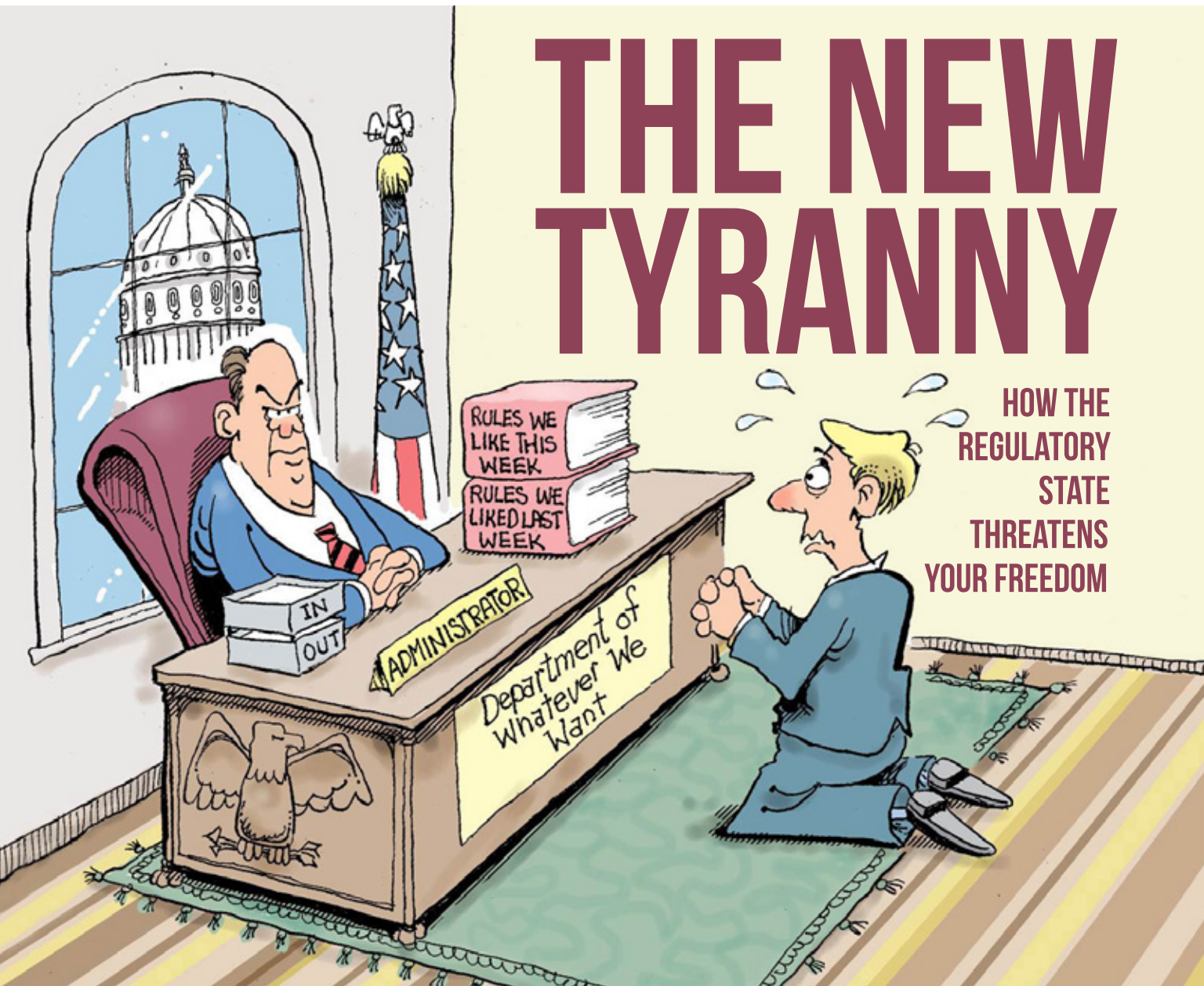


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Fall 2015

INSIDER

Conservative Ideas For Advancing Liberty



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EDITOR'S NOTE

Is Self-Government Slipping Away?

We humans are always looking for something new and better—the next wiz-bang, uncharted frontiers, secret knowledge, or perhaps just a new hangout to hang our hats. Such discovering is part of the joy of life. But people aren't always joyful about the corollary of discovery—an unknowable future. When new technologies or shifting preferences threaten jobs or businesses, some would prefer it if their fellow citizens were a little less free to find new options. And sometimes they succeed in enlisting government to protect them with its taxing, spending, and regulating powers.

Friedrich Hayek pointed out that as government pursues a policy of providing economic security to some, more and more groups seek that security for themselves at the expense of liberty. Prosperity suffers, since the only way to give everyone security is to prevent everyone from finding better ways of serving consumers. As the political demand for economic security is a constant, Hayek's warnings are always in season. Thus, we offer here an excerpt from Don Boudreaux's recent book *The Essential Hayek*.

Ultimately, relying on government for protection is false security; it gives someone else a power over your fate that did not exist before. In our cover story,

John Cochrane takes up this theme by pointing out how the regulatory state has gotten into the protection racket, too. He observes, for example, that the rules written by regulators today are rarely so clear and simple that a business can easily know where the safe ground is. That is probably by design. Agencies have discretion to apply the rules as they see fit—discretion that is becoming a dangerous lever of political control.

In the growing complexity of law and regulation, Bruce Thornton sees a related problem: that the only people who really understand how government works are those entrusted with its management, i.e., those “experts” who will naturally champion whatever the government is doing. Democratic accountability suffers.

In other articles this issue, Carson Holloway explains how strong families are an essential support of a free society, and we share John Von Kannon's lessons from a lifetime of fundraising.

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Conservative Ideas For Advancing Liberty



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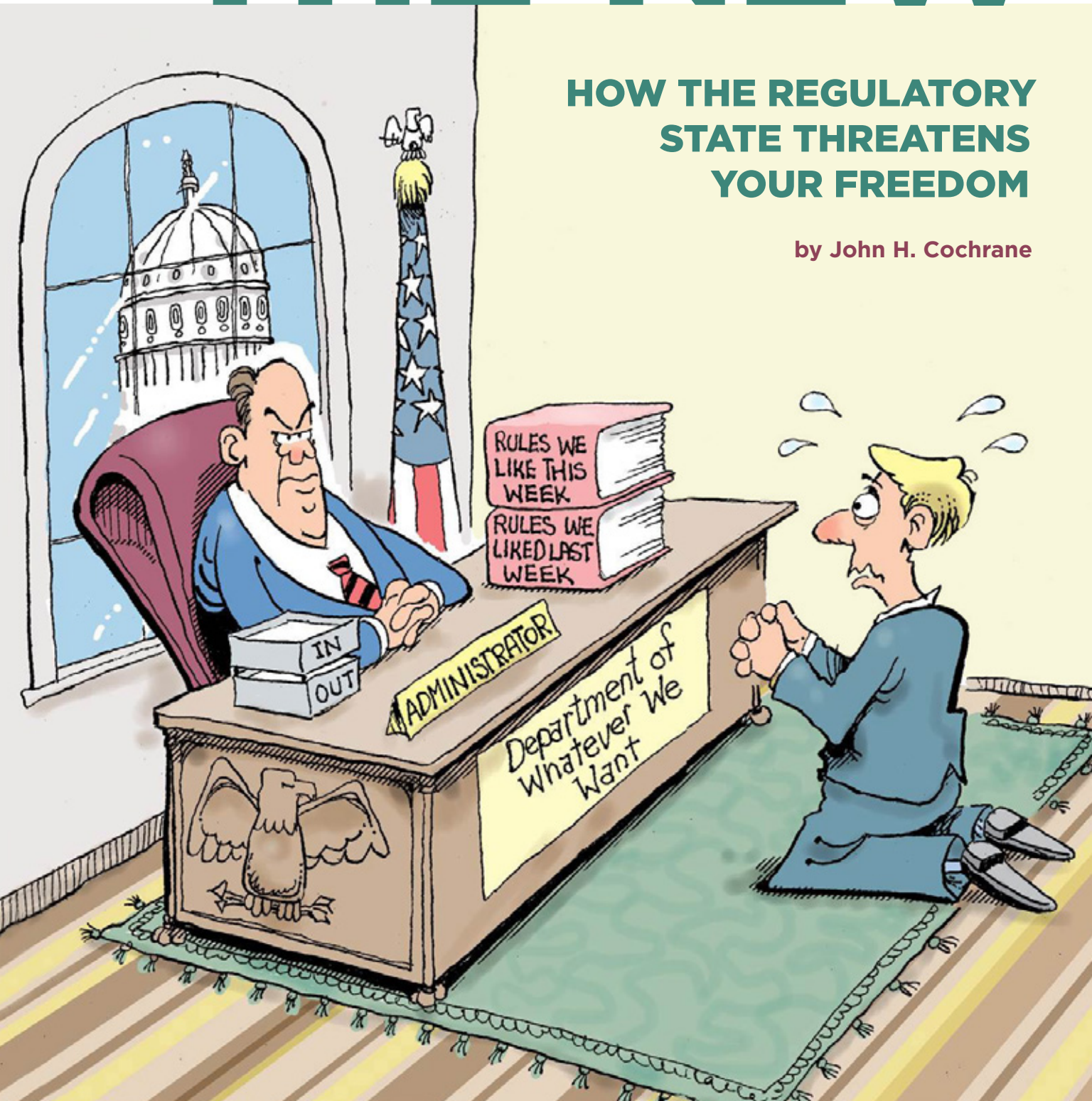
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THE NEW

HOW THE REGULATORY STATE THREATENS YOUR FREEDOM

by John H. Cochrane



TYRANNY

THE UNITED STATES' REGULATORY bureaucracy has vast power. Regulators can ruin your life and your business very quickly, and you have very little recourse. That this power damages the economy is a commonplace complaint. Less recognized, but perhaps even more important, the burgeoning regulatory state poses a new threat to our political freedom.

