NATIONAL CENTER FOR POLICY ANALYSIS

Young Patriots Essay Contest

2013-2014 Winners

1st Place

"Returning to Economic Prosperity"

by Sarah Shafer of Big Piney, WY

America was founded on the principles of natural law. Natural law guarantees basic rights to the people and that the government will not encroach on these rights. Natural law also acknowledges that there is a Higher Law than the government and it laws (Maybury 101). Until World War I and the Great Depression, America was even considered a leader in the movement toward natural law. As the Great Depression grew worse, the government began to "fix" more and more of the free market. This started a slow and steady movement toward civil law. Civil law does not acknowledge a Higher Law than the government and its own laws. It believes that all power rests in the government or those in charge of the government. The government under civil law believes that markets fail "because there is imperfect information, imperfect competition and imperfect other things. Government, in principle, can correct these imperfections" (Goodman). The more the government regulates our inalienable rights, the closer America moves to civil law and the farther we move from economic prosperity.

Countries with a legal system based on civil law usually have the lowest economic freedom score while those countries based on natural law have the highest freedom scores (Maybury 105). America was ranked sixth in economic freedom in 2009 (Maybury 107) but has now fallen to tenth (2013 Index of Economic Freedom). Our government needs to return to the fundamental principles of natural law in order to restore the basic rights of the people and economic prosperity. The immediate policy changes I recommend to foster economic prosperity are to stop increasing the money supply, to repeal the Dodd-Frank Act, and to establish a free-market healthcare system.

Historically the government tries to "fix" the economy by increasing the amount of money available. An example of the government not increasing the money supply but the situation turning out well is the federal government not intervening in the recovery after World War II. During the war military production shot up 38% but dropped to 4% in just three years after Japan surrendered. According to Richard Maybury in *Whatever Happened to Penny Candy,* despite the major corrections that had to be made in the business world, unemployment only rose to about 5.9% at its worst. The government did not try to "fix" anything during the recovery.

In contrast to the nation's recovery after World War II, after September 11, 2001, the government increased the money supply drastically. The increased money supply encouraged investors to take risks they normally wouldn't take. In 2004 the government became worried and raised interest rates; however, the crash finally came in 2008. This is considered the worst recession since the Great Depression. During this recession the unemployment rate rose to 10% (Maybury). The increases in the money supply before the crash of 2008 is nothing compared to the money that has been poured into our current economy from QE1, QE2, and QE3. The government has currently put $1.6 trillion into QE3. If we had a recession after the money increase in 2008, how is it going to help to increase the money supply now? We need to stop increasing the money supply. It is likely that we will go through a recession when we do stop the increase, but it is necessary to restore the former economic prosperity. The initial results will probably not be encouraging, but this is a long term solution.

The Dodd-Frank Act that Congress passed in 2010 has created chaos in the housing industry. It has been three years since the Act was passed and still nobody knows how to define "QM" or a qualified mortgage. Because nobody knows how to define this term, virtually no banks are willing to make a housing loan. Because banks do not want to make housing loans, much of the money the government has put into QE1, QE2, and QE3 is not being used. The Dodd-Frank Act is restricting economic growth in other areas as well. The housing problem is just the beginning. The act has created much uncertainty in financial markets. The government needs to quit interfering with the free market system and repeal the Dodd-Frank Act.

The Affordable Care Act has caused much uncertainty and debate. People are not sure what to do and how to act under the new law. Some are upset because it takes away the coverage they had. Others are upset because they own small companies and cannot afford to pay for their employee's healthcare. But others are upset for other reasons. The new Affordable Care Act infringes on many of the rights of the people. It requires one pay into healthcare that may pay for contraceptives or abortions of other people whether or not the person paying believes it is right to kill an unborn baby. This hinders the people's right to free choice. As the government passes more and more of these laws that take away people's rights, the country continues on its economic downward spiral. This is an example of our government succumbing to civil law.

