Libertarian* (1997), now wants to "legally obligate medical insurers to treat the entire population as a single pool," and that would probably run to \$3,000 per person per year.

(At the same time, Murray wants to reform tort law so low-cost medical clinics could open their doors throughout the land and be immune from esoteric lawsuits. That's the kind of libertarianism New Age radicals like Ivan Illich and John Holt used to support.)

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Another way Murray addresses human imperfection is by (grudgingly) conceding that “the Plan could be modified to stipulate that some percentage of the grant be deposited in a retirement account of diversified stocks and bonds.”

It’s not his first choice -- he doesn’t want to “reduce the ability of people to pursue their dreams for how to live their lives.” But he reluctantly concedes that mandatory retirement accounts would in fact keep some people (generally the neediest) from having to retire on the \$10,000 / year grant alone.

He even announces himself open to considering certain “legal restrictions on how the recipient uses” the grants (which would make them resemble the Stakeholder Accounts promoted by the New America Foundation through its Asset Building Program, Anne Alstott and Bruce Ackerman in their book *The Stakeholder Society*, 1999, me in my book *Radical Middle*, 2004, and others).

Again and again in Murray’s book, sensitivity to human need and on-the-ground reality trumps ideology. It’s the radical middle way.

Hidden benefits of the Healing Path

The Plan wouldn’t just eliminate material poverty and help get the budget under control. It would also help eliminate spiritual poverty. It would help us pursue happiness.

That’s Murray’s point -- he devotes a big chunk of his book to it -- though you’d swear it came from Gregg Easterbrook’s recent book on the importance of non-monetary satisfactions, reviewed [HERE](#).

According to Murray (more or less following Abraham Maslow, whom he footnotes), the five “raw materials” for happiness are

- * enough material resources,
- * enough safety,
- * intimate relationships with other human beings,
- * vocation, and
- * self-respect,

and the Healing Path addresses the last three elements just as much as it addresses the first two. For example, it would:

- make marriage easier for poor people, since the grants would go to all individuals over 21 regardless of their marital status;
- help us find our true vocations, since the grants would make it easier for us to change jobs and easier to accumulate the capital to pursue our dreams;
- make civil society more vital, since the disappearance of the welfare bureaucracy would encourage (and even require!) us to pay more attention to the lives of our poorer neighbors. In other words, under the Healing Path it won’t be enough to talk about community in the feel-good way that social conservatives and *Harper’s Magazine* liberals often do. We’d actually have to put our shoulders to the wheel and help create and sustain a nation of caring communities. We’d have to develop and practice what Aristotle called virtue, without which (he argued) we’re doomed.

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The great achievement

The great achievement of Murray's book is not just that it presents a creative and well-argued solution to a massive social problem. It's that his solution integrates everyone's fundamental commitments:

From the radicals of the Rich-Uncle Path, he takes the commitment to providing generous (not just token) assistance to the poor.

From the liberals of the Nanny Path, he takes the commitment to providing a solution that meets the actually-existing needs of the poor.

From the social conservatives of the Daddy Path, he takes the commitment to ensuring that the poor actually use their benefits to enhance their condition.

And from the libertarians of the Absent-Parent Path, he takes the commitment to drastically curtailing the reach of the suffocating welfare state.

By privileging all these commitments, Murray has turned himself from an ideologue into a healer -- into what my friend Mark Gerzon (in his book *Leading Through Conflict*, Harvard University Press, 2006) calls a mediator-leader, "leaders who transform conflict so that everyone can move forward together."

There is no assurance that we will, of course. But on the issue of poverty reduction, Charles Murray has at last and unforgettably put that possibility "in our hands."

E. Happiness and Well-Being for All

I have a thirsty fish in me that can never find enough of what it's thirsty for!
Show me the way to the ocean! Break these half-measures, these small containers.
All this fantasy and grief.

- Rumi

In every field in which entrepreneurs are allowed to flourish, they produce greater diversity of goods and services, of ever greater quality and sophistication, at ever lower costs. We need to liberate entrepreneurs of health, education, happiness, and well-being.

Positive psychology is a new field that aspires to create a scientific basis for creating a world in which happiness and well-being are more consistently experienced by more of humanity. As Martin Seligman and Mihaly Csikszentmihalyi, the two leading founders of positive psychology state,

We believe that a psychology of positive human functioning will arise that achieves a scientific understanding and effective interventions to build thriving in individuals, families, and communities.

How might we work towards greater happiness and well-being for all?

Martin Seligman summarizes his recipe for "Authentic Happiness,"

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1. Cultivate positive emotions about past, present, and future states.
2. Cultivate abiding gratifications through the exercise of our strengths and virtues, leading to achievement through a flow state as we live, work, and parent.
3. Devote ourselves to something larger than ourselves; lead a life filled with meaning and purpose.

He then provides hints for cultivating positive emotions, cultivating our strengths and virtues, and finding meaning and purpose.

The question is, how can we best cultivate positive emotions, cultivate our strengths and virtues, and find meaning and purpose?