What banker dares to speak out against the Federal Reserve? What trader dares to criticize the Securities and Exchange Commission? What hospital or health insurer dares to oppose the Department of Health and Human Services or ObamaCare? What business needing environmental approval for a project dares to criticize the Environmental Protection Agency? What drug company dares to challenge the Food and Drug Administration? Our problems are not just national. What real estate developer needing zoning approval dares to speak out against the local zoning board?

The agencies demand political support for themselves first of all. They are like barons in a monarchy


to whom the King's problems are secondary. But they can now demand broader support for their political agendas. And the larger partisan political system is discovering how the newly enhanced power of the regulatory state is ideal for enforcing its own political support.

The big story of the past 800 years of United States and British history is the slow and painful emergence of political institutions that constrain government power and guarantee our political liberty, institutions to which we refer broadly as "the rule of law." The United States had rule of law for nearly two centuries before it had democracy, and its democracy sprang from the rule of law not the other way around.


This rule of law always has been in danger. But today, the danger is not the tyranny of kings, which motivated the Magna Carta. It is not the tyranny of the majority, which motivated the Bill of Rights. The threat to freedom and rule of law today comes from the regulatory state. The power of the regulatory state has grown tremendously, and without many of

the checks and balances of actual law. We can await ever greater expansion of its political misuse, or we can recognize the danger ahead of time and build those checks and balances now.

Yes, part of our current problem is law itself, big vague laws, and politicized and arbitrary prosecu-



The power of the regulatory state has grown tremendously, and without many of the checks and balances of actual law. We can await ever greater expansion of its political misuse, or we can recognize the danger ahead of time and build those checks and balances now.



tions. But most of “law” is now written and administered by regulatory agencies, not by Congress.

The use of law and regulation to reward supporters and punish enemies is nothing new, of course. President Franklin Roosevelt understood that New Deal jobs and contracts were a great way to demand political support. His “war on capital” hounded political opponents. The New Deal may not have been an economic success and likely prolonged the Great Depression, but it was above all a dramatic political success, enshrining Democratic power for a generation. Presidents John F. Kennedy and Richard Nixon tried to get the Internal Revenue Service to audit their political enemies. But the tool is now so much stronger.

RULE OF LAW: THE DEVIL IN THE DETAILS

“Rule of law” and “regulation” are slippery Big Vague Words. The rule of law is so morally powerful that the worst tyrants go through the motions. Stalin bothered with show trials. Putin legally convicted and jailed the punk rock band Pussy Riot for the crime of “hooliganism.” Even Henry the Eighth had trials before chopping heads. Is this not rule of law?

No, of course not, but it’s worth reminding ourselves why not as we think about bureaucracies.

“Rule of law” ultimately is a set of restrictions to keep the state from using its awesome power to force your political support. If you oppose Castro, you go to prison. If you opposed Herbert Hoover, could you still run a business? Yes. If you oppose the next U.S. President can you do so? If you oppose the policies of one of the regulatory agencies, now powers unto themselves, or speak out against the leaders of those agencies, can you do so? If you support candidates with unpopular positions, can you still get the regulatory approvals you need? It’s not so clear. That is our danger.

“Rule of law” is not just about the existence of written laws and the superficial mechanics of trials, judges, lawyers, and sentences. Rule of law lies deep in the details of how those institutions work. Do you have the right to counsel, the right to question witnesses, the right to discovery, the right to appeal, and so forth? As with laws, what matters about regulation is not the presence of written rules but their character and operation.

Regulators write rules too. They fine you, close down your business, send you to jail, or harass you with endless requests, based on apparently written rules. We need criteria to think about whether “rule of law” applies to this regulatory process. Here are some suggestions.

Rule vs. Discretion? This is really a central distinction. Does the regulation, in operation, function as a clear rule? Or is it simply an excuse for the regulator to impose his or her will on the regulated firm or person? Sometimes discretion is explicit.

Sometimes discretion comes in the application of a rule book thousands of pages long with multiple contradictory and vague rules.

Simple/Precise or Complex/Vague? Regulations can be simple and precise—even if silly. “Any structure must be set back six feet from the property line” is simple and precise. Or the regulation can be long, vague and complex, i.e.—“The firm shall not engage in abusive practices.”

Many regulations go on for hundreds of pages. Lengthiness, vagueness, and complexity are central features of regulations that appear to establish fixed rules while actually providing regulators wide discretion.

Knowable Rules vs. Ex-Post Prosecutions? Is the rule book knowable *ex ante*? Or is it, in application, simply a device for *ex-post* prosecutions. Insider trading rules are, at present, a good example of the latter. The definition of “insider” varies over time, and there is really little hope in finding a coherent rule book that tells you what is and is not

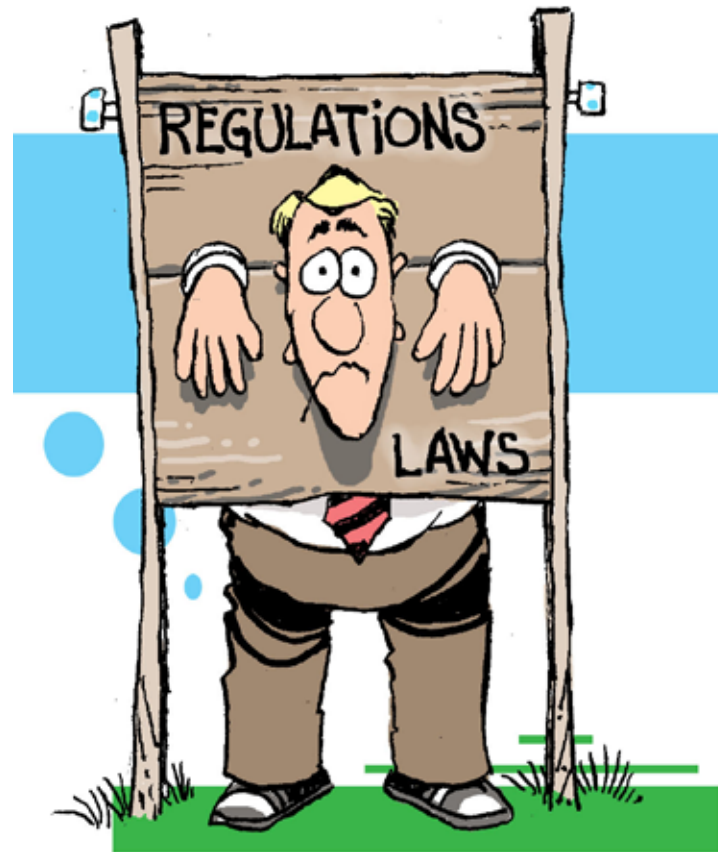
As with laws, what matters about regulation is not the presence of written rules but their character and operation.

allowed. Much better to stay on good terms with the regulator.

Permission or Rule Book? In one kind of regulation, there is a rule book. If you follow the rule book, you’re OK. You go ahead and do what you want to do. In much regulation, however, you have to ask for permission from the regulator, and that permission includes a lot of discretion. Environmental review is a good example.

Plain Text or Fixers? Can a normal person read the plain text of the rule and understand what action is allowed? Or is the rule so complex that specialists are required to understand the rule and the regulatory agency’s current interpretation of the rule? In particular, are specialists with internal agency contacts or specialists who used to work at the agency necessary?

Enforced Commonly or Arbitrarily? Regulations that are seldom enforced but then used occasionally to impose enormous penalties are clearly more open to political abuse. If Americans commit



three felonies a day in “conspiracy,” internet use, endangered species, wetlands, or employment, and immigration regulations (just to start), but one in a hundred thousand is ever prosecuted, then the power to decide who gets prosecuted is obviously ripe for abuse.

The Right to Discovery, See Evidence, and Challenge Decisions. Do you have the right to know how a regulatory agency decided your case? Step by step, what assumptions, calculations, and interpretations did it use? The objects of agency actions often do not, even in high profile cases.

The Right to Appeal. In law, the right to appeal is central and means the right to have your case heard by an appellate body distinct from the prosecutor and first judge. In regulation, however, the right to appeal often means only the right to ask the same agency that made the decision to reconsider. The Supreme Court’s *Chevron* doctrine sets a high bar for courts to second-guess agency interpretations of law. That severely limits your ability to appeal regulatory decisions and the regulations themselves.

Insulation from the Political Process. There are many structures in place whose purpose is to ensure the “independence” of independent agencies. But we live in a democracy, so independent agencies can’t be too independent if they have great discretionary power.

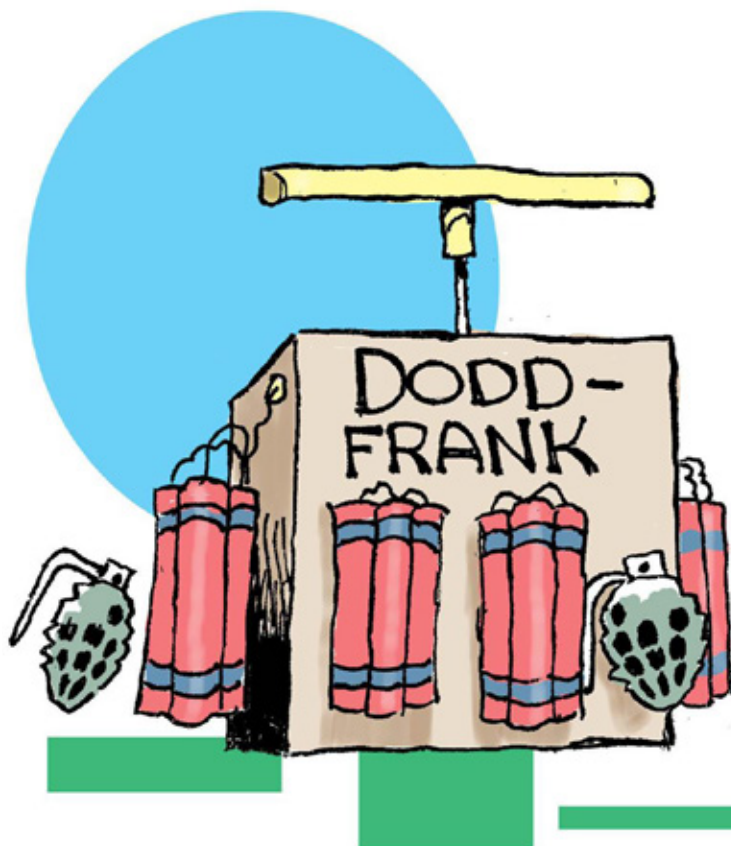
The purpose of these structures is to prevent the regulatory state from being used for explicit party politics. They are less successful at limiting the bureaucracy’s use of its regulatory power to prop up its own separate fiefdom. They are also less successful at limiting unwitting political cooperation. When vast majorities of the bureaucracy belong to one political party, when government employee unions funnel unwitting contributions to candidates of that party, and when strong ideological currents link decisions across agencies, explicit cooperation is less necessary.

