

ROUGH DRAFT- NOT

ANNOUNCEMENT OF NEW MARKETING ALLIANCE <P>

As you all know, the marketing of IBC has become more complex and time consuming for me as we have successfully progressed. My schedule is now very crowded and includes an average of 36 live seminars all over the country on a yearly basis. <P>

Considering that, I knew I had to call in some proven experts to help carry the load and also give me some professional directions. I'm already glad I did. The first project they suggested made perfect sense. <P>

Since there is only one of me, they recommended that we produce a full Five Part/Eight Hour live-videotaped seminar. Once this is completed, we all have a vehicle to leverage the details of our message to countless audiences. I will announce the other various projects in the next several newsletters. <P>

Our marketing alliance is named the Nash/Bullock/Falkner Group. Ernie Falkner is a 30-year veteran of the life insurance industry and a life member of MDRT. He is a real sales and marketing pro. J. Bullock is a 30-year veteran in advertising and marketing and has an extensive background in the production side of the business (and yes...he is first cousin to Sandra Bullock!). <P>

This alliance is a very effective team, and I'm really looking forward to the extra time it will net for me personally. I'm writing another book and will be involved in several new projects. <P>

Ernie of Ernest Falkner+Company can be reached at efalkner@bellsouth.net and Jess of the J. Bullock Agency can be reached at jess@bullockusa.net. <P><P>

Again, we will be announcing several new and exciting projects in the near future, but I wanted to make this introduction and connection.

Disinformation Versus Social Security Reform<P>

by [John Attarian](#) <P>

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The other day I received an unsolicited mailing from a group called the Council for Government Reform, which revealed the yawning gap between the general understanding of Social Security, especially among the elderly and their advocates, and the reality. <P>

It began: "(Washington D.C.) Senior Alert: Congress CONTINUES the Raid on the Trust Fund. . . . Trust Fund STILL headed to bankruptcy." Then it asked me to sign a petition demanding a "Senior Bill of Rights" such as fair annual Social Security COLAs, assurance that Social Security and Medicare benefits would be guaranteed from cuts, and exemption of these programs from means testing. "The Social Security Trust Fund is fast headed for bankruptcy as a result of massive government mismanagement—and despite its promises, Congress is NOT paying back the money owed to the Social Security Trust Fund." The letter added that "Social Security is not the problem: Congress is!" "Fact is, your Social Security benefits have BEEN EARNED and PAID FOR. They ARE NOT THE SAME as other government expenses and they should {never} be cut! Your petition . . . reminds [Congress] you {paid for your benefits} with special taxes withheld from your paychecks . . . " <P>

The mailing demanded not only the foregoing guarantees, but that "The Government should STOP BORROWING from the Social Security Trust Fund to pay for wasteful pork barrel projects." <P>

My signed petition, the author added, would have "tremendous impact," because he would be urging all Senators and Representatives to support the "Social Security Benefits Guarantee Bill" (H.R. 3135/S. 1558), which would give seniors "a legal guarantee that their Social Security benefits can never be taken away, a guarantee Seniors do not currently have." <P>

A brief survey accompanied, asking if I agreed that "Monies paid into the Social Security Trust Fund are for payment of future Social Security checks and NOT to fund current federal spending" and "Do you agree Congress should EXCLUDE Social Security from any CUTS since Social Security is earned and paid for with special payroll taxes, unlike welfare, farm subsidies, and other so-called entitlements?" (original emphasis throughout) Finally, a request to – surprise, surprise – send them money.<P>

Let's sort out the truths, half-truths, and flat-out falsehoods here. <P>

Yes, seniors paid payroll taxes for Social Security. But if they believe that their benefits are "earned and paid for," that is what Franklin Roosevelt and the other architects of Social Security wanted them to believe. To a complaint that the Social Security payroll tax was regressive, hitting the working poor the hardest, Roosevelt replied, "I guess you're right on the economics, but those payroll taxes were never a problem of economics. They were politics all the way through. We put those payroll contributions there so as to give the contributors a legal, moral and political right to collect their pensions. . . With those taxes in there, no damn politician can ever scrap my Social Security program." So the Social Security tax wasn't about financing the program. It was about creating a sense of entitlement, a belief that benefits are an "earned right." But as we shall see, the "earned right" is a fiction. <P>

As for the "Social Security Trust Fund," this is simply an account at the U.S. Treasury. The original Social Security Act of 1935 created an Old-Age Reserve Account at the Treasury, to which monies would be appropriated by Congress for paying benefits, with any money not needed for benefits invested in interest-bearing Treasury debt. Social Security tax collection began in 1937; benefit payment wouldn't start until 1942. Therefore, critics charged, the government was spending the Social Security tax money on general expenses and issuing itself an IOU. Some critics even accused Congress of embezzling the money. As part of the 1939 Social Security amendments, the Reserve Account was renamed the "Old-Age and Survivors Insurance Trust Fund." The reason for this, Social Security Board chairman Arthur Altmeyer told the Senate Finance Committee, was "to allay the unwarranted fears of some people who thought Uncle Sam was embezzling the money." Adoption of the term "trust fund," then, was simply a public relations move. <P>