The answer is to liberate entrepreneurs of happiness and well-being. We need to create opportunities for entrepreneurs who seek to cultivate positive emotions, help us cultivate our strengths and virtues, and who offer us opportunities to join communities committed to a deeper meaning and purpose.

While a few individuals are capable of reading Seligman, the Dalai Lama, or Marcus Aurelius and changing their life based on reading a book, the vast majority of us are creatures of habit and society. What we do each day is based on the habits we developed as we grew up and the people with whom we interact each day. Our ideas have relatively little influence over our day-to-day actions, and the ideas we read once in a book have even less impact. As Aristotle realized 2500 years ago, "Excellence is not an act, but a habit."

Each of us each day can attempt to improve our habits, and we can strive to change our social habits and interact with others whose influence improves our habits. But if we really want to create deep change in the levels of happiness and well-being experienced by billions of people, we need to find a way to improve the intellectual, emotional, social, physical, and spiritual habits of young people. At present we spend about \$100,000 and thirteen years on every young person in our society, and on balance many of them end up with worse life habits than they would have had had they not gone to school. Allowing parents to redirect this spending towards schools that the parents chose would create an entrepreneurial market of happiness and well-being, in which competing entrepreneurs would offer ever deeper opportunities for young people to launch themselves into life based on positive habits, attitudes, and a sense of purpose.

Simply on the basis of physical health, good habits will provide a far greater improvement than will greater expenditures on existing technological fixes. More than 75% of health care costs today are due to chronic diseases – stroke, heart attack, cancer, diabetes, etc. – most of which are highly correlated with lifestyle factors. Accidents are also correlated with lifestyle factors. Addictions are correlated with lifestyle factors. Obesity is correlated with lifestyle factors. Given the fact that the vast majority of our health problems today are due to lifestyle factors, if we could change lifestyles we could cut our health care costs down to a fraction of their present cost. As additional evidence of the power of culture/lifestyle on health, consider that at a given level of income and education, poor Asians and Hispanics have a longer life expectancy and better health than do Whites, Blacks, or Native Americans.

Moving beyond physical well-being, education provides the foundation for lifelong professional accomplishment. It could provide a foundation for developing internal virtues including awareness, focus, empathy, patience, teamwork, frugality, industriousness, inner peace, creativity, flow, and any other human capacity that takes time and consistency to develop.

By administering K-12 education through government, a clunky, impersonal agent, we have created a society in which it is easier for entrepreneurs to innovate and market short-term stimulations such as gambling and pornography than it is for entrepreneurs to innovate and market sources of long-term well-being such as wisdom and compassion.

The Six-Lesson Schoolteacher

by John Taylor Gatto - 1991 New York State Teacher of the Year

Call me Mr. Gatto, please. Twenty-six years ago, having nothing better to do, I tried my hand at schoolteaching. My license certifies me as an instructor of English language and literature, but that isn't what I do at all. What I teach is school, and I win awards doing it.

Teaching means many different things, but six lessons are common to schoolteaching from Harlem to Hollywood. You pay for these lessons in more ways than you can imagine, so you might as well know what they are:

The first lesson I teach is: "Stay in the class where you belong." I don't know who decides that my kids belong there but that's not my business. The children are numbered so that if any get away they can be returned to the right class. Over the years the variety of ways children are numbered has increased dramatically, until it is hard to see the human being under the burden of the numbers each carries. Numbering children is a big and very profitable business, though what the business is designed to accomplish is elusive.

In any case, again, that's not my business. My job is to make the kids like it -- being locked in together, I mean -- or at the minimum, endure it. If things go well, the kids can't imagine themselves anywhere else; they envy and fear the better classes and have contempt for the dumber classes. So the class mostly keeps itself in good marching order. That's the real lesson of any rigged competition like school. You come to know your place.

Nevertheless, in spite of the overall blueprint, I make an effort to urge children to higher levels of test success, promising eventual transfer from the lower-level class as a reward. I insinuate that the day will come when an employer will hire them on the basis of test scores, even though my own experience is that employers are (rightly) indifferent to such things. I never lie outright, but I've come to see that truth and [school]teaching are incompatible.

The lesson of numbered classes is that there is no way out of your class except by magic. Until that happens you must stay where you are put.

The second lesson I teach kids is to turn on and off like a light switch. I demand that they become totally involved in my lessons, jumping up and down in their seats with

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anticipation, competing vigorously with each other for my favor. But when the bell rings I insist that they drop the work at once and proceed quickly to the next work station. Nothing important is ever finished in my class, nor in any other class I know of.

The lesson of bells is that no work is worth finishing, so why care too deeply about anything? Bells are the secret logic of schooltime; their argument is inexorable; bells destroy past and future, converting every interval into a sameness, as an abstract map makes every living mountain and river the same even though they are not. Bells inoculate each undertaking with indifference.

The third lesson I teach you is to surrender your will to a predestined chain of command. Rights may be granted or withheld, by authority, without appeal. As a schoolteacher I intervene in many personal decisions, issuing a Pass for those I deem legitimate, or initiating a disciplinary confrontation for behavior that threatens my control. My judgments come thick and fast, because individuality is trying constantly to assert itself in my classroom. Individuality is a curse to all systems of classification, a contradiction of class theory.