And, though it was ever thus, the enormous expansion of the size, power, and discretion of the

regulatory state makes the insulation structures more important, just as they are falling apart.

Speed vs. Delay. The regulatory process can take years, and a canny regulator need not explicitly rule against a political foe. Delay is enough. The Internal Revenue Service, for example, didn’t deny tax-exempt status to conservative groups in 2012. It just repeatedly delayed the approvals until the election was over.

Consultation and Consent of the Governed. Congress writes empowering legislation that is usually vague and expansive. The agencies undertake their own process for rule writing. They usually invite comment from interested parties, but are typically free to ignore it when they wish.



THE REGULATORY STATE IN ACTION

Do we really have reason to be afraid? Let's take a tour of the regulatory state of affairs. As we do so, think of how well the current regime represents "rule of law," how well it respects your freedom to speak, your freedom to object, your freedom to oppose the regulator and regulatory regime. Think how insulated it is against the strong temptations of our increasingly polarized, winner-take-all, partisan political system to use regulatory power as a means of enshrining political power.

Systemic Means What We Say It Means


The Dodd-Frank Act is a 2,300-page law that, among other things, gives regulators the power to designate certain firms as systemically important financial institutions (SIFI). Such designations put firms under stringent regulation by the Federal Reserve. But the law does not define what a SIFI is. Subsequent regulations have not defined it either. When the insurer MetLife challenged its SIFI designation in court, the Financial Services Oversight Council responded by opining that a failure by MetLife could threaten the broader economy. This setup makes a SIFI designation nearly impossible to fight.

The act has given rise to tens of thousands of pages of subsidiary regulation, and much more still to be written. The Volker rule alone—do not fund proprietary trading with insured deposits—runs now to nearly a thousand pages. To call this Talmudic is to insult the clarity and concision of the Talmud.


The result is immense discretion, both by accident and by design. There is no way one can just read the regulations and know which activities are allowed. Each big bank now has dozens to hundreds of regulators permanently embedded at that bank. The regulators must give their OK on every major decision of the banks.

The "stress tests" that have become a cornerstone of the Federal Reserve's regulatory efforts are a case in point.

In "stress tests," Federal Reserve staff make up various scenarios and apply their own computer models and the banks' computer models to see how the banks fare. However, the Fed does not announce a set scenario ahead of time. The Fed staffers make



There is no way one can just read the regulations and know which activities are allowed. Each big bank now has dozens to hundreds of regulators permanently embedded at that bank. The regulators must give their OK on every major decision of the banks.




up new scenarios each time. They fear that if banks know the rules ahead of time, then the clever MBAs at the banks will make sure the banks all pass. And billions of dollars hang on the results of this game.

The Fed staffers playing this game that I know are, for now, completely honest and apolitical. But how long can the Fed resist the temptation to punish banks that have stepped out of line with a stress test designed to exploit that bank's weaknesses? Is it any wonder that few big banks are speaking out against the whole regime? They understand that being an "enemy" is not the way to win approvals.


And the stress-test staff are getting handsome offers already to come work for the banks, to help the banks to pass the Fed's stress tests. Ben Bernanke himself is now working for Citadel.

If this sounds like the cozy world of "regulatory capture," however, remember the litany of criminal

prosecutions and multibillion-dollar settlements. These are instigated by the Attorney General and Department of Justice, with much closer ties to the administration, but they revolve around violations of securities regulations. Is it a coincidence that Standard & Poor's, which embarrassed the adminis-



The ACA is almost a textbook case of corporatism: The big hospitals, doctors, and insurers get a protected small cartel in return for political support for the law, HHS, and state exchanges.



tration by downgrading U.S. debt, faced a \$1.4 billion settlement for ratings shenanigans, while Moody's, which only later downgraded U.S. debt, did not? Pay up, shut up, and stay out of trouble is the order of the day.

John J. Mack, Morgan Stanley's ex-chairman, explained Wall Street's mentality today when he told *The Wall Street Journal*: "Your No.1 client is the government."

Statistics Say You're Guilty

In 2013, the Consumer Financial Protection Bureau (CFPB) and the Department of Justice charged Ally Bank with discrimination in auto lending and extracted a nearly \$100 million settlement. Ally provides money to auto lenders. Lenders negotiate interest rates. Nobody is allowed to collect data on borrowers' race. But DOJ ran statistical analysis on last names and zip codes—Bayesian Improved Surname Geocoding—to decide that minorities are being charged more than they should, essentially encoding ethnic jokes into law.

Why did Ally pay? Sure, it might have won in court. But nobody wants to be branded a racist. And DOJ and CFPB have many more cards up their sleeves. CFPB now can disapprove any retail financial arrangement it deems "abusive" and put Ally out of business.

Note that there was no charge or evidence of discriminatory practice or intent. The case was purely about DOJ and CFPB not liking the statistics of the outcome.

More importantly, was this a knowable regulation or a bill of attainder? Did CFPB or Justice make available the Bayesian Improved Surname Geocoding program on their websites, and tell financial institutions: "Please download the BISG program, make sure you run loans through it, and that they come out with the right statistics"? Obviously not. This was an unknowable regulation. Ally had no way to make sure it was lending to the right last names.

The Affordable Care Act You Can't Afford to Refuse

The Affordable Care Act created massive new health care entitlements, funded those with a complex array of fines and taxes, and imposed rigorous regulations on the design of health insurance plans. The bill is 2,700 pages long, and the subsidiary regulations are so convoluted that there is an active debate on their page count. Justice Antonin Scalia invoked the Eighth Amendment against cruel and unusual punishment as protection against actually reading it.

The Heritage Foundation counted 1,327 waivers to various provisions of the law that the Department of Health and Human Services has issued. Clearly, someone needing a discretionary waiver shouldn't be a big critic of HHS or the law.

The ACA is almost a textbook case of corporatism: The big hospitals, doctors, and insurers get a protected small cartel in return for political support for the law, HHS, and state exchanges. As the ACA

is itself an intensely partisan question, that support leaks into major party politics.

Speaking about the consolidation of health insurance into two or three big companies, Aetna CEO Mark Bertolini told *The Wall Street Journal* that federal regulators “happen to be, for most of us now, our largest customer,” adding:

So there is a relationship you need to figure out there if you’re going to have a sustained positive relationship with your biggest customer. And we can all take our own political point of view of whether it’s right or wrong, but in the end-analysis, they’re paying us a lot of money and they have a right to give us some insight into how they think we should run our business.


United Health wanted to join the California exchange Covered California. Many areas of California have only one or two insurers now, so competition and choice are clearly needed. But participation in the exchange needs prior regulatory approval, and United Health was denied. Why? The *Los Angeles Times* reports:

Peter Lee, executive director of Covered California, said established insurers shouldn’t be free to come in right away. Those insurers, he said, should not be allowed to undercut rivals who stepped up at the start and made significant investments to sign up 1.2 million Californians during the first open enrollment. ...


We think the health plans that helped make California a national model should not be in essence undercut by plans that sat on the sidelines.

You can’t ask for a clearer example of a regulator using discretionary power to cartelize an industry, protect incumbent profits, and punish a business





The power of the regulatory state has increased steadily, and it lacks many of the checks and balances that give us some “rule of law” in the legal system. The clear danger we face is the use of regulation for political control.



for failure to support his political objectives. He said nothing about United Health’s ability to serve California customers or to abide by any regulation.

Nice Internet You Have There

The Internet is the central disruptive technology of our time. So far it has been “permissionless”—unlike just about every other activity in the contemporary United States. You do not need prior approval from a regulator to put up a website.

But pressure for regulation has grown under the reasonable-sounding banner of “net neutrality.” At stake is the right of businesses to pay extra for faster delivery of their content. “Net neutrality” means outlawing business class on the internet. The Federal Communications Commission, a supposedly independent agency, studied the issue and found no reason to regulate the internet.

Then, in November 2014, President Obama surprised the FCC by announcing his support for regulating the internet as a public utility. The agency duly followed the President’s lead and proposed new rules.

The result is the full telecommunications regulatory regime circa 1935. In particular, the FCC will have the power to determine what rates are

“reasonable.” The FCC announced it will “forbear” to use that power along with its right, under the regulation, to impose content restrictions—yes, to tell you what to put on your website—and the “fairness doctrine.” But forbearance is discretionary. So, a company thinking of investing money in fiber-optic lines had better invest in good relations with the FCC and the administration that apparently drives its decisions.

Your Political Speech Papers Are Not in Order

Campaign finance law and regulation is all about restricting freedom of speech and altering who wins elections. So one should not be surprised about its political use to restrict freedom of speech and alter who wins elections.

Still, the recent trend is more troubling than usual.

Lois Lerner, director of the IRS Exempt Organizations Unit, famously derailed applications for nonprofit status from conservative groups ahead of the 2012 presidential election. Her main tactic was endless delay. And the goal was achieved. Many conservative groups sat on the sidelines rather than talk about their issues.

