



FACTS & OPINIONS

On Public Interest Issues

Quotes

If it moves, tax it. If it keeps moving, regulate it. And if it stops moving, subsidize it.

—Ronald Reagan on government's approach to the economy.

Those fighting for free enterprise and free competition do not defend the interests of those rich today. They want a free hand left to unknown men who will be the entrepreneurs of tomorrow and whose ingenuity will make life of coming generations more agreeable.

—Ludwig von Mises

If you can't control your reproduction, you can't control your life.

—Jocelyn Elders
Surgeon General under
President Clinton

Electricity Deregulation: Michigan Policy More Enlightened Than California

Lawrence W. Reed

Years ago, California state Senator Bill Richardson wrote an instructive little book about politicians with the charming title, “What Makes You Think We Read the Bills?” The electricity debacle in the Golden State makes me think there’s a need for an updated version. The title could be, “What Makes You Think We Read Anything at All?” California’s troubles are the result of an entirely homegrown and inexcusably poor policy. Saying so is also bipartisan: Every legislator of both parties (except for two who voted to abstain) endorsed the 1996 legislation that bore its fruit in recent months in the form of random blackouts and soaring prices.

The geographic boundaries of the crisis are revealing. Drive one mile across the California border in any direction and there’s no significant power problem, in spite of federal orders that neighboring states send some of their electric-

ity to California’s rescue. This is not a crisis of “deregulation” or of the free market. It is a political crisis, a disaster made law by public officials.

It is not deregulation when government fixes retail prices, forces companies to sell their power plants and bans them from buying power through long-term contracts, creates a state-run power broker, and stifles additional supply while demand soars. California accomplished all this alleged deregulation with a law the size of a city phone book. True deregulation would have actually freed markets to operate according to supply and demand, removing rules and barriers instead of creating a mass of new ones.

Prices are the signals of the marketplace. They tell us more than even the most capable government planner could ever know — things like what people want, how badly they want it, where and when they want it, and

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President
Dr. Don Racheter

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What's New at Public Interest Institute?

David Hogberg

Public Interest Institute welcomed new Research Analyst Steven Garrison to the staff in February. Steven will be editing IOWA ECONOMIC SCORECARD, helping to write the INSTITUTE BRIEFS series, and working on other Institute research projects.

Steven brings expertise in business and finance to the Institute. He has particular interest in issues such as analytical finance, budget politics, and tax policy.

Born in Chicago, Steven received his Bachelor of Business in Finance from Western Illinois University in 1999 and is currently working on a Master of Business Administration at the same institution. He currently resides in Burlington, Iowa with his wife, Tina, and two young sons, Seth and Aaron.

Steven looks forward to hearing from Public Interest Institute members and readers with ideas for the institute.

Public Interest Institute also welcomed new Development Director John Sandell to the staff in February. John will be working on attracting new membership in the Institute and obtaining sponsorship from foundations and businesses.

Focus on Iowa Wesleyan College

Shelley Doak

Iowa Wesleyan College was recently awarded \$50,000 from the HON Industries Charitable Foundation in support of the proposal "Technology for College and Community." The HON Foundation funds will be used to develop new curriculum incorporating the latest in technology, and to increase faculty applications of technology in the classroom.

"To fully realize the potential of resources already allocated, it is necessary to build the capacity of the institution by preparing faculty to use the technology for maximum educational impact," explained Dr. James Halseth, President of Iowa Wesleyan. "It is important that our students and the community members who assist in their education are critical, proficient users of the technology driving 'the new economy.'" Funding by the HON Industries Charitable Foundation is vital to the full implementation of Iowa Wesleyan's "Technology for College and Community" plan and we are grateful to the Foundation for this generous gift."

Funds from the Hon Foundation will support on-going faculty education, and professional and curriculum development directly related to technology at Iowa Wesleyan College.

Shelley Doak is Public Relations Director at Iowa Wesleyan College.

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Electricity Deregulation

Lawrence W. Reed

The California power meltdown has one source and one source only: state government policy.

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what they're willing to pay for it. Prices also direct production: they tell suppliers to create more of something or create less and switch instead to other, more valued lines of work in concert with conditions of supply and demand. We know that when prices are fixed by government decree, they can't do any of these miraculous things effectively. If mankind has learned anything from hundreds of years of research, study, and exposition in economics, surely that's it.

But not California legislators. They fixed retail prices of electrical power, perhaps because they thought they were immune to the laws of the marketplace. Stripped of the power plants the law required them to sell, Golden State utilities had to buy power in a government-managed wholesale market where prices were rising — rising in part because of a harsh winter, an excessive and state-mandated reliance on natural gas-fired power plants, a strong economy, and a regulatory environment that prevented any new power plants from being built for over a decade.