Here are some common ways it shows up: children sneak away for a private moment in the toilet on the pretext of moving their bowels; they trick me out of a private instant in the hallway on the grounds that they need water. Sometimes free will appears right in front of me in children angry, depressed or exhilarated by things outside my ken. Rights in such things cannot exist for schoolteachers; only privileges, which can be withdrawn, exist.

The fourth lesson I teach is that only I determine what curriculum you will study. (Rather, I enforce decisions transmitted by the people who pay me). This power lets me separate good kids from bad kids instantly. Good kids do the tasks I appoint with a minimum of conflict and a decent show of enthusiasm. Of the millions of things of value to learn, I decide what few we have time for. The choices are mine. Curiosity has no important place in my work, only conformity.

Bad kids fight against this, of course, trying openly or covertly to make decisions for themselves about what they will learn. How can we allow that and survive as schoolteachers? Fortunately there are procedures to break the will of those who resist.

This is another way I teach the lesson of dependency. Good people wait for a teacher to tell them what to do. This is the most important lesson of all, that we must wait for other people, better trained than ourselves, to make the meanings of our lives. It is no exaggeration to say that our entire economy depends upon this lesson being learned. Think of what would fall apart if kids weren't trained in the dependency lesson: The social-service businesses could hardly survive, including the fast-growing counseling industry; commercial entertainment of all sorts, along with television, would wither if people remembered how to make their own fun; the food services, restaurants and prepared-food warehouses would shrink if people returned to making their own meals rather than depending on strangers to cook for them. Much of modern law, medicine, and engineering would go too -- the clothing business as well -- unless a guaranteed supply of helpless people poured out of our schools each year. We've built a way of life that depends on people doing what they are told because they don't know any other way. For God's sake, let's not rock that boat!

In lesson five I teach that your self-respect should depend on an observer's measure of

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your worth. My kids are constantly evaluated and judged. A monthly report, impressive in its precision, is sent into students' homes to spread approval or to mark exactly -- down to a single percentage point -- how dissatisfied with their children parents should be. Although some people might be surprised how little time or reflection goes into making up these records, the cumulative weight of the objective-seeming documents establishes a profile of defect which compels a child to arrive at certain decisions about himself and his future based on the casual judgment of strangers.

Self-evaluation -- the staple of every major philosophical system that ever appeared on the planet -- is never a factor in these things. The lesson of report cards, grades, and tests is that children should not trust themselves or their parents, but must rely on the evaluation of certified officials. People need to be told what they are worth.

In lesson six I teach children that they are being watched. I keep each student under constant surveillance and so do my colleagues. There are no private spaces for children; there is no private time. Class change lasts 300 seconds to keep promiscuous fraternization at low levels. Students are encouraged to tattle on each other, even to tattle on their parents. Of course I encourage parents to file their own child's waywardness, too.

I assign "homework" so that this surveillance extends into the household, where students might otherwise use the time to learn something unauthorized, perhaps from a father or mother, or by apprenticing to some wiser person in the neighborhood.

The lesson of constant surveillance is that no one can be trusted, that privacy is not legitimate. Surveillance is an ancient urgency among certain influential thinkers; it was a central prescription set down by Calvin in the Institutes, by Plato in the Republic, by Hobbes, by Comte, by Francis Bacon. All these childless men discovered the same thing: Children must be closely watched if you want to keep a society under central control.

It is the great triumph of schooling that among even the best of my fellow teachers, and among even the best parents, there is only a small number who can imagine a different way to do things. Yet only a very few lifetimes ago things were different in the United States: originality and variety were common currency; our freedom from regimentation made us the miracle of the world; social class boundaries were relatively easy to cross; our citizenry was marvelously confident, inventive, and able to do many things independently, to think for themselves. We were something, all by ourselves, as individuals.

It only takes about 50 contact hours to transmit basic literacy and math skills well enough that kids can be self-teachers from then on. The cry for "basic skills" practice is a smokescreen behind which schools pre-empt the time of children for twelve years and teach them the six lessons I've just taught you.

We've had a society increasingly under central control in the United States since just before the Civil War: the lives we lead, the clothes we wear, the food we eat, and the green highway signs we drive by from coast to coast are the products of this central control. So, too, I think, are the epidemics of drugs, suicide, divorce, violence, cruelty, and the hardening of class into caste in the U.S., products of the dehumanization of our lives, the lessening of individual and family importance that central control imposes.

Without a fully active role in community life you cannot develop into a complete human being. Aristotle taught that. Surely he was right; look around you or look in the mirror: that is the demonstration.

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“School” is an essential support system for a vision of social engineering that condemns most people to be subordinate stones in a pyramid that narrows to a control point as it ascends. “School” is an artifice which makes such a pyramidal social order seem inevitable (although such a premise is a fundamental betrayal of the American Revolution). In colonial days and through the period of the early Republic we had no schools to speak of. And yet the promise of democracy was beginning to be realized. We turned our backs on this promise by bringing to life the ancient dream of Egypt: compulsory training in subordination for everybody. Compulsory schooling was the secret Plato reluctantly transmitted in the Republic when he laid down the plans for total state control of human life.