Is Congress looting or mismanaging the Trust Fund? Nonsense. Social Security taxes are collected by the Treasury; it credits the Trust Fund with an equivalent amount of unmarketable Treasury debt; when benefits are paid, the Treasury writes the checks and debits the Trust Fund for an equivalent sum; anything left over is the Social Security surplus. Social Security is off-budget, so when the budget runs a deficit, yes, the Social Security surplus helps cover it. But so what? Since the Trust Fund can hold neither cash balances nor private securities, it has nowhere else to go but into government debt. This isn't looting or mismanagement; it's the law. It's the way the

Trust Fund has operated all along. And since the Fund never holds cash, Congress is not "borrowing" anything. <P>

The mailing is right about one thing: there is no legal guarantee that seniors will get their benefits. Section 1104 of the original Social Security Act reads as follows: "The right to alter, amend, or repeal any provision of this Act is hereby reserved to the Congress." There is nothing sinister about this. Congress routinely reserves the right to amend legislation as circumstances affecting it change. <P>

While Congress has usually increased benefits, it has also occasionally cut them, and Section 1104 gives it all the authority it needs. The original Act contained a money-back guarantee; in no case would the worker (or his estate) receive less than he had paid in taxes. Just four years later, the guarantee was removed in order to offset the cost of adding survivors' benefits. Of course, this made nonsense of the "earned right," but Social Security's publications, naturally, never pointed that out. <P>

In 1954, other amendments authorized, among other things, benefit termination for anyone deported for subversive activity. Two years later, one Ephram Nestor was deported for being a Communist in the Thirties. He had applied for and begun receiving his benefits the year before; after his deportation, his benefits were cut off. He sued, citing statements by politicians that his Social Security benefits were an "earned right" which he had paid for. In *Flemming v. Nestor* (1960), the Supreme Court ruled that there was no accrued property right to benefits, and that a taxpayer's situation regarding Social Security "cannot be soundly analogized to that of the holder of an annuity, whose right to benefits is bottomed on his contractual premium payments." So much for benefits being "earned and paid for." <P>

Year after year, millions of impressionable senior citizens who don't know any better receive manipulative, misleading mailings like this one. Is it any wonder they're convinced that they have a right to their benefits, that Social Security faces no problems caused by an aging population, and that if it weren't for those blankety-blank-blanks in Congress rifling that trust fund, everything would be just fine? Is it any wonder they're dead set against overhauling Social Security, and let Congress know it, so that reform is politically next to impossible? <P>

Plenty of interesting plans are circulating for reforming Social Security. But until Americans' minds are cleared of the disinformation illustrated by this mailing, Social Security reform isn't going to go anywhere.<P>

John Attarian is a writer in Ann Arbor, Michigan, with a Ph.D. in economics. His book [Social Security: False Consciousness and Crisis](#), which treats the myths and realities of Social Security in detail, has just been published by Transaction Publishers. <P>

Don't Vote! <P>

by **Robert Klassen<P>**

Voting in political government is akin to driving the getaway car in a robbery, the voter is an accessory to a crime. In the case of political government, the crime is coercion against individuals carried out by the armed force which stands behind every political law, every political lawmaker, and every political institution. Unlike the world of free-markets, in political government when some individuals win, other individuals lose. <P>

We allow the state to teach our children that majority rule in political government is good, proper, and fair. The state does not teach our children that the authors of the Constitution were mortally afraid of majority rule and that they expended every effort to prevent it, an effort which was subsequently subverted. The state does not teach our children that when a majority rules, a minority is ruled. The concept of political democracy was flawed at its birth in ancient Greece and has remained flawed ever since precisely because a majority of people elect which self-interest will be enforced by arms, which ultimately and inevitably leads to the use of those self-same arms against the majority, the minority, and every living thing in sight. It is no accident that the fantasies which we have been taught by the state are now enabling a domestic army to be used against us; history teaches us that this is inevitable. <P>

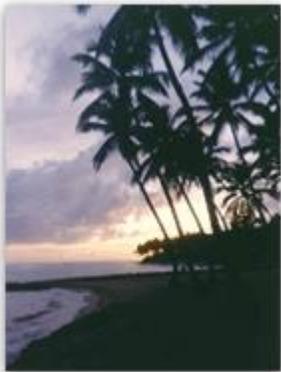
For thirty years I have wondered which President of the United States will be our last one, for history also teaches us that a majority in political democracy will elect a tyrant to rule, to solve the millions of problems which political government created and democracy cannot solve. Every President recognizes this and watches for the opportunity, our idols of Lincoln, FDR,

and Kennedy being no exception whatsoever. The state would like us to forget that the Germans elected Hitler. Each President has gathered power to the office for two centuries, slowly at first, quickly these days, so that the office may create its own disaster, dissolve congress, and come to our rescue exactly as Hitler did, then give us the option of electing him as tyrant, which will be no option at all. <P>