One of the edicts of the 1996 law prevented utilities from making long-term contracts for electricity. All the juice they purchased had to be bought in the spot market, where prices are agreed to according to conditions at the current moment and delivery is immediate. Long-term contracts historically allowed utilities to lock in their power costs and thereby give them some protection against high and erratic

spot market prices.

Meanwhile, real deregulation efforts in other states have resulted in new power plants being constructed to meet growing demands. But that's been almost impossible in California because of the most cumbersome, time-consuming, and costly regulation in the nation. Texas power companies have added 5,700 megawatts of generating capacity over the past five years — nine times what California has added.

Here in Michigan, deregulation efforts are not without flaws, but state legislators didn't commit the colossal errors that California officials did. They didn't require utilities to sell their power plants or forbid them from engaging in long-term contracts. They didn't make it impossible to add to capacity (two major new power plants are being built and more are likely to be approved). And Michigan legislators never tried to force utilities to move to natural gas. As a result, Michigan utilities are powered largely by cheaper and more price-stable coal. These positive factors should overcome the negative effects of short-term electricity rate controls that Michigan foolishly adopted in 2000 and that, thankfully, will expire in three years.

The California power meltdown has one source and one source only: state government policy. The politicians who thought they could "plan" the state's electrical future in defiance of the laws of economics should rid the books of their disastrous restructuring schemes and give real deregulation a try.

Income Mobility and the Fallacy of Class-Warfare Arguments

D. Mark Wilson

Opponents of tax relief are criticizing commonsense reforms because they claim that “only the rich” will benefit. Yet the notion that low-income or high-income groups are composed mostly of the same people over time is an illusion.

D. Mark Wilson is a Research Fellow in the Thomas A. Roe Institute for Economic Policy Studies at the Heritage Foundation.

The dynamic U.S. economy is characterized by an extraordinary degree of income mobility that has been all but ignored in the recent debate on reducing federal income tax rates and phasing out the death (estate) tax. Opponents of tax relief are criticizing commonsense reforms because they claim that “only the rich” will benefit. Yet the notion that low-income or high-income groups are composed mostly of the same people over time is an illusion.

The comparison of average incomes and taxes paid by groups would be meaningful only if America were a caste society in which the people comprising one group remained constant over time. Most Americans, however, understand that family incomes change frequently, and the research on income mobility reveals that most family incomes increase significantly over time.

This is one reason why Americans with modest incomes tend to resist “soak the rich” class-warfare arguments: They hope to be rich themselves one day. Policymakers should ignore this class-warfare rhetoric and redesign America’s tax code so that its barriers to upward mobility are reduced.

Many academic studies have found remarkably consistent results that suggest there is substantial income mobility in the United States. For example:

* A 1992 Treasury Department study showed that between 1979 and 1988, 86 percent of those in the bottom income quintile moved to a higher quintile, and 35 percent in the top income quintile

moved to a lower quintile.

* A 1995 Federal Reserve Bank of Dallas report showed that almost three-fourths of those in the bottom quintile in 1975 were in a higher quintile by 1991, and almost 40 percent in the top quintile moved to a lower quintile over the same period.

* A 1996 Urban Institute study showed that large numbers of Americans move into a new income quintile, with estimates ranging from 25 percent to 40 percent in a single year. The same study found even higher mobility rates over longer periods: about 45 percent over five years and 60 percent over 9-year and 17-year periods.

* In 1998, the Census Bureau reported that, on average, over 41 percent of Americans increased their inflation-adjusted income by 5 percent or more per year from 1984 to 1994. The primary reasons for changes in income from year to year were changes in marital status, changes in the number of workers in the household, and moving into or out of full-time, year-round employment.

* A 2000 Economic Policy Institute study showed that almost 60 percent of Americans in the lowest income quintile in 1969 were in a higher quintile in 1996, and over 61 percent in the highest quintile had moved down into a lower income quintile during the same period.

The direction of income mobility is also important. The upward movement of workers in the second-lowest and middle-income quintiles is larger than the

Income Mobility and the Fallacy of Class-Warfare Arguments

D. Mark Wilson

The fact is that the U.S. economy, while not without its problems, remains dynamic, open, and productive enough to enable Americans to rise as far and as fast as their dreams, hard work, and perseverance will take them.

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downward movement. From 1969 to 1994, the income of 53 percent of workers in the second-lowest quintile had increased enough to move up into a higher income quintile, and 38.7 percent of workers in the middle quintile had moved up compared to 37.9 who moved down.