The current debate about whether we should have a national curriculum is phony; we already have one, locked up in the six lessons I’ve told you about and a few more I’ve spared you. This curriculum produces moral and intellectual paralysis, and no curriculum of content will be sufficient to reverse its bad effects. What is under discussion is a great irrelevancy.

None of this is inevitable, you know. None of it is impregnable to change. We do have a choice in how we bring up young people; there is no right way. There is no “international competition” that compels our existence, difficult as it is to even think about in the face of a constant media barrage of myth to the contrary. In every important material respect our nation is self-sufficient. If we gained a non-material philosophy that found meaning where it is genuinely located -- in families, friends, the passage of seasons, in nature, in simple ceremonies and rituals, in curiosity, generosity, compassion, and service to others, in a decent independence and privacy -- then we would be truly self-sufficient.

How did these awful places, these “schools”, come about? As we know them, they are a product of the two “Red Scares” of 1848 and 1919, when powerful interests feared a revolution among our industrial poor, and partly they are the result of the revulsion with which old-line families regarded the waves of Celtic, Slavic, and Latin immigration -- and the Catholic religion -- after 1845. And certainly a third contributing cause can be found in the revulsion with which these same families regarded the free movement of Africans through the society after the Civil War.

Look again at the six lessons of school. This is training for permanent underclasses, people who are to be deprived forever of finding the center of their own special genius. And it is training shaken loose from its original logic: to regulate the poor. Since the 1920s the growth of the well-articulated school bureaucracy, and the less visible growth of a horde of industries that profit from schooling exactly as it is, have enlarged schooling’s original grasp to seize the sons and daughters of the middle class.

Is it any wonder Socrates was outraged at the accusation that he took money to teach? Even then, philosophers saw clearly the inevitable direction the professionalization of teaching would take, pre-empting the teaching function that belongs to all in a healthy community; belongs, indeed, most clearly to yourself, since nobody else cares as much about your destiny. Professional teaching tends to another serious error. It makes things that are inherently easy to learn, like reading, writing, and arithmetic, difficult -- by insisting they be taught by pedagogical procedures.

With lessons like the ones I teach day after day, is it any wonder we have the national crisis we face today? Young people indifferent to the adult world and to the future;

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indifferent to almost everything except the diversion of toys and violence? Rich or poor, schoolchildren cannot concentrate on anything for very long. They have a poor sense of time past and to come; they are mistrustful of intimacy (like the children of divorce they really are); they hate solitude, are cruel, materialistic, dependent, passive, violent, timid in the face of the unexpected, addicted to distraction.

All the peripheral tendencies of childhood are magnified to a grotesque extent by schooling, whose hidden curriculum prevents effective personality development. Indeed, without exploiting the fearfulness, selfishness, and inexperience of children our schools could not survive at all, nor could I as a certified schoolteacher.

“Critical thinking” is a term we hear frequently these days as a form of training which will herald a new day in mass schooling. It certainly will, if it ever happens. No common school that actually dared teach the use of dialectic, heuristic, and other tools of free minds could last a year without being torn to pieces.

Institutional schoolteachers are destructive to children’s development. Nobody survives the Six-Lesson Curriculum unscathed, not even the instructors. The method is deeply and profoundly anti-educational. No tinkering will fix it. In one of the great ironies of human affairs, the massive rethinking that schools require would cost so much less than we are spending now that it is not likely to happen. First and foremost, the business I am in is a jobs project and a contract-letting agency. We cannot afford to save money, not even to help children.

At the pass we’ve come to historically, and after 26 years of teaching, I must conclude that one of the only alternatives on the horizon for most families is to teach their own children at home. Small, de-institutionalized schools are another. Some form of free-market system for public schooling is the likeliest place to look for answers. But the near impossibility of these things for the shattered families of the poor, and for too many on the fringes of the economic middle class, foretell that the disaster of Six-Lesson Schools is likely to continue.

After an adult lifetime spent in teaching school I believe the method of schooling is the only real content it has. Don’t be fooled into thinking that good curricula or good equipment or good teachers are the critical determinants of your son and daughter’s schooltime. All the pathologies we’ve considered come about in large measure because the lessons of school prevent children from keeping important appointments with themselves and their families, to learn lessons in self-motivation, perseverance, self-reliance, courage, dignity and love – and, of course, lessons in service to others, which are among the key lessons of home life.

Thirty years ago these things could still be learned in the time left after school. But television has eaten most of that time, and a combination of television and the stresses peculiar to two-income or single-parent families have swallowed up most of what used to be family time. Our kids have no time left to grow up fully human, and only thin-soil wastelands to do it in.

A future is rushing down upon our culture which will insist that all of us learn the wisdom of non-material experience; this future will demand, as the price of survival, that we follow a pace of natural life economical in material cost. These lessons cannot be learned in schools as they are. School is like starting life with a 12-year jail sentence in which bad

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habits are the only curriculum truly learned. I teach school and win awards doing it. I should know.