At this point, I don't think there is an option to repeal The Affordable Care Act. Our previous healthcare insurance system has been destroyed. So what is next? We need a "free market" healthcare system. People need to pay some costs for medical services so they feel responsible. If they are not responsible for it, they will tend to overuse it. Another change should include cross-state pooling. In Wyoming there are only two insurance companies offering healthcare insurance, and Wyoming currently has the highest insurance cost. If there is cross-state pooling, more companies could compete across state lines. They also need to allow insurance companies to create plans to satisfy the consumer. The consumer should be allowed to decide if they want a plan that pays for abortions or contraceptives. Another policy change would be to encourage hospitals to post costs online. The Surgery Center of Oklahoma has started "a price war" in the healthcare market in Oklahoma City (Bruneau). This really helps the patients find more affordable care. Making everyone pay for some part of everyday medical expenses, increasing healthcare insurance competition across state lines, letting insurance companies offer choices, and letting hospitals compete for patients would help create a "free market" system. All of these changes return the right of choice to the consumer.

History has proven that when the government becomes based on civil law and takes control of a country's "free market" that country struggles economically. This is happening slowly but surely in the United States. With legislation like the Dodd-Frank Act and the Affordable Healthcare Act allowing the government to control more and more of the people's basic rights, the concept of "free market" is disappearing. The uncertainty created by huge legislative efforts may be more damaging to the economy than the acts themselves. Everyone waits to find out how the rules will be put into effect, even if it is three, four, or five years after the act is passed. If America is going to return to economic prosperity, the government must stop increasing the money supply and give back the basic rights we are guaranteed in the Constitution.

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Young Patriots Essay Contest
2013-2014 Winners

2nd Place
"The Government That Governs the Least Governs the Best: Preserving and Thriving On Free Enterprise"
by Sarah Jacob of Fredericksburg, VA

In 2008, America chose Illinois Senator Barack Hussein Obama as its forty-ninth President. His campaign slogan, "Hope and Change," was embraced by a recession-weary nation. As the new president began his term, the country hoped for an economic rebound. Yet, the "hope and change" that was promised never came. President Obama's second term has proven no different - the nation is still struggling economically. This largely stems from the Administration's apparent aversion to capitalism and allowing the free-market system to run its course. Current policies that chip away at constitutional rights have burdened businesses and free enterprise. Unfortunately, many politicians seem to lack a basic understanding of the essence of capitalism, the necessity of freedom in the marketplace, and its inherent synergy with the framework of a constitutional republic that espouses compossible rights. This lack of understanding works to the Nation's detriment, as it has led to harmful legislation that further destabilizes the economy. Understanding free enterprise, the concept of rights, and the importance of technology is essential when making policy changes.

Understanding and preserving free enterprise is a vital factor in fostering economic prosperity. As Leonard Read's "I, Pencil" eloquently portrays, market participants are intricately intertwined across its global ecology. People and countries across the globe contribute in some way towards producing any given product. Making a pencil involves chemists, Sri Lankan miners, Indonesian rapeseed oil extractors, loggers, and countless others. Yet, as Read points out, very few of these millions work in order to attain a pencil. Each person "...sees that he can thus exchange his tiny know-how for the goods and services he needs or wants" (Read). Even more astonishing is the lack of a dictator, or "master-mind", to enable the confluence of science, labor, and logistics required to produce an ordinary pencil. One might assume that such a complex process would need prolific, end-to-end management of the global supply chain. However, millions of pencils are produced without any such oversight. From the beginning of each tentacle of that supply chain all the way to the finished product, there is a common denominator among each of the contributors that drives them – a natural desire to meet one's needs and improve one's lot in life. Left alone, the age-old endeavor of trading goods and services functions effectively, and can even tolerate limited government intervention.