The tangle between Wisconsin Gov. Scott Walker and Milwaukee County District Attorney John Chisholm is similarly renown. Chisholm launched “John Doe” probes of Wisconsin conservative issue advocacy groups that, as *The Wall Street Journal* describes them, “blanketed conservatives with subpoenas, raided their homes and put the targets under a gag order.” The gag order prevented the targeted individuals from even revealing the fact of the investigation. It came to light, and the investigation was eventually ended by a court order, but not until well after the recall election. Walker won anyway, but he might not have.

The Obama administration has been pushing since 2010 to force nonprofits to disclose all donors, as campaigns must disclose contributors. It sounds innocuous: “Disclosures?” Who can be against that?

Shouldn't "big money" contributing to politics be public information?

Not when the vast power of the regulatory state can come down on whomever it wants to. Tyrannies always start by making lists. Nixon at least had to compile his own enemies list.

A MAGNA CARTA FOR THE REGULATORY STATE

The power of the regulatory state has increased steadily, and it lacks many of the checks and balances that give us some "rule of law" in the legal system. The clear danger we face is the use of regulation for political control. In that scenario, industries get carved up into a few compliant oligopolies, and the threat of severe penalties, with little of the standard rule-of-law recourse, keeps people and businesses in line and supporting the political organization or party that controls the agencies.

We're not there yet. The Koch Brothers are not on the EPA's "crucifixion list." The DOJ, National Labor Relations Board, Equal Employment Opportunity Commission, Occupational Safety and Health Administration, and so on and so on are not investigating every Koch plant. The Hoover Institution retains its tax-exempt status despite writings such as this one. A free media still exists, and I can read all my horror stories in the morning *Wall Street Journal*, and the free (for now) internet.

But we are getting there. What stops it from happening? A tree ripe for picking will be picked.

The easy answers are too easy. "Get rid of regulations" is true, but simplistic like "get rid of laws." What we learned in the 800 years since Magna Carta is that the character of law and the detailed structures of its operation matter. Law is good, as it protects citizens from arbitrary power.

It is time for a Magna Carta for the regulatory state. People need the rights to challenge regulators—to see the evidence against them, to challenge decisions, to appeal decisions. Yes, this means in court. Everyone hates lawyers, except when they need one.



People need a right to speedy decision. A "habeas corpus" for regulation would help: If any decision has not been rendered in six months, it is automatically decided in your favor.

A return to economic growth depends on reforming the regulatory state. And so does preserving our political freedom. 🐱

Mr. Cochrane is a Senior Fellow at the Hoover Institution, a Distinguished Fellow of the Booth School of Business at the University of Chicago, and an adjunct scholar of the Cato Institute. A longer version of this article first appeared at his website, The Grumpy Economist, on August 1, 2015, and is available at johnhcochrane.blogspot.com/2015/08/rule-of-law-in-regulatory-state.html.

THE EDUCATION OF A FUNDRAISER

By John Von Kannon

As we were getting this issue ready to go to print, our friend and colleague John Von Kannon passed away. John was not merely a good fundraiser for our causes. He was also a teacher for the entire conservative movement, training thousands of fundraisers in the art of connecting with donors' passions. John shared his wisdom broadly so that the conservative movement as a whole—not just the particular organizations he worked for—would become stronger. And it did. There can be no adequate substitute for having him with us still, but we are lucky to have a few of his lessons written down. We present in these pages John's brief essay sharing lessons from a lifetime of fundraising. Thank you, John. You will be missed. —Editor

TOO OFTEN PEOPLE THINK THAT fundraising is about asking rich people for money. Most books and manuals on the subject usually say that “the ask” is the most important part of fundraising. If we're splitting hairs, I suppose it is—and for the rather insipid reason those manuals and books say so: If you don't ask, they won't give. There's a flaw in this logic, though: Even *if* you ask, most people won't give. Asking might be the most important thing in fundraising, but it's also the most basic thing. You might as well say that breathing is the most important thing in life. The statement is true but rather meaningless, right?

If you're a good fundraiser then everything you've said to a potential donor before the “the ask” renders the ask itself redundant. At least, that's been my experience. I've asked plenty of people (thousands in fact) over the years for money. Very few gave. Even fewer gave me money twice.

Nevertheless, I am a very successful fundraiser, a profession that is a bit like baseball. Whether you're a good hitter or a bad hitter, everyone in baseball gets out more than he get on base. We're all batting well under .500. And while there are many things that separate the good fundraisers from the bad, that

the good ones ask and the bad ones don't is not one of them.

Step-by-step fundraising guides that read like a cooking recipe are a dime a dozen. What's often missing is the big picture. What I want to do in this article is offer some lessons that I have learned from a 42-year career—an approach that has given me a tremendous amount of success in the fundraising business. The lessons I want to share are these:

1. Find people who share your organization's beliefs and then encourage them to join you.
2. Donors are people who spend a small amount of time writing checks to charities (their donor role) and most of their lives living and working. They have lots of interests and passions.
3. You can learn about your donors' interests and passions if you are curious enough to ask questions and then truly listen to what they say.
4. Donors don't care so much about your needs, but often respond to stories about problems, solutions, goals, and dreams.
5. Spending time with people is much more productive than looking for that elusive silver bullet.





John Von Kannon talks with Heritage Trustee Brian Tracy and his wife Barbara.

These lessons have served me well in a fundraising career that has spanned four decades, raised a billion dollars, and has provided me with a front-row seat in building one of the world's foremost nonprofit networks—the American conservative movement—into a model of effective donor outreach.

How did I learn these things?

LEARNING BY DOING

In the late 1960s, Indiana University became the first in the country to elect a student body president who was a member of the radical Students for a Democratic Society. Two years later it became the first to elect a Black Panther Party member. A group of us students joined R. Emmett (Bob) Tyrrell, Jr., who founded a campus magazine, now called *The American Spectator*, to provide an alternative point of view on politics and policy by combining serious writing with satire. We were funded primarily by selling copies at 20 cents a pop (up from 15 cents for the first issue) and \$10 to \$25 ads from bars, restaurants, and a local florist with libertarian tendencies.

By 1972, three out of the four original staff had completed their college work. We decided to expand beyond one campus and become a national magazine. We had by then incorporated as a 501(c)(3) organization with a couple of major foundation donors, but to expand, we needed more donors and more income. Bob Tyrrell called me into his office and said that I was no longer managing editor, but publisher and was responsible for raising money.

Me: *I don't know anything about raising money.*

Bob: *You're a likable guy. Just go see people.*

So I began literally knocking on doors in Bloomington, Indiana, starting with the florist, of all people. I carefully explained the cost of printing, rent, and the necessary, but modest, salaries. The first week I made 20 calls and went zero for 20, as I recall, perhaps not so quickly realizing that my need (to pay the rent and salaries) wasn't theirs. So I went out the next week and told people about how we are fighting the radicals on campus—some of whom actually had set off an explosive in the library, destroying books on military history—and training young conservative writers. My success rate climbed to about one in three.

The checks were small—\$25, \$50, maybe \$100 each. After a while I learned not to talk so much, but to bring up one issue on campus and ask what they thought about it. Then listen. Then ask for a check to help us meet the concerns that the person had expressed and that we shared.

Even at this early stage, I had already figured out that conversations about values and goals are more productive than talking about financial needs. The new challenge was to identify people with similar values. One problem in 1972 was that there were very few people who identified themselves as conservative donors. There wasn't anything remotely on the scale of what we know today as the conservative nonprofit world. On the flip side, there wasn't much competition for conservative dollars either.

So my next visit was with M. Stanton Evans, then-editor of the *Indianapolis News*, who had been very helpful in identifying writers for the magazine and giving us publicity on his editorial page. I asked if he knew anyone who might like to support us financially. Stan led me to the office of insurance entrepreneur John Burkhart, who had a reputation for generosity to Republican and conservative causes. I got an appointment, had a great conversation and received a check for \$1,000. I believe it was John who introduced me to the head of the Indianapolis Chamber of Commerce, who gave me a list of Chamber members he thought would be interested and allowed me to use his name. I collected a few more \$500 and \$1,000 checks.

Another conservative organization during that time was the Intercollegiate Studies Institute (ISI), which organized lectures on campuses and hosted summer schools teaching conservative and libertarian philosophy. ISI had a regional office in Indianapolis then headed by a young Southern gentleman named Richard Hines who was most gracious. He allowed me to use his office when in town and urged me to write a letter to his fellow South Carolinian, Roger Milliken, the highly successful textile entrepreneur who supported *National Review*

with advertisements for his carpets. I wrote the letter. A few days later a check arrived for \$5,000. An interesting thought struck me at this point: This was fun!

Next in line? Henry Salvatori, a major conservative donor. The Salvatori family had immigrated to America from Italy when Henry was a young boy, and he went on to become an engineer who made a fortune in the oil fields. He moved to Southern California where he supported Republican and conservative candidates, along with *National Review* and ISI. (Salvatori was the man who convinced Barry Goldwater to allow Ronald Reagan to give a nationally televised fundraising speech on behalf of the

★—————★
After a while I learned not to talk
so much, but to bring up one
issue on campus and ask what
they thought about it. Then listen.
★—————★

Goldwater presidential campaign in October 1964. Reagan did and the speech raised a million dollars. That speech also launched Reagan's political career.)

OK, so how did I get to meet Henry Salvatori?

Well, I also knew that Salvatori was a major donor to ISI and close with its president, Vic Milione. I had been a member of ISI since my freshman year, so I called Vic and asked if he thought Salvatori might be interested in supporting the *Spectator*. Vic agreed to call Salvatori on my behalf and urged me to also enlist help from ISI trustee Henry Regnery. Regnery was the son of a Chicago textile manufacturer and a Renaissance man. He had studied engineering and economics, helped start *Human Events*, the first of the three existing conservative publications. He started and ran the Henry Regnery Company, a conservative book publisher, and was a member of the American Conservatory of Music and the Chicago Literary Club.