Government control of education – through public schools or through excessive regulation of charter or private schools - amounts to granting control over the young human soul to all those who produce short term stimulations. Either real human beings, with distinctive intentions and ways of life, are allowed to create cultures with integrity – by means of minimally regulated school choice - or bureaucratic rules prevent the formation of appetites in the young, and marketeers of all sorts thereby prey on the unformed souls of the young. Educational freedom, rather than government control, is the sine qua non for the creation of happiness and well-being for all.

Consider the following twenty propositions on education and wellness:

1. Culture, habits, and attitudes are the most important prerequisites to education.
2. Historically traditional cultures have varied widely; that variability is currently being lost through the force of those technology-based monocultures that are sweeping the world.
3. Over the course of 13 years of formal education, the average high school graduate is exposed to 14,000 hours of K-12 schooling. It is possible to have a considerable impact on the habits, attitudes, ideals, aesthetics, aspirations, and culture of the students over that time if that were to become the primary focus of educational institutions.
4. Habituation in new cultural norms may be successfully cultivated in the young only when they are educated by adults who consistently support the new forms of habituation and personally exemplify the new virtues. In order to do this, the adults themselves must exhibit a consistent form of habituation. New cultures can not be created by innovations in textbooks or software.
5. Except for those few educational approaches that have distinctive teacher training programs (Montessori, Waldorf, and some religious school systems), existing teacher training does not even begin to ensure consistent habituation. The most consistent habituation faced by K-12 students in government schools today is habituation in passivity and dependence.
6. Cumulatively, deliberately inculcated habits and attitudes may provide a foundation for new cultures. The Jesuits deliberately created a more disciplined and intellectual European culture out of the chaos of medieval education. Montessori and Waldorf education are nascent examples of new cultures being formed today.
7. The existing government-controlled education system acts as a monopolistic standard with a market share greater than that held by Microsoft's Windows standard. Unlike the Microsoft standard, the government schooling standard is enforced legislatively and financed coercively.
8. Only when this dominant standard collapses will great educational innovations be launched.

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9. Freedom has been necessary for innovation in the world of ideas, the world of technology, and the world of entrepreneurship. If Galileo had been more effectively censored, Newton and modern physics might not exist. If government had regulated the invention of electrical devices in the 19th century, Thomas Edison's "invention of invention" would never have come into being. If tech entrepreneurs had needed government licenses to do their work, Silicon Valley, the microcomputer and the internet would be a pale ghost of their present selves if they existed at all. Likewise, educational freedom will be necessary for educational innovation.
10. Only visionary organizations, designed and built by a commitment to a distinct vision, can consistently create distinct cultures that are powerful enough to compete with the teen culture defined by the media. A distinctive, long-term vision can only be implemented institutionally in a self-regulated institution. Visionary leaders must be able to hire, fire, and promote faculty based strictly on their own perception of quality.
11. Markets will supply those goods desired by consumers.
12. Parents want their children to be healthy, well, productive, and happy.
13. Therefore in a free educational market there will be a demand for schools that can supply a healthier culture.
14. Innovative educators employed by private, visionary organizations will gradually develop increasingly healthier and more positive versions of teen culture.
15. Peer culture is a more powerful influence on teens than are parents. Currently teen culture is the biggest obstacle to parental ability to raise their children well. Conversely, a positive teen culture could compensate for many of the weaknesses of poor parenting.vi
16. Culture produces "neighborhood effects," or externalities; once we have created more sources of positive teen culture it will spread to those who don't originally pay for it or even choose it.
17. We develop critical habits as teens; a healthier teen culture leads to a healthier adult culture.
18. "Healthier" is broad; the foregoing analysis applies to any positive cultural characteristic.
19. Cumulatively, the long-term effects of an innovative, competitive market for adolescent well-being may produce cultural consequences as profound as, or more profound than, the long-term effects of technological innovation.
20. Cumulatively then, just as technological innovation has had a dramatic impact on the economic standard of well-being, so too cultural innovation will have a dramatic positive impact on our social, emotional, and moral standard of well-being.

The greatest invention of the 19th century was the invention of the invention. While there had been inventions before the 19th century, only then did tinkerers and experimentalists begin to become conscious and deliberate about the act of invention. A

magnificent turning point was Thomas Edison's creation of a laboratory specifically for the sake of creating inventions.

The haphazard cultural inventions that have taken place hitherto, in eastern and western cultures, are analogous to the occasional inventions that characterized western society prior to the 19th century. By means of radical school choice combined with a conscious recognition of the power and importance of creating new school cultures, the greatest invention of the 21st century may be the invention of new cultural models that continually allow human beings to adapt ever more effectively to a world of ongoing creative destruction while allowing for ever deeper levels of happiness and well-being for people of all races, cultures, classes, and abilities.²²

In the future we will expand on what it might mean to liberate entrepreneurs of happiness and well-being. For a proactive proposal on how a free market education system that supports ever deeper levels of happiness and well-being, see my article "the Creation of Conscious Culture Through Educational Innovation," from which the "Twenty Propositions on Happiness and Well-Being" above were taken. Because ultimately we will want to move beyond entrepreneurship in education and health care into community formation, we also direct interested readers to a fascinating speculative piece on "The Enterprise of Community" by the anthropologist Spencer MacCullum.