Americans have always been busy people preoccupied with their own lives and they pay remarkably little attention to what our full-time political government is really doing, which is creating and passing more and more laws which restrict our personal liberty and curtail our commerce. It has been our singular ability to create wealth faster than our political government can destroy it which has kept the predatory state at bay and allowed us to live with our illusions of freedom, liberty, and justice. The facts do not support this happy condition, however. Who is going to pay for entitlements in thirty years? Who is going to pay off government bonds in thirty years? With a total taxation rate of sixty-percent of wealth produced annually TODAY, what will it be in thirty years? The question is not, what is going to happen, the question is, when? <P>

We are simply repeating the history of mankind, the true history, not the wishful ignorance of state schoolteachers. We have been conned into standing on the scaffold with the noose around our necks, the rope looped over political government, with the bitter end in our own hands, waiting to be told to hang on tight and jump. This is voting in political government; this voluntary suicide is the crime, a crime against life, a crime against nature. Don't do it. Don't vote! <P>

Visit the new [League of Non-Voters](#) page.



Preservation and Private Property <P>

by James E. McClure and T. Norman Van Cott <P>

Haiti and the Dominican Republic share a Caribbean island. Haiti occupies the western portion, the Dominican Republic the eastern. An aerial photograph of the border between the two countries reveals a stark contrast (our favorite appeared in the November 1987

National Geographic). To wit, the Dominican Republic is heavily forested; Haiti, once heavily forested, is now virtually barren. <P>

Does Haitian-like resource depletion await tomorrow's Americans? Yes, if you listen to many of our professional counterparts (and their students) at colleges and universities across the country. For these capped-and-gowned doomsters, the problem is that American capitalism's bottom-line focus shortchanges tomorrow's Americans. Capitalist decision-makers, say these critics, ride roughshod over natural resources in the same way that Buffalo Bill slaughtered buffalo and Paul Bunyan decimated forests. <P>

"Sustainability" is the doomsters' rallying cry. The slogan is clever. It sparks apocalyptic urgency, since today's consumption of many natural resources (like petroleum) necessarily reduces future availability. The slogan also appropriates an aura of self-sacrificing piety for its proponents, while simultaneously hampering opponents by making it appear they favor "unsustainability." <P>

Clever slogans and vivid imagery are no substitute for clear thinking. For example, the border between Haiti and the Dominican Republic convincingly demonstrates the essential role private property, which is the defining characteristic of capitalism, has in the preservation of natural resources. Haitian land ownership rights have always been tenuous, to say the least. Not so for the Dominican Republic. The stark contrast along the border of the two countries mirrors a stark contrast in land ownership rights. The pervasiveness of intergenerational myopia in Haiti traces to attenuated property rights. <P>

The same applies to use of Buffalo Bill/Paul Bunyan-like examples to support an apocalyptic vision for natural resources under American capitalism. The fact is that Bill killed buffalo that were not owned by anyone. Ditto for the land where Paul Bunyan cut trees. Nobody owned the trees. Nobody owned the land. No wonder Paul didn't replant. A lack of private property biases attentions away from future generations. To blame capitalist institutions for something that happens when the defining characteristic of capitalism is lacking is disingenuous at best, ignorant at worst. <P>

Our colleagues frequently respond with high-sounding nonsense to the effect that ". . . all humanity, by virtue of being inhabitants of spaceship earth, has an ownership stake in the earth's resources." Rhetoric aside, the fact is that no one effectively owns resources that "everyone owns." This explains why whales, for example, face extinction, while KFC serves up millions of chickens each week without people fretting over tomorrow's Americans facing life without fried chicken. <P>

Private property in natural resources gives yet-to-be-born Americans a powerful voice in current resource use. These Americans "communicate" their resource desires via the prices that are expected to rule when the future arrives. The higher future prices are, the more profitable it will be for owners to delay current consumption of resources. Attempting to enhance the present value of long-lived resources in no way shortchanges tomorrow's Americans. <P>

Of course, no one knows future prices with certainty (and that includes "sustainability" gurus). However, private owners of natural resources have an important reason to be among the most well-informed. Their personal wealth is at stake! <P>

For hundreds of years, economists have shown that, despite the pervasiveness of self-interested behavior in the world, nations can achieve economic success as a by-product of their citizens' self-interested actions. The secret, they have said, is in getting incentives right. The evidence of world economic events over the years has demonstrated the veracity of this insight over and over again. <P>

"Sustainability" gurus simply ignore this evidence. Instead, by attenuating private property rights, they muffle the voice that capitalism grants tomorrow's Americans. This distorts intergenerational economic incentives. That many of these gurus are well-intentioned is irrelevant. The road to hell is paved with good intentions. In economic affairs, it's important to get incentives right. If you still don't believe it, look again at a picture of Haiti's border with the Dominican Republic.<P>