These two incredibly kind men got me an appointment with Henry Salvatori. My first meeting with a

millionaire! I nervously booked a plane ticket to Los Angeles. I scouted out where his office was located and booked a nearby room at the Travelodge across the street from the Mormon Temple so this country boy from Indiana would have a landmark to find his way back to the motel.

I entered Mr. Salvatori's office and was greeted by a sweet, if intense, man in a cloud of cigarette smoke. I had written and memorized a list of talking points, but before I could say a word he bombarded me with questions. What is your background? What is Tyrrell like? What does Bill Buckley think of what you are doing? How does your magazine differ from *National Review*? What kind of reception are you getting on campuses? How do you find writers? What is your budget?

Then Mr. Salvatori said: *Well, I don't have a lot of money now. I just gave \$250,000 to Sam Yorty's campaign [for mayor of Los Angeles.] Would \$10,000 help?*

He had the check written on the spot and handed it to me. Our entire annual budget was about \$120,000.

At this moment, I decided that fundraising was for me.

★—————★
When fundraisers talk with donors about their plan and how they will execute it, they don't inspire. When they talk about their dream, why they exist, they can connect with people who share that dream.
★—————★

The education of a fundraiser continued for me days later after returning to Indiana. Next stop: Chicago. No airplane ride needed. (I drove the four hours from Bloomington.) And no luxurious Travelodge. (I slept on a sofa in a friend's apartment near O'Hare Airport.) I remember well an early-morning meeting with a low-level executive

at Hart Schaffner Marx, an American manufacturer of tailored menswear. Attempting to demonstrate our influence, I handed him a binder with news clippings. Within minutes he was sound asleep, binder resting comfortably on his chest.

That same day, I met with the McDonald's Corporation. I was proud of my pre-meeting insights about McDonald's: Founder and CEO Roy Kroc was a real entrepreneur. They paid minimum wage which then, as now, was under attack for being unjust. And they made lots of money. All of this suggested that they *should* be interested in supporting us. Their response to my description of the *Spectator: You are supporting free enterprise on campuses? Well, we give money to the Black P. Stone Nation [an infamous street gang in the Chicago area that formalized as a Black Nationalist group].*

I was speechless. In fact, I briefly considered a career change. I wondered why a corporation would act in such a way.

Chalk up two more early lessons: 1) corporations don't always act in their own self-interest; and 2) avoid thinking that tells you that someone "should" support your cause.

Whether the meeting was successful, after each one I would replay each conversation in my mind. What did I do well? What should I have done differently? Did this meeting provide general lessons, or was this person just an outlier (the sleeper at Hart Schaffner Marx)? And I took notes so when I saw that person again I would have a firm memory of what happened, what interested the person, what he was like. Over time, I could perhaps learn some general lessons. (I later learned that these meeting notes have a name: call reports.)

It was at this stage in my very short career that the realization about "the ask" dawned on me: While asking for money is important, it is even more important to make the case for support. And I eventually learned that the case for support varies from donor to donor, and that's OK as long as the donor's interests are in line with the organization's mission.



The case for support is based on the mission, as well as stories that describe activities, results, and aspirations. And it is based on what the donor is interested in. In the case of *The American Spectator*, the mission was fighting radical ideas on campus and promoting conservative ideas on campus and training young conservative writers.

That's what the donors wanted to know. And over time I learned the best way to tell them what they wanted to know.

ENTERING THE BIG LEAGUES— AND STRIKING OUT

After several years at the magazine, I was ready for a change, so I approached Ed Feulner, president of The Heritage Foundation, then a 7-year-old organization that was re-defining the role of think tanks. The universe of conservative organizations was still fairly small and Ed and I had worked together over the years. (In fact, Ed, Vic Milione, Don Lipsett of Hillsdale College, and I met with some frequency to share fundraising ideas and strategies.) Ed hired me. In 1980 Heritage had a \$3.7 million budget provided by a few major gifts, a couple hundred

\$1,000-and-above gifts and 120,000 smaller-dollar donors who gave through direct mail.

Coming to Washington, D.C., from a little magazine in Bloomington, Indiana, was a heady experience. We had a large enough budget that I could stay in hotels instead of on friends' couches. I could take airplanes and rent cars instead of driving my ancient stick-shift Volvo for four or five hours a trip. I started thinking big. And I began forgetting some of the early lessons.

One of The Heritage Foundation trustees at the time was Jack Eckerd, founder and CEO of the large eponymously-named drug store chain. He had supported Heritage for two years, for a total of \$20,000. I persuaded Phil Truluck, Heritage's Executive Vice President who knew Jack well, to go to Florida and ask Jack for \$1 million. After all, Jack was rich and a trustee who knew us well. What could go wrong? Phil, believing me to be the expert, dutifully went, made the case for support and asked for \$1 million. Phil reported that Jack laughed in his face and said: "I'm not going to give you \$1 million."

How many lessons can we learn from this disaster? Don't ask someone to make a gift that equals 25 percent of your budget. Don't fall back on the

“You have money; we want money; give us some” approach. Don’t pull a dollar figure out of your hat, but think what would be reasonable for a \$10,000 donor who knows you well. Clearly, we learned that asking a donor for 100 times his previous donation wasn’t the correct calibration. Don’t forget to learn before you ask: What does Jack like about us and what would he like us to do more of?

The real lesson for me: Don’t create an embarrassing catastrophe for the guy who does your salary reviews.

A silver lining to the Jack Eckerd story: The next year he and other trustees were discussing office space problems facing our growing organization and decided to purchase a second building. Jack wrote a check for \$100,000. Phil is convinced that had we not placed a large figure in front of Jack earlier, this gift would not have happened. Perhaps. But what I do know is that a fundraising request for almost any amount works better if it is tied to something that the donor is interested in, or, even better, passionate about.

As these stories illustrate, successful fundraising involves “what” to do and “how” to do it, but the real focus is the “why” we do things.

START WITH ‘WHY’

Advertising executive and author Simon Sinek tells us in *Start with Why*:

There are only two ways to influence human behavior: you can manipulate it or you can inspire it. When I mention manipulation, this is not necessarily pejorative; it’s a very common and fairly benign tactic. In fact, many of us have been doing it since we were young. “I’ll be your best friend” is the highly effective negotiating tactic employed by generations of children to obtain something they want from a peer. And as any child who has ever handed over candy hoping for a new best friend will tell you, it works.

When fundraisers talk with donors about their plan and how they will execute it, they don’t inspire. When they talk about their dream, why they exist, they can connect with people who share that dream. Most fundraisers focus on the former and their causes suffer because of that.

★—————★
Donors are people too, and people have many interests. Our job is to discover those common interests. Leave the judging and the politicking to the pundits.
★—————★

In order to inspire gifts you must understand why someone would give money to your cause. It recognizes that fundraising is not a “win-lose” proposition but one where both the fundraiser and the person giving win by knowing that they have advanced a shared goal. This insight means that you must think about others as well as yourself and do so not in a manipulative way (benign or otherwise) but with a true sense of empathy. This approach also results in great relationships and often even deep friendships.

Over the past few years there has been a lot of talk in the fundraising world about “building relationships” and it’s obvious that relationships are important. But why do you establish relationships with your donors? To understand your shared values so you can create scenarios with two winners. Too often fundraisers act as if relationships are simply an activity, a technique built, perhaps within a “moves management structure.” Too many fundraisers focus solely on the process.

Several years ago I was visiting a longtime donor in Fort Lauderdale. She is a generous donor to many other organizations as well. Over lunch she said that a downside of her generosity is that she is inundated by requests for support by mail throughout the year and with requests for meetings in the winter months when

so many fundraisers invade South Florida. She told me about a particular young lady whose name I recognized as an attendee at a fundraising seminar I had given on the importance of relationships. The young lady said that she would be visiting Florida and asked for an appointment. Our longtime donor replied: "I am just not going to take on any new organizations." The response from the fundraiser was: "Oh, I am not coming to ask for money. I want to build a relationship!"

Checking boxes is not building relationships. Much of what you do in the world of fundraising is focused on process: database management, hiring and training, board development, as well as all sorts of techniques of benign manipulation. Those things are important and you should learn them. But if studied alone, they miss what I believe is the essence of our business. If you are to be a truly successful fundraiser you must understand donors as people, what they need, what they feel, what interests them. You must learn to understand *why people give*.

DONORS ARE PEOPLE, TOO

I am a philosophical and political conservative and I hope that this advice will be especially useful to my colleagues in the conservative movement. The donors I work with are motivated to give to the organizations that promote conservative values or policies or to oppose Left-liberal policies. But that's just part of the "why." Donors who are motivated by these values have many options of causes to support within the conservative movement. Which means that even with my four decades of understanding of what motivates conservative donors I still have a lot of work to figure out the "why" for my particular organization.

At the same time, most people are not one dimensional. Even those of us who care deeply about political and policy issues care about our communities, our churches, a particular disease, our schools, and our fellow man. So do many of the people who support us. The key is to motivate their financial support through inspiration.

In late June 2014 the liberal political commentator Lawrence O'Donnell returned to the air on MSNBC after a car accident sidelined him for 75 days. Describing his harrowing accident, O'Donnell told his viewers: "The first words I saw when I rolled into the hospital was the name David H. Koch," who with his brother, Charles, are major donors to conservative and libertarian ideas and candidates, making them the *bête noir* of Left-leaning political observers. He went on: "I agree with Harry Reid's critique of the Koch brothers' contributions to American politics, but that is not the only thing they contribute to." O'Donnell concluded, "You can be outraged by what the Koch brothers do with their money in politics and you can appreciate what they contribute to hospitals and medical research, and you can do that at the same time and still retain an ability to function. And so, yes, I feel some gratitude to David Koch."