F. Total Corporate Responsibility and Free Markets

by Michael Strong

Frank Dixon is a corporate social responsibility consultant and thought leader who has developed the concept of "Total Corporate Responsibility." He evaluates corporations based on 150 metrics in a complex process that we won't go into here. Instead, I want to use his general framework to evaluate our overall approach to making the world a better place through entrepreneurship and markets.

Dixon suggests that there are three categories of "System Flaws" that result in profit-maximizing corporations doing harm. In order to ensure that socially responsible corporations are also the most profitable corporations, to ensure that social responsibility is not penalized by the market, socially responsible corporations need to support fixing the system flaws that otherwise put them at a disadvantage vis-à-vis less responsible corporations.

i. System Flaws – Economic

Dixon's first type of economic system flaw is that our economic system does not include the full environmental cost of the economic activity. Our section on sustainability above addressed this system flaw by means of green scissors campaigns, green tax shifts, and property rights solutions to tragedy of the commons problems. Indeed, Peter Barnes' Capitalism 3.0, a property rights solution, is explicitly framed as a "new operating system for capitalism" for precisely this reason.

Dixon also claims that an additional economic system flaw is that our economic system fails to acknowledge the limits to economic growth. The only way that Dixon's concept

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makes sense here is insofar as he imagines economic growth to be necessarily material. But insofar as economic growth may consist of the endless development of greater beauty, empathy, happiness, well-being, and other goods, there are properly no limits to economic growth. Insofar as material growth threatens environmental sustainability, by means of the foregoing provisions, it is possible to ensure environmental sustainability indefinitely. As Julian Simon pointed out, the human mind is the ultimate resource and there is no evidence that it will ever be exhausted. We may use different proportions of natural resources, and steadily decreasing proportions of many natural resources, but human creativity will continue to expand our horizons for as far out as we can imagine.

2. System Flaws – Political

Dixon is also concerned about the ability of companies to influence politicians. There is a large body of knowledge concerning the influence of special interests on democratic politics, and the best thinkers have concluded that limiting the size and scope of government is the only way to ensure that there are limits on the influence of special interests. The larger and more complex the government, the greater the opportunity for special interests to get their way.²³

While it is good for each of us to be informed, conscientious citizens, and it is good for each of us to be informed, conscientious consumers, investors, employees, and entrepreneurs, no amount of moral suasion will eliminate the problem of special interests feeding at the public's expense.

Even in indigenous communities there were free-riders, those who took more than they gave from the community. In small communities of 150 people who had little privacy and shared the same moral and cosmological world view, it was possible to keep free-riding under control. Even so, sometimes tribal communities killed one of their own members for violating tribal norms. Thus there have always been at least some individuals who were willing to undermine the public good.

Suppose that only 1% of the population is inclined to be a free rider, and the rest of us are virtuous and public-spirited. In a nation of 300 million people, that still leaves 30 million free riders. In a democratic system in which, at each election, we might have twenty or thirty people to vote for, each of whom may represent us for two or more years, on hundreds of different issues, we face a knowledge problem that we can't possibly surmount. We will never know more than a tiny bit about each candidate and about their take on a few positions. We will always be ignorant of the vast majority of decisions they have made and will make.

But the mohair farmers will be instantly notified of every decision they make relating to mohair farming, as will the corn farmers, the soybean farmers, the dairy industry, the beef industry, etc. So, too, will the steel industry, the auto industry, the telecom industry, the airline industry, the rental car industry, the skateboard industry, etc. So, too, will retired people, military pensioners, the teachers' unions, the trades unions, various ethnic and immigrant groups, various religious groups, political action committees, etc.

Every interest will spring into prompt and aggressive action whenever its interests are threatened, and each will pay lobbyists and public relations specialists to promote their interests day in, day out. The arithmetic of focus leads to the inexorable conclusion that special interests will do everything they can to guide the decisions of politicians and

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bureaucrats to support their goals. In the meantime, the arithmetic of focus leads to the inexorable conclusion that almost all of us, almost all of the time, are almost completely ignorant of what is actually taking place in government. In a small town in Vermont two hundred years ago, we could keep track of it all. Today it is strictly speaking impossible.

Because we can care for the environment without direct government intervention (via green taxes and environmental trusts), and because we can care for the poor without direct government intervention (by means of liberating markets in housing, health care, and education, and providing a Citizen's Dividend on top of that), it is time to consider restricting government's size and scope in order to decrease the opportunities that special interests have to engage in endless plunder.

Dixon's other concern is limited liability law, which prevents investors from being held fully liable for the consequences of their actions. This is a serious problem insofar as some individuals do, in fact, set up corporate shells precisely to avoid taking responsibility. Much corporate regulation may remain necessary until and unless we find a way to hold investors fully responsible for their actions.