In recent years, this process has been encumbered by a massive increase in government regulation of the private sector. From the government takeover of Chrysler and GM Motors to the recent healthcare system overhaul (brought on by the "Affordable Care Act"), the market's natural flow has been disrupted. Such intervention disincentivizes market participants across the board by drastically altering the risk-reward dynamics inherent in a free market. The drive to improve one's lot in life by leveraging one's talents, creativity and entrepreneurship is curbed by the government's imposition of rewards for the unproductive, depriving the diligent of the fruits of their labor. In a market that thrives when powered by the cumulative drive of countless individual ambitions around the globe, government has moved into the position of "master-mind" – displacing the market as the determiner of the winners and losers. To foster economic prosperity, the government must remove its heavy boot of regulation from the neck of the private sector. Where firms can and should make independent decisions based on market forces, businesses instead must kowtow to the dictates of the "master-mind." If the private sector is allowed to grow and respond to "human necessity and desires" (Read) prosperity will result.

To understand why there is greater prosperity when there are greater rights, one must scrutinize the concept of rights. As John C. Goodman writes in “Classical Liberalism,” rights allow individuals to pursue their own interests and dissuade others from interfering with that pursuit. However, rights do not obligate others to assist an individual in his pursuit. In other words, it does not create a positive obligation. Unfortunately, government intervention creates an uneven playing field that allows some to retain full unencumbered rights while benefitting from positive obligations, at the expense of others. Rights are not derived from government, but government exists to protect those rights, otherwise government can confer and rescind them at will. If rights are derived from a source higher than government, then it may not encroach on or violate those rights.

In furtherance of liberty, economic policy, therefore, must uphold fundamental rights and engender negative obligations. Government should not meddle in the market with support. For example, each person has a right to own property. While this implies that the government cannot seize that property at will, it also does not obligate the government to provide housing. In the same way, the market consists of individuals who have a right to conduct their business as they see fit. This does not obligate the government to subsidize businesses or provide for any “safety nets”. Permitting government to foster positive obligations runs counter to the basic premise of a constitutional republic. Expanding federal powers creates an ever-growing regulatory behemoth that would increasingly trample on the constitutional rights of the individual market participants.

In determining proper policy, one must acknowledge the profound influence of technology on the market. According to Steven E. Landsburg, generations spanning the last two hundred years have been wealthier than those living before the nineteenth century. Each generation has offered new technology, which creates new markets and potential for economic growth. Eli Whitney’s transformative invention of the cotton gin in the nineteenth century exemplifies this. Cotton gins made harvesting the South’s staple crop a much easier task, leading to greater profits. The South soon became a major contributor the federal treasury. A more recent development has been that of social media. Such platforms as Facebook and Twitter have brought companies and consumers closer than ever, giving the average shopper a say in the way products are made. These platforms have also allowed companies to collaborate with bloggers, many of whom have vast followings. This has made blogging a full-time job and consumers more accessible. Technology’s increasing impact on markets should influence public policy. Economic policy should incentivize technological innovation via tax breaks or other perquisites.

Policies that foster economic prosperity champion the principle that individuals – not the government - are responsible for the actions that result from their use (or abuse) of their rights. No one may interfere with those rights. Legislation should reflect the fact that people are naturally motivated to work in order to meet a desire or need, collectively creating goods and services in a system of trade that functions effectively without the heavy hand of government. It is imperative that free enterprise be preserved through policies that liberate the individual and encourage his creativity.

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Young Patriots Essay Contest
2013-2014 Winners

3rd Place

"Technology for Future Prosperity"

by Megan Angell of Naperville, IL

In 2010, the United States government gave renewable energy companies 14.7 billion dollars in subsidies (Institute for Energy Research). This inherently inefficient funding obstructs the Invisible Hand, contradicts classical liberalism, and impedes technological progress that brings economic growth. By eliminating subsidies to renewable energy companies, the government will foster prosperity not only in the energy sector but in the whole economy.