Lesson? Donors are people too, and people have many interests. Our job is to discover those common interests. Leave the judging and the politicking to the pundits.

My passion is to promote conservative ideas to return America to the vision of our Founders. Most books on fundraising aren't written for those who share this passion. Alan Factor is a good friend and highly successful fundraiser. At lunch one day he said: "John, I have figured you out. You aren't a fundraiser. You are a conservative who raises money." At first I was put off by Alan's remark, but on reflection I realized that he was right. While my job includes countless hours spent on "what" and "how" activities, my real contribution is figuring out *why* people give. I hope you will make that task the central activity of your fundraising career, too. 🙏

Mr. Von Kannon oversaw The Heritage Foundation's development operations for over 30 years. Before coming to Heritage, he helped found The American Spectator. He also served as Vice President of the Pacific Legal Foundation for two years.

America's Culture of Liberty

by Carson Holloway

WHY SHOULD AMERICANS CARE ABOUT the moral character of the culture? What does it matter if Americans are becoming less attached to religion, family, and community?

Governments are instituted, in the words of the Declaration of Independence, to protect the rights of individuals to “life, liberty, and the pursuit of happiness.” The freedom of the individual would therefore appear to be the aim of the American project.

After all, the Declaration of Independence does not say that it is a primary task of government to foster a particular kind of culture. Rather, the government should guarantee the security of individual rights and individual liberty, the exercise of which presumably will generate whatever kind of culture is consistent with the desires of most Americans. It might appear that from the standpoint of the Founding the moral character of our culture is not a political concern.

This view, though perhaps understandable, is nevertheless mistaken. Both the Founders and the most insightful analysts of the kind of government the Founders created have understood well that the preservation of the regime of individual rights requires a healthy moral culture. Religion, the family, and the spirit of private, voluntary association





are essential to fostering the virtues of character that alone can sustain a free government dedicated to the protection of the rights of individuals.

The Founders were firm believers in individual rights and individual freedom, but they were not naively optimistic about human nature. They knew that human beings are very much prone to violate each other's rights. They believed—following John Locke, the great English philosopher of natural rights—that this is why governments were established in the first place.

The Founders, in other words, did not believe that the spontaneous exercise of man's freedom would necessarily lead to good outcomes. The invisible hand may govern markets, but it does not oversee the political community. Some discipline is required, and governments are instituted to provide that discipline so that the exercise of each person's freedom is compatible with the rights of others.

Government alone, however, is not a sufficient solution to this problem. If selfish individuals in the absence of government will use their individual power to violate the rights of others, it is also quite possible that selfish individuals within civil society will use the power of government to commit the same violations. What is needed in addition, therefore, is a strong moral culture that teaches each citizen the importance of the dignity and rights of his fellow citizens.

Religion, the Founders believed, was a key support for such a moral culture. In this, again, they followed Locke, who treated religion not as a matter of indifference to the regime of natural rights but instead as an essential support for it. Locke taught in his famous *Second Treatise of Civil Government* that the very idea of natural rights depended on the understanding that each human being is created by God. In Locke's words, no one may arbitrarily "take away" the "life, the liberty, health, limb or goods of another," because every human being is "the workmanship of one omnipotent and infinitely wise maker." This teaching is famously echoed in the

Declaration of Independence, which teaches that human beings are “endowed by their Creator with certain unalienable rights.”

Accordingly, the leading American Founders emphasized the importance of religion as a support for the natural rights regime. In his *Notes on the State of Virginia*, Thomas Jefferson suggested that “the liberties of a nation” cannot “be thought secure when we have removed their only firm basis, a conviction in the minds of the people that these liberties are the gift of God” and that “they are not to be violated but with his wrath.” Similarly, in his Farewell Address, George Washington instructed his fellow citizens that “religion and morality are

indispensable supports” to “political prosperity.” Like Jefferson, Washington linked the religiosity of the citizens to the ability of the government to protect the rights of all: “Where is the security for property, for reputation, for life, if the sense of religious obligation desert the oaths which are the instruments of investigation in courts of justice?”

The Founders also believed that the family was essential to sustaining the regime that protects

Religion, the Founders believed, was a key support for the moral culture a society needs.



our rights. Thus, James Wilson—one of the greatest legal minds among the Founders—wrote in his *Lectures on Law* that “reason,” “history,” and “holy writ” all teach that “marriage” is “the true origin of society.” Marriage, he continued, was, more than any other institution, the source of the “peace and harmony” that mankind has enjoyed.

Americans’ respect for their familial duties, Alexis de Tocqueville later observed, supported the decent and orderly politics that America was able to achieve. According to Tocqueville, the Europeans of his day did not approach marriage with anything like the respect that the Americans displayed. As a result, the European learned from his experience of family life a “scorn for natural bonds” and a “taste for disorder” that harmed the community. As Tocqueville summed up the contrast, “the European seeks to escape his domestic sorrows by troubling society,” while “the American draws from his home the love of order, which he afterwards brings into affairs of state.”

Tocqueville’s effort to link the “natural bonds” of the family to the health of the larger social order represents a simple but essential chain of reasoning. Respect for the duties of family life is respect for the rights of other members of the family. Those

bonds—the bonds that link husband and wife, parents and children—are natural; the bonds that link citizens are more conventional. People who disdain their familial duties can hardly be expected to respect the rights of their fellow citizens, while people who fulfill their familial duties are receiving the training that prepares them to respect the rights of their fellow citizens.

Of course, we cannot think clearly and consistently about our duties to marriage and family, much less learn to respect those duties, if these vital social institutions, and the duties they involve, can be redefined at will by the government. That is why it is so troubling that the Supreme Court has just decided to jettison the traditional and natural definition of marriage as a union between a man and a woman. A political power to redefine such a fundamental institution implies that we have no natural duties, that all our duties are conventional. In the long run, such an understanding can only undermine the citizen's sense of obligation to others.

Tocqueville also observed that Americans' habit of voluntary social cooperation was essential to their ability to maintain the free and limited gov-

People who disdain their familial duties can hardly be expected to respect the rights of their fellow citizens, while people who fulfill their familial duties are receiving the training that prepares them to respect the rights of their fellow citizens.

ernment they had inherited from the Founders. According to him, the Americans of his day had perfected the “art of association.” By the exercise of this art, they addressed social problems and improved the intellectual, cultural, and moral quality of their civilization through voluntary cooperation without



the exercise of government power. As he suggested in another context, it is a bad bargain to have a government that can provide for all of the citizens' needs and pleasures if such a government is also “absolute master” of everyone's “freedom” and “life, if it monopolizes movement and existence to such a point that everything around it must languish when it languishes, that everything must sleep when it sleeps, that everything must perish if it dies.”

Accordingly, the American capacity for voluntary association is essential to keeping the government within reasonable limits that are compatible with the continued flourishing of individual liberty.

The rights doctrine on which America is founded might appear to be a doctrine of pure individualism and self-regard. On the contrary, the preservation of rights and freedom depends in the end on the ability



Volunteers raise a wall on a Habitat for Humanity home, Washington, D.C., November 2005. (Photo by Joe Raedle/iStock)

of citizens to care about each other. As Tocqueville observed, there “is no vice of the human heart that agrees” with despotism “as much as selfishness: a despot readily pardons the governed for not loving

The American capacity for voluntary association is essential to keeping the government within reasonable limits that are compatible with the continued flourishing of individual liberty.

him, provided they do not love each other.” In the absence of mutual concern, they will not be able to cooperate to protect the rights of all.

The mutual care of citizens for each other, however, is supported by religion, the family, and the spirit of voluntary service to the community. These things are essential to the preservation of the freedoms that the Founders established, and that is why their flourishing is a proper concern of all Americans. 🏠

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Are We Smart Enough for Democracy?

By Bruce Thornton



LAST DECEMBER, MIT PROFESSOR Jonathan Gruber, one of the architects of the Affordable Care Act, had to explain to Congress several remarks he had made about the “stupidity of the American voter,” as he put it in one speech. Conservative radio host Rush Limbaugh frequently uses the more diplomatic phrase “low-information voter” to explain why bad policies or incompetent politicians succeed. And numerous polls of respondents’ knowledge of history and current events repeatedly imply the same conclusion—that the American people are not informed or smart enough for democracy.

This bipartisan disdain for the masses has been a constant theme of political philosophy for over 2,500 years. From the beginnings of popular rule in ancient Athens, the competence of the average person to manage the state has been called into question by critics of democracy. Lacking the innate intelligence or the acquired learning necessary for dispassionately judging policy, the masses instead are driven by their passions or private short-term interests.

The earliest critic of democracy, an Athenian known as the Old Oligarch, wrote that “among the common people are the greatest ignorance, ill-discipline, and depravity.” Aristotle argued that the need to make a living prevents most people from acquiring the education and developing the virtues necessary

for running the state. He said the “best form of state will not admit them to citizenship.” And Socrates famously sneered at the notion that any “tinker, cobbler, sailor, passenger; rich and poor, high and low” could be consulted on “an affair of state.”

By the time of the Constitutional Convention in 1787, this distrust of the masses had long been a staple of political philosophy. Roger Sherman, a lawyer and future Senator from Massachusetts, who opposed letting the people directly elect members of the House of Representatives, typified the anti-democratic sentiment of many delegates. He argued that the people “should have as little to do as may be about the government,” for “they want information and are constantly liable to be misled.”

Most of the delegates in Philadelphia were not quite as wary as Sherman of giving the people too much direct power, but in the end they allowed them to elect directly only the House of Representatives. Such sentiments were also frequently heard in the state conventions that ratified the Constitution, where the antifederalists’ charge of a “democracy deficit” in the Constitution were met with protestations that the document was designed to protect, as John Dickinson of Delaware put it, “the worthy against the licentious,” the men of position, education, and property against the volatile, ignorant masses.