Of course, it may be even more urgent to hold government responsible for its actions; the limits to suing governments for malfeasance are far more limiting than are the limits to suing corporations. Thus the first priority in terms of liability reform is to hold government to the same level of accountability to which corporations are held, and then to work to reform liability law so that corporations can no longer evade responsibility through limited liability.

3. System Flaws – Social

The third type of flaw that Dixon calls to our attention are the destructive effects of advertising and materialism, on the one hand, and corporate distortions of the truth, on the other.

With respect to the destructive effects of advertising and materialism, the solution is to liberate entrepreneurs of happiness and well-being. A market in which thousands of entrepreneurs were competing to provide children with the best judgment, wisdom, habits, attitudes, tastes, preferences, and virtues would be a market in which advertising and materialism as we know it would gradually retreat to the periphery of our societies. There will always be people with shallow tastes who make foolish judgments, and on which unscrupulous entrepreneurs will prey, but once markets in happiness and well-being are placed on an equal footing with markets in short-term satisfactions and impulsive addictions, the former will gradually crowd out the latter.

With respect to the issue of corporate distortions of the truth, a population more thoroughly and responsibly educated will be less likely to fall prey to such distortions. A market in the development of good judgment will reduce the effectiveness of corporate distortions of the truth. We will never eliminate such distortions entirely, but as more and more are given the opportunity to develop good judgment, we may need to be steadily less concerned with the ability of corporations or other entities to deceive us.

The increasing transparency of information via the internet will also create opportunities for entrepreneurial solutions to the problem of deceptive information. More and more trust networks and other mechanisms for filtering information will become developed steadily higher quality, applicability across broader domains, and steadily decrease in cost.

In addition to legitimate concerns regarding corporate distortions of the truth, arguably the more urgent need is to address academic distortions of the truth. Although there are countless incidents of corporate distortions of the truth, none can compare to the tragedy of academic Marxism, nor to the tragedy of mid-20th century development economics, nor to the erosion of the ethos of personal responsibility to which academia has contributed, to name just a few. Yes, we certainly need to work on corporate social responsibility in this realm. And, even more urgently, we need to work on academic social responsibility in this realm.

The economist Robin Hanson has proposed prediction markets as a means of adjudicating truth claims. He points out that futures markets have been more successful at predicting elections than polls have been, and that orange futures markets have been more successful at predicting weather than meteorologists have been. James Surowiecki's *The Wisdom of Crowds* reports that the stock market discovered that Morton Thiokol was likely responsible for the Challenger explosion within 24 hours of the event. When one allows large numbers of people to predict what is likely to happen, they outperform experts.

Because academia has distorted key understandings that are essential to human happiness and well-being, often for decades at a time, the most urgent goal is to liberate ordinary people from coercive control by academic mandarins. By forcing academic mandarins to put their money, reputations, and careers on the line before providing expert testimony leading to coercive solutions, perhaps we can reduce the damage done by academics in the coming century.

Given the dreadful overall record of academic expertise in the past, in the future we should require that academic proposals that require coercion be independently validated by prediction markets before enforcing the coercive solutions. Elsewhere we will develop various prototypes of these concepts and encourage entrepreneurs to set up prediction markets and decision markets to obtain far better information regarding policy outcomes than have been available in the past.

In the meantime, we may accept as a rule of thumb that individuals should be free to make their own decisions in health, education, community formation, and beyond without subject to legal coercion so long as their decisions do not harm others.

G. Solving All Problems Entrepreneurially

We know that millions of individuals making independent decisions within a structure based on property rights and the rule of law will always be more creative than a government can ever be. This does not mean that governments have never supported creative solutions to problems, nor does it mean that governments are per se harmful. All it means is that if there are domains of human experience in which we want to benefit from massive, large scale, diverse, and ever continuing innovation, we must allow billions of potential entrepreneurs the opportunity to offer their creative insights, and the opportunity to create enterprises based on those insights, over and over again for many years.

Arguments based on direct evidence from our existing world will always prove that possibility is impossible. Had social scientists from outer space studied any indigenous tribe in the year 10,000 B.C., it would have been quite easy to disprove the possibility of

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the violin, the calculus, the eighty-year average lifespan, or a world in which most babies live to adult hood. There was no evidence at the time that any of these routine facts were possible.

Had social scientists whose only experience was with the daily behavioral characteristics of Harvard University students in 1950 studied the possibility that human beings could navigate in dugout canoes without instruments across the Pacific (the Polynesians), or peacefully burn themselves to death while sitting peacefully upright (Buddhist monks during the Vietnam war), or sing two notes at once from their throat (Tuvan throat singing), it would have been easy to prove that such behaviors did not exist, and therefore easy to infer that they could not exist and were not within the domain of human capabilities.