THE UNIVERSITY OF CHICAGO PRESS

America's Transformation from Liberty to Democracy <P>

by [Randall G. Holcombe](#) <P>

If we were able to go back to time of the Revolutionary War and ask the typical American to describe, in one word, the underlying principle of the new American government, that one word would have been liberty. If we were to ask the typical American citizen today to describe, in one word, the underlying principle of American government, that one word would be democracy. The Declaration of Independence is largely a list of grievances against the King of England, and the American Founders wanted to escape the oppression of the British government and establish a constitutionally limited government to protect the rights of its citizens – to preserve their liberty. Today Americans view the role of their government as carrying out the will of the majority. My new book, *From Liberty to Democracy: The Transformation of American Government* (University of Michigan Press) describes how the fundamental principle of American government has been transformed from liberty to democracy. <P>

At the time of the American founding, people viewed government as the primary threat to their rights, and freedom meant freedom from government oppression. The American Founders viewed limited government as necessary to protect people from aggressors, but feared government's power and realized that left unchecked, government was the greatest threat to the liberty it was supposed to protect. <P>

The erosion of liberty began almost as soon as the nation was founded. The nation's first constitution, The Articles of Confederation, tightly constrained the powers of the federal government, but America's political elite believed their government was too tightly constrained. The Adoption of the Constitution of the United States made the U.S. government more powerful, and more democratic. Even then, some Americans – Alexander Hamilton is the best example – thought that the government should undertake activities designed to make the nation more prosperous, while others – such as

Thomas Jefferson – argued for a more limited and libertarian government.
<P>

By the end of the 19th century, Hamiltonian ideas were widely viewed as more appropriate to the industrializing nation, and Jeffersonian ideas of limited government were seen as obsolete. People began looking to their government not only to protect their rights but also to further their economic well-being. Antitrust laws were first passed in the late 1800s, and by the early 20th century railroads, drugs, and other industries were regulated by the federal government. As the role of government shifted, it became increasingly important to be represented in the democratic process. If government's role is expanded to looking out for people's economic well-being, political representation is important, because the government's policies will be responsive to those who exercise political power – by voting, by lobbying, and by financing political campaigns. <P>

Franklin Roosevelt's New Deal laid the foundation for the modern American welfare state, but the final triumph of democracy over liberty came with Lyndon Johnson's Great Society programs. Prior to the Great Society, major shifts in policy that placed the demands of the majority over the protection of liberty came in response to crises. The role of government expanded in response to wars and depressions, leaving behind a larger government, more responsive to public opinion and less committed to the protection of liberty. FDR's New Deal came in response to popular demands for government to act in the face of very real economic problems, unlike LBJ's Great Society.
<P>

The remarkable thing about the Great Society programs of the 1960s was that they were not created in response to a crisis, or worsening conditions, but rather were created with the hope of further improving things that were improving on their own, without government intervention. Throughout the 1950s and early 1960s the poverty rate in the United States saw a significant and sustained decline, but Johnson's Great Society declared a war on poverty. The 20th century had seen remarkable advances in health care and longevity, but Johnson's Great Society created Medicare and Medicaid. The quality of America's housing stock was increasing significantly and cities were thriving, but Johnson's Great Society created urban renewal programs. These programs emerged not because of any new problems in those areas, but because there was a public demand for them. Liberty had been completely replaced by democracy as the underlying principle of American



government, and Americans fully accepted the idea that the role of their government was to further the will of the majority. <P>

The American Founders knew that unchecked, a ruling majority could be just as tyrannical as any dictator, and tried to design a limited government with a few enumerated powers that was shielded from democratic pressures. But the principles upon which the Founders tried to design their government have gradually been eroded and replaced by the pragmatism of democracy. This transformation from liberty to democracy was not the result of a conscious choice, but rather resulted from a series of smaller changes over two centuries that added up to a major, but largely unrecognized, transformation. American policy at home and abroad promotes the virtues of democracy while ignoring the principle of liberty that led to the nation's birth, prosperity, and freedom. In their extremes, liberty and democracy are incompatible with one another. The Founders limited the power of democracy to try to preserve liberty. Today, we limit the principle of liberty in order to further the ideology of democracy. <P>

Randall G. Holcombe is DeVoe Moore Professor of Economics at Florida State University, and author of [From Liberty to Democracy: The Transformation of American Government](#) (University of Michigan Press, 2002). <P>

Reflections on Elections <P>

by Joe Sobran <P>

When the media find a Senate contest involving Walter Mondale the most exciting race in the country, it's time to admit that democracy hasn't quite lived up to its billing. Why is this a system we should impose on the rest of the world, when it isn't even serving us very well? Maybe regime change should begin at home. <P>

I know, I know. Democracy is "the worst form of government, except for all the others." I prefer another definition: "Democracy is two wolves and a lamb voting on what to have for lunch." Many people view it as an

opportunity to rob their fellow citizens through the ballot-box, with the result that the Land of the Free now pays far higher taxes than its former British masters would have dared to impose. <P>