Unlike earlier antidemocrats, however, the framers of the Constitution did not believe that a Platonic elite superior by birth, wealth, or learning could be trusted with unlimited political power, since human frailty and depravity were universal, and power was of “an encroaching nature,” as George Washington said, prone to expansion and corruption. Hence the Constitution dispersed power among the three branches of government, so that each could check and balance the other. For as Alexander Hamilton said: “Give all power to the many, they will oppress the few. Give all power to the few they will oppress the many. Both therefore ought to have power, that each may defend itself against the other.”

A century later, for all its talk of expanding democracy, the Progressive movement of the late 19th and early 20th centuries promoted a form of rule by elites, dismissing the fear of concentrated power that motivated the Founders. The Progressives argued that government by experts was made necessary by industrial capitalism and new transportation and communication technologies, and that the new “sciences” of psychology and sociology were providing knowledge that could guide these technocrats in creating social and economic progress.

Future Progressive President Woodrow Wilson in 1887 argued for this expansion and centralization of federal power in order to form a cadre of administrative elites who, armed with new scientific knowledge about human behavior, could address the novel “cares and responsibilities which will require not a little wisdom, knowledge, and experience,” as he wrote in his essay “The Study of Administration.” This administrative power, Wilson went on, should be insulated from politics, just as other technical knowledge like engineering or medicine was not accountable to the approval of voters. Thus Wilson envisioned federal bureaucracies “of skilled, economical administration” comprising the “hundred who are wise” empowered to guide the “thousands” who are “selfish, ignorant, timid, stubborn, or foolish.”

Like the antidemocrats going back to ancient Athens, Wilson’s ideas reflected contempt for the people who lack this specialized knowledge and so cannot be trusted with the power to run their own lives. Today’s Progressives, as Jonathan Gruber’s remarks show, share the same distrust of the masses and the preference for what French political philosopher Chantal Delsol calls “techno-politics,” rule by technocrats.

Thus on coming into office in 2009, President Obama said that on issues like stem-cell research or climate change, he aimed “to develop a strategy for restoring scientific integrity to government decision-making” and to protect them from politics. We hear the same technocratic ideal in one of



former Secretary of State Hillary Clinton’s favorite talking points, that public policy should be guided by “evidence-based decision making” rather than by principle, fidelity to the Constitution, or virtue. The important question, however, is whether or not political decision-making requires technical knowledge more than the wisdom gleaned from experience, mores, and morals.

Today, this old problem of citizen ignorance and its political role has been worsened by the expansion of the scale and scope of the federal government and its agencies over the last 75 years. Indeed, the complexity of the policies that federal agencies enforce and manage has made Wilson’s ideas about the necessity for government by technocratic elites

a self-fulfilling prophecy. In 1960, economist F. A. Hayek made this point about the Social Security program, noting that “the ordinary economist or sociologist or lawyer is today nearly as ignorant [as the layman] of the details of that complex and ever changing system.”

This makes the champions and managers of such programs the “experts” whom citizens and congressmen must trust, and these unelected, unaccountable “experts” are “almost by definition, persons who are in favor of the principles underlying the policy.” This problem has obviously been magnified by the exponential growth of federal agencies and programs since 1960, the workings of which few people, including most congressmen, understand.

If we accept, as many do today, that governing is a matter of technical knowledge, then the lack of knowledge among the masses is a problem, given that politicians are accountable to the voters on Election Day. If, however, politics is a question of principle and common sense, the wisdom of daily life necessary for humans to get along and cooperate with one another, then technical knowledge is not as important as those other qualities.

This is the argument made by an early champion of democracy, the philosopher Protagoras, a contemporary of Socrates. Protagoras defended democracy by pointing out that Zeus gave *all* humans “reverence and justice to be the ordering principles of cities and the bonds of friendship and conciliation.” Political communities could not even exist if “virtues” and “justice and wisdom” were not the birthright of all people. As such, as James Madison wrote in 1792, “mankind are capable of governing themselves” and of understanding “the general interest of the community,” and so should not be subjected to elites, whether defined by birth, wealth, or superior knowledge, which have “debauched themselves into a persuasion that mankind are incapable of governing themselves.”

A big government comprising numerous programs whose workings and structure are obscure to most people has indeed made citizen ignorance a problem. In his detailed analysis of polls taken during the 2012 presidential election, political philosopher Ilya Somin writes in his book *Democracy and Political Ignorance*, “Voters are ignorant not just about specific policy issues but about the structure of government and how it operates,” as well as “such basic aspects of the U.S. political system as who has the power to declare war, the respective functions of the three branches of government, and who controls monetary policy.”

Though many critics from both political parties complain about this ignorance among the citizenry, solutions generally involve wholesale, and unlikely, transformations of social institutions, like

reforming school curricula or correcting the ideological biases of the media.

As Somin points out, however, the modern problem of citizen ignorance is in fact an argument for a much more important reform—a return to the limited central government enshrined in the Constitution. State governments should be the highest level of governmental policy except for those responsibilities constitutionally entrusted to the federal government, such as foreign policy, securing the national borders, and overseeing interstate commerce. On all else, the principle of subsidiarity should apply—decision-making should devolve to the lowest practical level, as close as possible to those who will be affected by it. The closer to the daily lives and specific social and economic conditions of the voters, the more likely they are to have the knowledge necessary for political deliberation and choice. In this way the cultural, economic, and regional diversity of the country will be respected. And it will be much easier for citizens to acquire the information necessary for deliberating and deciding on issues that impact their lives.

Shrinking the federal government may sound as utopian as transforming our schools or restoring journalistic integrity. The difference, however, is that the federal government and its entitlement programs need money, and our \$18 trillion debt, trillion-dollar deficits, and \$130 trillion in unfunded liabilities are unsustainable. Sooner or later the time will come when a smaller federal government will be imposed on us by necessity. Perhaps then we will rediscover the wisdom that the smaller the government, the easier it is for us to have enough knowledge to manage it. 📌

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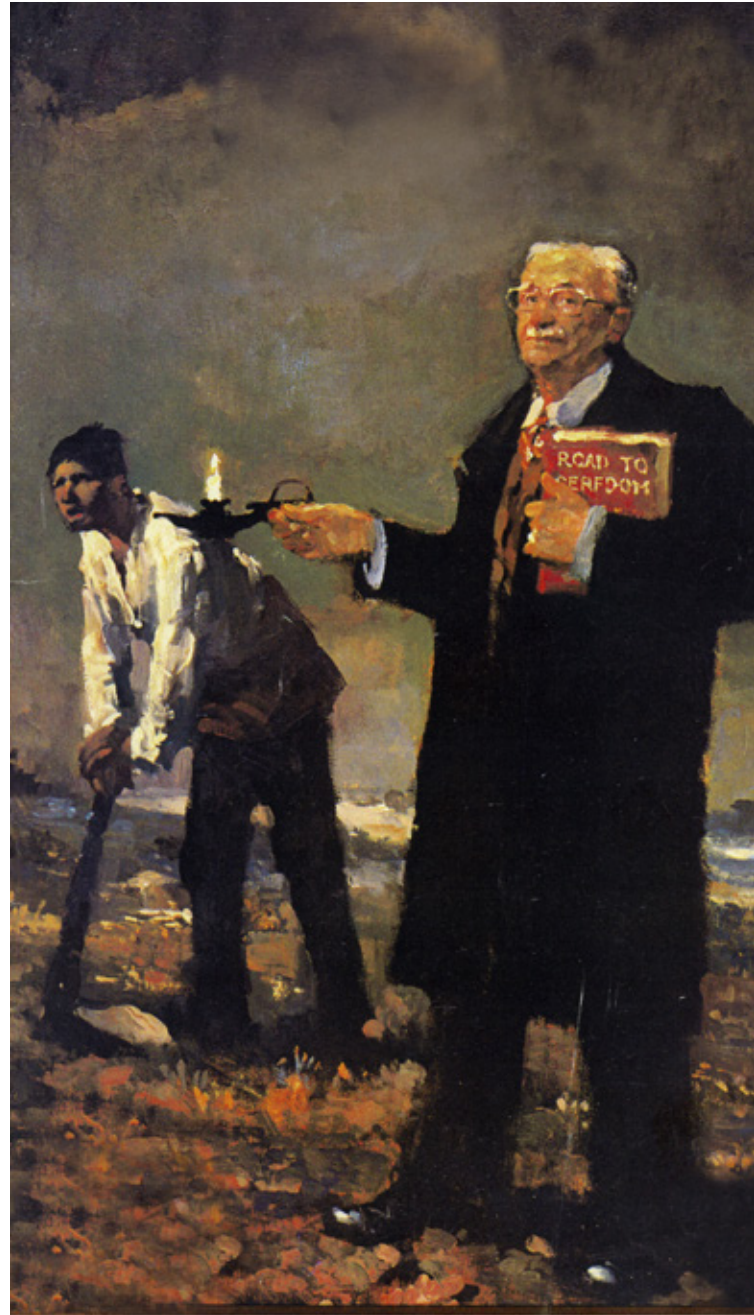
False Economic Security and the Road to Serfdom

By Donald J. Boudreaux

*Seventy years ago, American readers were presented with what was at that time a most contrarian argument: that a government commitment to protecting people from economic insecurity creates political demands for a government powerful enough to regulate the economy in detail, and that the exercise of that power reduces both economic growth and impinges on the freedoms of individuals—often in ways not anticipated by those clamoring for the protection. That argument was delivered in the form of an abridged version of Friedrich Hayek’s *The Road to Serfdom* published by Readers Digest.*

*Readers now have a new resource for accessing Hayek’s ideas: Donald J. Boudreaux’s *The Essential Hayek*, a slim volume that provides a précis of Hayek’s 10 most important ideas from the entire body of his work, including his arguments from *The Road to Serfdom*.*

We need more popular understanding of Hayek’s ideas. In the United States today, government at various levels decides what risks banks may and must take, what kind of health insurance you have to buy, who can open a hospital, the square footage of certain kinds of retail establishments, what kinds of educational programs get subsidized, which telecommunications firms may merge, and even who



is allowed to decorate your home. These and myriad other interferences are all in the service of limiting the competitive consequences of the marketplace.