I could go on and on. I don't know how to make it more obvious that all observations of our existing world fail to take into account future creations. At one level the point seems obvious and banal. And yet at another level I have never seen a single empirical study in all of social science that recognizes this utterly obvious fact. Meanwhile most of the social scientific community supports coercive laws that restrict the very freedoms that would be required to create new and better ways of being human. Creativity, innovation, and entrepreneurship, which have so obviously transformed our lives for the better in the technological realm, are almost perfectly invisible to the class of mandarins who largely monopolize our knowledge creation industry in the human realm.

The most we can do is to encourage cohorts of idealistic people to commit themselves to criticize by creating, and thereby discover for themselves the freedoms required to create a better world.

We know that, in principle, we can create a world in which:

1. There are no environmental concerns because all unallocated commons have been allocated either to private entities or to environmental trusts.
2. All people on earth received an annual Citizen's Dividend based on their share of natural resources.
3. Conscious entrepreneurs were free to create endlessly better and lower cost ways to deepen and delight our experience of the human condition.

Such a world would be a world in which most of humanity, most of the time, was engaged in a life of flow, ever deepening optimal experience in which we devoted ourselves to becoming our best selves in the service of making the world a better place.

We can't spell out every step on the path to the creation of this world. But we invite you to help us create this world by means of every breathe you take, every decision you make.

Decide today to focus on creating a better world. Criticize by creating.

Footnotes

- 1 See Roodman, *The Natural Wealth of Nations*
- 2 See GreenScissors.org.
- 3 For primers on public choice theory, see Jonathan Rauch, *Government's End*, and Charlotte Twight, *Dependent on D.C.* For more sophisticated introductions, see Gordon Tullock, James Buchanan, and Benson.
- 4 See Jason Furman, "End the Mortgage Interest Deduction!" in *Slate* and Gerald Prente, "Who Benefits from the Home Mortgage Interest Deduction" at The Tax Foundation.
- 5 Donald Leal, "Community-Run Fisheries," <http://www.perc.org/perc.php?id=652&subsection=6>
- 6 See Michael Van Notten, *The Law of the Somalis*, for a strategy for creating a modern commercial society based on indigenous Somali clan law, in part by formalizing indigenous property rights concepts.
- 7 De Alessi, "One Fish, Two Fish, I Fish, You Fish," *Fraser Forum*, July 2003, http://findarticles.com/p/articles/mi_m1316/is_n7_v29/ai_19596307.
- 8 http://www.etei.org/case_study_2.htm
- 9 Indeed the issue of allocating ITQs fairly was so contentious that other fisheries insisted on passing a federal moratorium on ITQs that only recently expired.
- 10 See Julian Simon, *The Ultimate Resource*, for the original statement of human ingenuity as the ultimate resource.
- 11 "The Next Green Revolution," *Wired Magazine*, May 2006, <http://www.wired.com/wired/archive/14.05/green.html>
- 12 See James Gwartney and Robert Lawson, with William Easterly, *Economic Freedom of the World: 2006 Annual Report*. Additional references on economic freedom and poverty alleviation available upon request. See the Women's Economic Empowerment Overview, available from FLOW, Inc., for additional examples of developing world obstacles to development.
- 13 See James Gwartney and Robert Lawson, with William Easterly, *Economic Freedom of the World: 2006 Annual Report*, pg. 33.
- 14 It is also possible to create islands of economic freedom by means of the creation of new jurisdictions, including floating islands, abandoned oil drilling platforms, private islands, etc. At this point this option will not be discussed, though a proliferation of privately-managed free zones could facilitate the creation of such new jurisdictions.
- 15 This entire document is largely based on the ideas of Mark Frazier, of Open World, and co-author of this article, who has worked on free zones for thirty years. His individual work is represented in the appendix.
- 16 Map and quotation originally appeared in Thomas Barnett, "The Pentagon's New Map," *Esquire Magazine*, March 1, 2003, later expanded into a book, *The Pentagon's New Map: War and Peace in the Twenty-First Century*. Penguin Group (USA), April 2005.
- 17 See attached OpenWorld Build-Operate-Transfer document, by Mark Frazier, for more detail.
- 18 We have expertise in identifying and developing educational partners that meet these criteria. Indeed, WEFZ could catalyze a revolution in educational quality by means of the increased demand for innovative education designed specifically for this niche.
- 19 William Tucker, *The Excluded Americans: Homelessness and Housing Policies* (Washington: Regnery Gateway Press, 1990).
- 20 Vermeer and Louie, "The Future of Manufactured Housing," Harvard Joint Center for Housing Studies.
- 21 Global Insight, 2005, *The Economic Impact of Wal-Mart*.

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- 22 The foregoing “Twenty Propositions on Happiness and Well-Being” is taken from Michael Strong, “The Creation of Conscious Culture Through Educational Innovation.”
- 23 See, for instance, James Buchanan, *Public Choice: Politics without Romance*, Gordon Tullock, Gordon Brady, and Arthur Seldon, *Government Failure: A Primer in Public Choice*. Buchanan won a Nobel Prize for creating the field of public choice theory, according to which voters, politicians, bureaucrats, and judges all act in accordance with the incentives they face based on the limited information at hand. Buchanan’s original work in public choice theory was done with Gordon Tullock, who also has a readable volume on public choice theory.