Nor have we abolished taxation without representation. A national debt in the trillions is nothing if not a huge tax imposed on those who can't vote yet. It has been estimated that a child born today comes into the world owing \$100,000 in bills his elders have chosen not to pay. Federal spending has increased by a fifth in just the last two years, and the Heritage Foundation projects spending under the "conservative" Bush administration at levels even higher than those of the liberal Lyndon Johnson administration, when we were paying for the Vietnam War and the Great Society at the same time. <P>

So why vote? No matter which party gets elected, we're going to get pretty much the same result. Your vote will make no difference. It's not worth the effort to get "informed" about all the candidates in order to cast one ballot among millions. <P>

"Your vote counts!" you are told. Well, one economist has reckoned that your chance of getting killed on the way to the polls is greater than the chance that your vote will decide an election. And of course if the election does happen to swing on your single vote, there will be recounts and lawsuits and endless mud-wrestling to reverse the outcome. Finally a court will choose the winner. <P>

The myth of the thoughtful citizen "making the difference" with his vote is less and less plausible, as more and more minority blocs, growing rapidly, vote almost unanimously (and often illegally) for the Democrats anyway. Elections have far more to do with social engineering and appeals to greed than with meditation. <P>

Mass democracy guarantees stupidity. Masses of people, even if they're individually intelligent, can only act stupidly. "If every Athenian had been a Socrates," John Stuart Mill observed, "the Athenian Assembly would still have been a mob." <P>

Democracy can work well in a small community, where people know each other and can discuss matters together. A jury is a good model: a few people exchange thoughts and reach a reasonable consensus. But it doesn't work on a large and cumbersome scale. <P>

For most of American history, the constitutional Republic could absorb a certain amount of democracy. But in the twentieth century, as the country became both richer and more democratic, the old limitations on the Federal Government were weakened. The welfare state, combined with a Federal income tax, created what Mill called an invitation to every man to "plunge his hand into his neighbor's pocket." The old white Protestant individualist ethos began to decay, and the decadence accelerated as politics became a bidding war for the votes of would-be government dependents. <P>

Now we face the interesting prospect of an uncontrolled flood of immigrants into what has become the land of taxpayer-supported milk and honey. The Democrats are making the most of it, while the Republicans have neither the brains nor the will to counteract it, even though it means Democratic dominance -- not to mention economic chaos -- in the decades ahead. <P>

You can have free immigration, or you can have a welfare state. Trying to have both at once may not be such a bright idea. As the aging white taxpayer base shrinks, it will have to pay for more and more government dependents -- which, in our democratic system, can only mean higher taxes, until the whole thing collapses under a burden that has become impossible to sustain. To



paraphrase Everett Dirksen: a trillion here, a trillion there, and pretty soon you're talking real money. <P>

You like democracy, do you? Good. You're going to get a lot more of it.<P>

Enron, One Year Later <P>

by Dale Steinreich and Rod Oglesby <P>

One year ago, the Enron Corporation filed for Chapter 11 bankruptcy protection. Little did anyone know what was to follow: bankruptcy filings by Kmart (Jan. 22), Global Crossing (Jan. 28), Adelphia (June 25), and finally WorldCom (July 21), the largest bankruptcy in U.S. history. <P>

This is not to mention the deluge of other corporate scandals including Bristol-Myers (under investigation for inflating revenues by \$1 billion), Qwest (using swaps to inflate revenue by \$950 million), and Xerox (forced June 28 to restate \$6 billion in revenue across 5 years). <P>

Worse were stories about outrageous perks going to top executives, even apart from the \$33 million Enron CFO Andrew Fastow reaped from Enron's now-infamous partnership deals. Global Crossing CEO Robert Annunziata received a \$10 million signing bonus, \$4 million in stock options, and a guaranteed yearly bonus of \$500,000. After remaining on the job for just a little more than a year, he received another \$2 million just for walking away. Global Crossing was a telecom company that never made a profit and today is the 5th-largest bankruptcy in U.S. history. <P>

The recent graft didn't affect just New Economy companies such as E*Trade, which suffered losses of \$241.5 million in 2001 while its CEO Chris Cotsakos pocketed \$4.9 million in salary plus bonus, a \$15 million forgiven loan, \$29 million in restricted stock, and over \$9 million in retirement benefits. Old Economy firms such as the now-bankrupt Kmart were also affected. For running Kmart into the

ground, CEO Charles Conway picked up a hefty \$13.2 million and a \$4 million bonus just for leaving. <P>

After having run a home-improvement and then a supermarket chain into the ground, Kmart welcomed Mark Schwartz with open arms and made him its President and COO. He cashed out with almost \$11 million. Kmart has laid off 22,000 employees and closed almost 300 stores this year. <P>

Many pundits have attempted to diagnose why such a wave of scandals and record bankruptcies occurred when it did. A typical effort was a cover story in the June 24, 2002 issue of *Fortune* entitled "System Failure." Despite the promising title, the seven suggestions for reform offered by *Fortune's* writers lead nowhere. The suggested reforms included having auditors grade the quality of a company's earnings, reducing CEO pay, and making fund managers exercise more power in ownership. <P>