So we think it's a good time to remind citizens that the power to prevent economic change is both the power to prevent economic growth and the power to prevent individuals from striving to improve their own lives. To that end, we present below Boudreaux's chapter based on The Road to Serfdom. —Editor.

But the policies which are now followed everywhere, which hand out the privilege of [economic] security, now to this group and now to that, are nevertheless rapidly creating conditions in which the striving for security tends to become stronger than the love of freedom. The reason for this is that with every grant of complete security to one group the insecurity of the rest necessarily increases. —Friedrich Hayek (1944). The Road to Serfdom in Bruce Caldwell (ed.), The Road to Serfdom, (Liberty Fund Library, 2007).

INDISPENSABLE TO THE CREATION, maintenance, and growth of widespread prosperity is an economic system that uses scarce resources as efficiently as possible to create goods and services that satisfy as many consumer demands as possible. To the extent that the economic system encourages, or even permits, productive resources to be wasted, that system fails to achieve maximum possible prosperity. If, say, large deposits of petroleum beneath the earth's surface remain undetected because the economic system doesn't adequately reward the human effort required to find and extract such deposits, then people will go without the fuel, lubricants, plastics, medicines, and other useful products that could have been—but are not—produced from this petroleum.

The system that best ensures that resources are used as efficiently as possible is free-market capitalism—an economic system based on transferrable private property rights, freedom of contract, the rule of law, and consumer sovereignty. This last feature of free-market capitalism is the right of each consumer to spend her money as she sees fit. She can spend as little or as much of her income as she chooses (in order to save whatever she doesn't spend), and she can change her spending patterns whenever and in whatever ways she likes.

In short, consumer sovereignty means that the economy is geared toward satisfying consumers, not producers. This aspect of a market economy is important to emphasize because we are often told otherwise, namely, that a market economy is geared to benefit mainly producers. Yet in well-functioning economies producers—including entrepreneurs, investors, businesses, and workers—are not ends in themselves. Their activities, as valuable as these are, are means rather than ends. These activities are justified and valuable only if, only because, and only insofar as these produce outputs that consumers choose to buy. If consumers change their spending patterns (as they frequently do), producers must change to accommodate the new ways that consumers spend.

The freedom of producers to respond to, and even to anticipate, consumer demands is so vitally important for the success of the market economy that people often regard the case for economic freedom to be chiefly a case for the freedom of business. This is a mistake. At root, the case for economic freedom is a case for the freedom of consumers.

Of course, because maximum possible consumer freedom entails the freedom of entrepreneurs and businesses to compete vigorously for consumers' patronage, the defense of free markets often requires the defense of profits as well as of business's freedom to experiment with different ways of earning profits. Oil companies not allowed to earn sufficient profits from finding new oil deposits won't invest the

resources required to find those deposits. Upstart entrepreneurs prevented by licensing restrictions from entering a profession will be unable to offer their services to consumers who might find those services appealing. The defense of profits and business freedom, though, is a defense primarily of the chief means that the market uses to ensure that consumers are served as well as possible.

The fact that each person's livelihood is tied disproportionately to what he or she produces rather than to what he or she consumes creates a practical problem, however. Each person, as a producer, works only at one or two occupations; each person earns an income only from one or two sources. Yet each person, as a consumer, buys thousands of different items.

A change in the price of any one or a few consumer goods has much less impact on the well-being of an individual than does a change in the price of what that individual is paid for what he produces or for the labor services he sells. As a consumer I'd obviously prefer that the price of my favorite hamburgers or music downloads not rise by 20 percent, but such price hikes won't harm me very much. In contrast, as a producer I'd suffer substantially if my income fell by 20 percent. I'm much more likely to complain bitterly about—and to resist—a fall in my income than I am to complain about and resist a rise in the prices of the things I buy as a consumer.

Politicians in democratic countries naturally respond to these concerns. People's intense focus on their interests as producers, and their relative inattention to their interests as consumers, leads them to press for government policies that promote and protect their interests as producers.

If government policies that protect people's interests as producers are limited to keeping them and their factories, tools, inventories, and other properties safe from violence, theft, fraud, and breach of contract, then there is no danger. Indeed, such protection of producers—along with assurances against their being taxed and regulated excessively—is essential for economic prosperity. Trouble arises, however, when government seeks to protect producers (including workers) from market forces—when government aims to shield producers from having to compete for consumer patronage. Such protection promotes not free-market capitalism, but crony capitalism.

For government to ensure that some producers—say, wheat farmers—suffer no declines in their economic well-being requires that it restrict the freedoms of consumers, of other producers, or of taxpayers. Special privileges granted to wheat farmers must come in the form of special burdens imposed on others.

Consumers who exercise their freedom to buy fewer loaves of wheat bread (say, because they have grown to prefer rye bread) will cause the incomes



of wheat farmers to fall, and may even cause some wheat farmers to go bankrupt. To protect wheat farmers from this consequence of consumer sovereignty obliges government to take steps to artificially prop up the demand for wheat. To artificially prop up the demand for wheat requires, in turn, policies such as punitive taxes on rye farmers (to discourage them from producing so much rye), restrictions on the importation from foreign countries of rye, or even requirements that consumers continue to buy at least as much wheat bread today as they bought yesterday.

Whatever particular policies government uses to protect wheat farmers from the consequences of consumers' voluntary choices, this protection must come at the expense of others. Other people—either as consumers, as producers, or as taxpayers—are also made a bit less free by government's effort to protect wheat farmers from the downside of economic change.

If government protects only wheat farmers from competition—if government exempts only wheat farmers from having to follow the same rules of a market economy that are obeyed by everyone else—

votes, and political support from non-wheat farmers. Politicians will then find it easy and attractive to gain even more political support by granting similar protection to some other producer groups—say, to steel workers or to airline pilots.

As government exempts more and more producers from the rules of the market—that is, as government relieves more and more producers from the necessity of having to compete, without special privileges, for consumers' patronage, and to enjoy the benefits of their successes and suffer the consequences of their failures—the total costs of such protection rise and, hence, become increasingly noticeable. The slowdown in economic growth for ordinary men and women becomes conspicuous. People grow more concerned about their economic futures.

Seeing government spread its protective net over an ever-increasing number of producers, those producers who haven't yet received such protection naturally begin to clamor for it. First, these producers understandably feel as though government is unfairly mistreating them by not granting to them what it grants to so many other producers.

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the resulting damage to the economy (especially in large advanced countries such as Canada and the United States) will be minimal. Wheat farmers will indeed each be noticeably better off as a result, while almost everyone else—as individual consumers or taxpayers—will suffer so little as a consequence that the pain might well go unnoticed.

Politicians will receive applause and votes and much other political support from wheat farmers without suffering a corresponding loss of popularity,

Second, the greater the number of producers who are protected from the downside of economic competition, the greater the negative impact of that protection on consumers and the relatively few producers who are not yet protected. If the full burden of adjusting to economic change is focused on an increasingly smaller number of people, the extent to which each of those people must adjust is greater than if the burden of adjusting to economic change is spread more widely.

If government remains committed to protecting from the downside of economic change all who clamor for such protection, the powers of government must necessarily expand until little freedom of action is left to individuals. It is this stubborn commitment to protect larger and larger numbers of people from the negative consequences of economic change that Hayek argued paves the road to serfdom.

That government must have extraordinary discretionary power over vast areas of human action if it is to try to protect large numbers of people from the downside of economic change is clear. Any time entrepreneurs invent new products that threaten the market share of existing products the owners of the firms that produce those existing products will suffer lower demands for their services. So, too, will workers in the factories that manufacture those existing products. The incomes of these owners and workers will fall, and some might lose their jobs, as a result of the introduction of new, competitive products.

The very same process is true for any economic change. New imports from abroad threaten domestic producers of products that compete with these imports. Labor-saving technologies threaten the livelihoods of some workers whose human skills compete with the tasks that can now be performed at low-cost by these new techniques. Changes in population demographics—say, an aging population—cause the demands for some goods and services (for example, baby strollers and pediatric nurses) to fall as they cause the demands for other goods and services (for example, large sedans and cardiac surgeons) to rise.

Even simple everyday shifts in consumer tastes away from some products and toward other products unleash economic changes that inevitably threaten some people's incomes and economic rank. The growing popularity several years ago of the low-carbohydrate Atkins diet shifted consumer demand away from foods such as bread and beer and toward low-carb foods such as chicken and beef. As a consequence,

bakers and brewers suffered income losses; ranchers and butchers enjoyed income gains. If government were intent on protecting bakers and brewers from experiencing these income losses, it would have either had to somehow stop people from changing their eating habits, or raise taxes on the general population to give the proceeds to bakers and brewers.

Regardless of the particular methods it employs, a government that is resolutely committed to protecting people from any downsides of economic change requires nearly unlimited powers to regulate and tax. As long as people have the desire and can find some wiggle room to change their lives for the better—for example, to change their diets, to invent technologies to conserve the amount of labor required to perform certain tasks, or to increase the amounts they save for retirement—some fellow citizens are likely to suffer falling incomes as a result. The only way to prevent any such declines in income is near-total government control over the economy.

Unfortunately, because economic growth is economic change that requires the temporarily painful shifting of resources and workers from older industries that are no longer profitable to newer industries, the prevention of all declines in incomes cannot help but also prevent economic growth. The economy becomes ossified, static, and moribund. So achieving complete protection of all citizens at all times from the risk of falling incomes means not only being ruled by an immensely powerful government with virtually no checks on its discretion, but also the eradication of all prospects of economic growth. Inevitably, at the end of this road paved with the good intention of protecting all producers from loss lies not only serfdom but also widespread poverty. 🚩

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