Subsidies allocated by the government naturally reflect the imperfections of government, harming, not correcting, the free market. Congress faces incessant pressure from renewable energy companies, which spent 21.8 million dollars on lobbying in 2008 (Bloomberg). Within this sector, there is a significant disparity between technologies, such as wind energy, which spent more than 4.36 million dollars, and newer, emerging technologies (Bloomberg). Because a subsidy of one technology artificially lowers the price of that technology, the government "[makes] it difficult for new technologies that do not receive a handout from the government to enter the market," according to Heritage Foundation. Politicians, not scientists and consumers, are selecting which technologies will develop, and these are not the most efficient ones, but rather the ones which pay the largest "political price." Subsidies encourage companies to focus on obtaining government subsidies through lobbying instead of improving their product, discouraging innovation. John Goodman explains how, for optimal government to occur, "political prices [must] be the same on both sides of every issue," which clearly does not occur in this case. Subsidies for companies producing one technology make it harder for companies producing another technology to compete, so companies producing different technologies are on different sides of the issue. Just as "if the political price milk producers are willing to pay is greater than the political price offered by the consumers of milk, we will get milk price supports," if wind energy companies pay a greater political price than hydrogen fuel cell companies, we will have more subsidies for wind energy (Goodman). As a result, the government funds inefficient companies, those which spend more money on lobbying.

Furthermore, merely reallocating the subsidies cannot fix this distortion of the free market; according to Goodman's Theorem, "since the conditions for optimality will almost never hold in any political system, optimal government is in principle impossible." Because subsidizing renewable energy firms prevents the most viable technologies from developing, the likelihood and magnitude of "government failure" is greater than that of "market failure," and the elimination of subsidies will allow the best technologies to prosper (Goodman).

Just as the process for making a pencil is complex, yet occurs without government intervention, as Leonard E. Read describes, the process of producing "green" technologies is complex and can also occur without government help. Examining how "know-hows will naturally, yes, automatically, arrange themselves into creative and productive patterns in response to human necessity and demand" points to "a faith in free people" (Read). This faith proves that the American people can produce or purchase "green" technologies if they believe it is best for them. The government must "permit these creative know-hows freely to flow" and not distort the Invisible Hand by imposing renewable energy subsidies (Read).

Distorting this Invisible Hand vastly expands the power of government in the marketplace at the expense of the liberties of individuals. As John Goodman explains, classical liberalism promotes economic liberties in addition to civil liberties. Although renewable energy subsidies may be compatible with "twentieth century liberalism," which professes that "it is not a violation of any fundamental right for government to regulate where people work, when they work, the wages they work for, what they can buy, what they can sell, [or] the price they can sell it for," renewable energy subsidies contradict classical liberalism (Goodman). Subsidies become another way for the government to regulate the economy. Firms must conform their product to the parameters of the subsidy, such as a certain fuel efficiency, or restructure their company so that a certain percentage of its profits are from green technologies, in order to receive subsidies and compete with their subsidized counterparts. Excess regulation like this, according to classical theory, makes the economy inefficient.

Goodman also describes philosopher John Rawls' explanation of the social contract, which is a cornerstone of classical liberalism. Rawls' perspective is that the social contract "is a hypothetical agreement that rational people would agree to if they knew they were going to have to live under the agreement, but did not know what their individual positions were going to be," including their financial position (Goodman). If "we have to choose institutions 'position blind,' without knowing which person we will be," we will choose the institution that is most fair to the most number of people (Goodman). When we apply this concept to the economic sphere, if we do not know whether we will be, for example, consumers of green technologies, employees of a wind energy company, or employees of a natural gas company, we will choose a government that allows the free market to allocate resources, so that the government does not favor one position over another.

Distortion of the energy sector has significant consequences for the economy as a whole. Since "all...growth was fueled by technological progress," as Steven E. Landsburg describes, when subsidies prevent new renewable technologies from developing, the subsidies prevent economic growth. But innovations in energy technology are not just any innovations; energy is the technology that heats our homes, operates our factories, and enables transportation. Energy powers our whole economy, and so stunting the growth of the energy sector inhibits the growth of our economy. The government can best foster economic prosperity by discontinuing its policy of subsidizing renewable energy. When the government stops subsidizing the renewable energy sector, it will allow new inventions, and the economy, to flourish. Because "technological progress replenishes itself [and] each new idea makes the next new idea easier to come by," the free market can prosper on its own (Landsburg). Without renewable energy subsidies, the trend toward prosperity will continue without impediment.

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