These suggestions fail to address underlying causes. Auditing grades would be subject to "grade inflation." CEO pay seems excessive, but not because the market in managerial talent is not sufficiently regulated (more on that below). Although 75 fund managers control about 44% of the market, it's absurd to expect them to re-make Corporate America. First, fund managers have a short-term perspective because their job is to make bets on firms and beat the market. To charge them with the farsighted responsibility for corporate governance is to transform them into something they're not and never will be. Additionally, large corporations are often the clients of the funds holding their shares. Not many fund managers want to cross large clients. <P>

Perhaps the largest of the red herrings is the debate over employee options expensing. Getting exercised over the issue are some impressive names, including Warren Buffett and Nobel-winning finance professor Robert Merton. Merton *et al.* focus on the pedantic issues of the expense vs. *status quo* debate. Should options be expensed? Yes, but this question begs another as to why options have become such a large portion of current top-executive compensation. <P>

The real macro focus (apart from the Fed) should be the "agency problem," the problem of management not having the incentive to efficiently use stockholder funds. Agency problems definitely played a major role in recent scandals, especially given that the wave of corruption was almost completely isolated to corporations, not proprietorships and partnerships. Business *per se* in America hasn't been shown to be corrupt. <P>

The agency story begins in the 1960s, after the U.S. economy entered a long postwar expansion. With Europe and Asia's economies being rebuilt after World War II, American corporations rose to prominence in the world with relatively few international competitors. This ascendancy made agency problems in American companies conspicuous. While some managers ran companies in owners' interests, maximizing production and shareholder returns, others used shareholder funds to buy themselves gold desks, frequent and unnecessary junkets to meetings in warm climes, and secretaries who looked like supermodels but could only type five words per minute. <P>

Takeover investors saw an economic gain to be made in booting the managerial frat boys who were living it up at shareholder expense. The result was the Saturday Night Special, a quick takeover that (according to some sources) got its name from deals where bidding for stock shares could begin late in the week with a new board and management team in place at the target company by Monday morning. <P>

The prospect of getting a swift boot didn't sit well with the old corporate guard, so it lobbied Congress to pass the Williams Act of 1968. Williams required an investor buying more than 5% of a target firm's shares to file a statement 13(d) with the SEC within 10 days, disclose the takeover investor's identity, the source(s) of funds financing the takeover, and what the takeover investor's intentions were with the company (control, liquidation, or passive investing). Also, tender offers had to be held open for at least 20 trading days. Williams ended up dramatically increasing the premium takeover bidders had to pay for shares of a target company and hence reduced the economic gains of takeovers. <P>

With Williams in place, all was peaceful at the corporate heights until the early 1980s when investment banker Michael Milken ignited the market in high-yield bonds (derided by some as "junk bonds"). The bonds provided badly needed funds to new companies untested by the market, becoming controversial when they were used to revive hostile takeovers. <P>

Unlike the 1960s takeovers which precipitated Williams (where mostly large, well-funded firms pursued smaller targets), Milken's bond deals allowed small firms to pursue large targets. With Milken's help, Carl Icahn pursued Phillips Petroleum and Henry Kravis captured RJR Nabisco. From 1985-1990, hostile takeover deals added up to about \$140 billion, peaking at 46 deals in 1988 but falling to just 2 in 1991. <P>

Why such a sudden and steep decline? The recession of 1990-91 played some part. A likely bigger factor was new state-level restrictions. Ohio enacted a control-share acquisition law. This law nullified the voting rights of stock obtained in hostile takeovers. To win back voting rights, takeover investors had to survive a special shareholder vote more than a month and a half after obtaining shares. <P>

Delaware settled on a merger-moratorium law. This type of law prevented takeover investors who had purchased more than 15% of a target firm's shares from seizing control of the target for up to 5 years. Delaware in particular required that takeover investors obtain over 85% of a target's shares in order to be exempt from moratorium! By January 1991, most states had adopted laws similar to those of Delaware or Ohio. Profitable, quick hostile takeovers were now relegated to the dustbin of history. <P>

The last piece of the agency puzzle explaining the 2001-2002 wave of corporate scandals was a change made in 1993 to the U.S. tax code requiring non performance-based pay for CEOs greater than \$1 million per year to no longer be tax deductible. This change strongly skewed the compensation of senior executives toward stock options. Stock options are expensed when the options are exercised whereas grants of stock are expensed when issued. Thus in 1980 stock

options comprised less than 20% of the average CEO's compensation but by 2000 they comprised about 63%. <P>

The skewing of pay so heavily toward options is dangerous in terms of the incentives it creates. To top executives, there is no downside to "free" options but there is a huge financial windfall if they can manipulate financial data, get share price soaring (and thus the value of their options soaring as well), and then cash out. The bull market and economic boom of the 1990s hid corporate malfeasance well just as the bear market and current recession have exposed it. The rest is history... <P>

For skeptics on the issue of agency, here's a question to ponder. In which town will consumers on average get a better deal on a new car: a town with one car dealer or a town with twenty? If the answer is twenty, then how are small investors better off with only one management team to choose from to run their companies? They're not, no more than Cuban or Iraqi voters are better off with only one choice of candidates in their presidential elections. One major lesson of Enron *et al.* is that significant corporate corruption will end when one-party rule of Corporate America does. Until then, expect more Enrons. <P>



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The Op-Ed Racket <P>

by Jeffrey A. Tucker <P>

As editor of Mises.org, I receive outstanding article submissions from people all over the world. From time to time, an author will suggest that, while he or she is pleased that Mises.org would like to run the piece,



shouldn't I first submit it to the *Wall Street Journal* or the *New York Times* or some syndicate? The conviction behind the request is that the article is excellent, timely, and important, and hence a big media outlet ought to snap it up. <P>

Only the conclusion is wrong. Editors will not snap it up. If they do, they will more than likely butcher it before it is printed. Once it is printed, you will have little evidence that anyone will have read it, and you will have wasted massive amounts of time in retrospect. No, a book contract will not be forthcoming. Finally, you won't be paid. <P>

Surprised? Here is a primer for outside submissions to newspapers. Remember, as I blast away at op-ed editors, that some papers are better than others. *The Washington Times*, the *Orange County Register*, and the *Christian Science Monitor* have a fairer process than most. Your local paper will probably consider your piece just because you are local. <P>

In any case, before you even consider submitting something, you must know the quirks of the newspaper. The *New York Times*, for instance, will never publish an op-ed on a subject the paper has not covered. What's more, it is always best for the op-ed to stick only to the facts mentioned in the story or in some other article in the *New York Times*. This is a paper that not only seeks to be the paper of record. It seeks to operate within its own autonomous editorial universe, and doesn't at all appreciate being reminded that there are, after all, other sources for news. <P>

I could go on about the quirks, but there are some characteristics most all op-ed editors share in common, and these are the least understood aspects of the industry. First, they are not brilliant but rather people with thin, narrow educations and average intelligence. Second, they are radically risk averse, and will do anything to avoid being called on the carpet. Third, publishing well-written, timely, and important articles is a low-priority concern; indeed, merit is weakest of all considerations. They have 200 pieces cross their desk every day, and many are excellent, timely, and important. In the end, 198 of them are thrown out. <P>

What are the priorities of editors? What are the grounds on which they tend to make decisions concerning the work of outside writers? <P>

First, these editors want to run pieces by people who seem to have a right to say what they are saying, a right that is determined by one's credentials, experience, or position in the field. If you are an economist, for example, you may write on economics but you may not write on foreign policy. If you are a psychologist, you may write on the latest fad concerning psychology but you may not write on the federal budget. You may only write about the internal affairs of government if you have worked for government (but the same is *not* true of business). <P>

If you are just a guy with an opinion, you may not write on anything. If you are a "policy analyst" at a think tank, you are only a slight notch above a regular guy. In a nutshell, that sums up the right-to-write rules. <P>

The purpose here is to build in a safeguard that protects the editor himself. With so many pieces to consider, and the high risk that the editor may inadvertently publish the work of a crank (a fate that amounts to professional death), the right-to-write issue becomes a first principle. Once that issue is settled, if the opinion is misinformed, factually incorrect, or riles the wrong people, the editor is always in a position to shoot back: Hey, this guy was in the State Department 10 years, so it's no wonder I thought he knew something about diplomacy! <P>

Second, the opinion held by the op-ed writer must fit within the bounds of currently respectable opinion. How is one to know with certainty what those bounds are? That, and not intellectual creativity or taking journalistic risks, is the job of the op-ed editor. In fact, that is the very essence of his job. He is not there to provide a forum for the airing of a wide range of opinion. He is there to find people who reflect the range of opinion that those in the industry regard as permissible. <P>

By a sheer fluke, an open-minded editor with an eye for good copy came to be in charge of the op-ed page of a certain Manhattan financial daily. He ran a series of articles distinguished because they were interesting, timely, topical, fresh, and challenging. He was open to new writers and new ideas. He was curious about the line of argument, not the right-to-write of the writers. Indeed, he was something of an intellectual, and during that time, I had great success in placing articles with this newspaper. Of course he was pressured out in less than a year and replaced by what became the current dreary regime. <P>

Third, most op-ed pieces are commissioned. The editor picks the writer, based on who the writer is *and* on what the editor believes he is going to say. The idea here is that the op-ed should not stand alone but be part of an overall editorial strategy, an arm of the newspaper and its editorial agenda. The editors will ring up, for example, a person who has been critical of the fast-food industry and say, hey, can you write an article blasting McDonald's for price fixing? Of course the writer will say yes, even if the person has no particularly strong emotion about price fixing, or knows anything about the subject at hand. <P>

These three rules are fundamental at top newspapers, but if you know anything about the culture of mainstream journalism, you know that even the smallest local daily takes its cues from the editorial philosophy of the big guys. That is because no one in journalism is happy with his or her current assignment. They all have career goals which always involve moving up to larger and more prestigious papers. Might as well start acting like the big guys if you want to become one someday. <P>

Discouraged yet? Let's say that you would still like to try your hand at submitting op-eds. You don't know anyone at the paper, so you send it via mail, fax, or email to the address listed on the website. What is likely to happen? In 100 submissions like this, you will hear nothing 99 times. Your piece will drop down the memory hole. If you call and persist and bug them, you will eventually get a "no" and the fact that you called and bugged will be counted against you in your next submission. In the meantime, your piece is rendered worthless because it is now dated. <P>

But let's say your piece is noticed, and you get a call back. If you pass the interview stage – the editor wants to know that you are for real, that you are sober and serious and the like – the editing stage begins. I have shepherded a number of pieces through this process for friends, and I am astonished what people will put up with. What comes out at the end in publication may not look anything like what was originally submitted. In fact it may say the opposite. Most incredibly, you will have been coaxed into approving every edit. The editors have effectively written your article but you must bear the responsibility for it. <P>

Here's how it goes. You first receive the call, and your heart races at the very idea of being published in *XYZ Times*, a highly prestigious paper. Wow, you think. This is my moment in the sun. Then the editor zeros in on a particular

point that, in the editor's judgment, clearly has to go. The editor will say something like, "wonderful piece, except for the sixth through eighth paragraph; the point you are addressing here doesn't seem at all necessary, given that you are dealing with so much else." Ah, the voice of reason! Even though you liked those paragraphs, and even considered them essential to your argument, you quickly agree to cut them. Having demonstrated your willingness to be edited, you have now opened yourself up for wholesale rewrite. <P>

More and more paragraphs are taken out. The editor then suggests that you address another point instead, and even suggests the wording. You agree. You are starting to feel queasy – only half of what you originally wrote survives – but what are you going to do? Withdraw the piece? That would be unsporting. In any case, you are developing quite a relationship with this editor, one that could be mined down the road, you believe, even if this particular op-ed isn't entirely to your liking. <P>

Ok, it's Monday and your distorted op-ed is scheduled to be published on Thursday. All is well, until Wednesday morning when the editor suddenly calls with breaking news. Something has come over the wire that directly impacts your piece (and, truly, something is always coming over the wire). Clearly, then, a few more paragraphs must go and new ones addressing this new material must be inserted. <P>

The speed, the excitement, the sense of being up to the minute – you are caught up in a swirl by now, and the content of your piece is now the last thing that matters to you. In any case, you have been so thoroughly worn down, and compromised so many times, that you have no basis to object. There is simply no way that you will consider withdrawing it at this point, because you have invested so much of your own time (you have done nothing else for days!) and you would make an enemy out of your new friend, the editor. <P>

I have seen the process operate so many times that I have good reason to believe it is not at all uncommon. This is why I can't take seriously too many of the op-eds seen in these large papers. For the most part, the writer was unable to dictate the editorial terms. Sure, he agreed to them but that is mainly because he really wanted to be published – a point demonstrated in his first act of submitting the piece. The editors count on this, and generally use writers as mere fronts for a much larger editorial agenda. In other words,

the author is a sucker, and the editor – the gatekeeper, the person with the real power over the author – thinks of the writer as such. <P>

Finally, let's say your piece appears. The thrill lasts about 7 minutes, 10 minutes tops. Then it is old news. You will hear very little about the piece, except from people who know you and know that you trimmed your sails in order to get in the paper. They will lose just a modicum of respect for you, wrongly believing that you were the sole initiator of the article's final content. You could tell them otherwise, but that reflects rather poorly on you, doesn't it? <P>

In any case, with your article having been gutted of all important content, you do not even enjoy the satisfaction of knowing you achieved your original goal of getting your message out. At some point in the process, the goal of publishing became an end in itself. In retrospect, this alone isn't worth much at all. <P>

Consider, too, the opportunity costs of all of this! Is it really worth it? Sure, you might say, because getting in the *XYZ Times* just once gives you a foothold. But how does one keep the foothold? One must repeat the whole scenario each time one publishes, except now you are something of an expert in the process. You can anticipate the points the editors will strike and you begin to insert the points you know the editor will want inserted. Keep it up and you might become a regular writer for this paper. But you will have also become a trimmer, having lost sight of the whole reason you wanted to be published in the first place. <P>

Now, there was a time when this procedure was the only option a writer had. If you wanted to address public affairs, this is what you had to do. It was time consuming and degrading. But thanks to the web, and to other independent outlets, this is no longer necessary. Outlets like LewRockwell.com and Mises.org offer the chance to say what you believe and reach a vast international audience. Your piece will be read, linked, reprinted, and permanently archived and available to every Google user the world over. In the end, it is probably more widely read in these places than they would be in the big-city newspapers. <P>

All Hail the Web! Exactly as Hillary Clinton used to complain, the old gatekeepers have been brushed aside by an army of writers and thinkers who refuse to be controlled and used. Yes, your writing is excellent, timely, and

important. That is precisely why it shouldn't be wasted. It should appear in an independent venue where it can do some good for the world.