Much of the debate and political rhetoric on tax relief have focused on how much income the top one-fifth or one percent of families would receive versus the bottom one-fifth and other fifths. Yet this approach is statistically meaningless because the mix of individuals and families who make up the various income groups changes constantly.

The fact is that the U.S. economy, while not without its problems, remains dynamic, open, and productive enough to enable Americans to rise as far and as fast as their dreams, hard work, and perseverance will take them. What is needed is commonsense tax reform that reduces the burden of excess taxation for all Americans.

For more on this issue, read "The Truth About Income Inequality," in Public Interest Institute's November 1996 FACTS & OPINION.

Visit Public Interest Institute's web page at www.limitedgovernment.org

What's New at PII?

David Hogberg
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John brings considerable expertise in both business and politics to the Institute. Graduating from Creighton University with a Bachelor of Science in Business Administration in 1970, John became the president of a magazine distributorship and operated a chain of Hallmark stores and bookstores. He is currently the president of JTC Promotions.

On the political side, John is a former City Council Member and Mayor of the City of Burlington. He is currently the Chairman of the Zoning Board of Adjustment.

John resides in Burlington with his wife, Judy. He has two college-age sons, David and Stephen.

John is excited to be working on membership and raising new funding for the Institute.

In other news, on Friday, March 9, Development Director John Sandell and Research Analyst David Hogberg were guests on the morning show hosted by Steve Hexom on KBUR radio in Burlington. John and David gave an over-view of Institute purposes and beliefs, and its publications. They also discussed taxation, energy policy, global warming, the *Iowa Civics Project*, and limiting government.

The Legitimate Role of Government — Part II

Walter E. Williams

Free enterprise...is threatened today not because of its failure but, somewhat ironically, because of its success.

Editor's Note: This is the continuation of Walter E. William's speech "The Legitimate Role of Government in a Free Society." The first part of this speech appeared in the February 2001 edition of Facts & Opinions.

In spite of the tax burden, capitalism has been so successful in eliminating disease, pestilence, hunger, and gross poverty that other human problems now appear both unbearable and inexcusable. Free enterprise thus is threatened today not because of its failure but, somewhat ironically, because of its success. Although the rise of capitalism brought better treatment to women, racial minorities, the handicapped, criminals, and the insane, social reformers assert that "it doesn't work" and "is dehumanizing."

In the name of ideals such as income equality, sex and race balance, affordable housing and medical care, orderly markets, consumer protection, and energy conservation, to name just a few, we have imposed widespread government controls that have subordinated us to a point at which considerations of personal freedom are but secondary or tertiary matters. If you take tiny steps toward a goal, one day you will get there, and the ultimate end of this process is totalitarianism, which is no more than a reduced form of servitude. As David Hume said, "It is seldom that liberty of any kind is lost all at once."

In the vanguard of this totalitarian movement are the defenders of the "new human rights," the chief advocates of curtailing rights to property and profits. They are anti-competition and pro-monopoly. They support control and coercion by the state. They believe that they have more intelligence and wisdom than the

masses and that they are ordained to impose that wisdom forcibly on the rest of us. They want to replace the market with economic planning, which is nothing more than the forcible superseding of other people's plans by a powerful elite. Of course they have what they call good reasons, but every tyrant has what he calls a good reason for restricting the freedom of others.

The elites' assault on the principles of freedom would have been less devastating had not Americans from all walks of life, whether they realized it or not, demonstrated a deep and abiding contempt for private property rights and economic freedom that stemmed primarily from their desire for government to do good. They decided that government should care for the poor, the disadvantaged, the elderly, failing businesses, college students, and many other "deserving" segments of our society.

It's nice to do those things, but we have to recognize that government has no resources of its own. Congressmen and senators are not spending their own money for these programs. There is no Tooth Fairy or Santa Claus who gives them the resources. The only way the government can give one American one dollar is to confiscate it first, under intimidation, threats, and coercion, from another American. In other words, for government to do good, it must first do evil. If a private person were to do the things that government does, he would be

The Legitimate Role of Government — Part II

Walter E. Williams

Government was not long in the business of doing good before Americans found they could use government to live at the expense of other Americans, both through the tax code and through “privilege granting.”

Walter E. Williams is the John M. Olin Distinguished Professor of Economics at George Mason University, author of a syndicated newspaper column, and a radio talk show guest host.

condemned as a common thief. The only difference is legality, and legality alone is no talisman for moral people. This reasoning explains why socialism is evil. It uses bad means (coercion) to achieve what are seen as good ends (helping people).

Government was not long in the business of doing good before Americans found they could use government to live at the expense of other Americans, both through the tax code and through “privilege granting,” a government activity that dates back to medieval times in Europe, where guilds and mercantile associations controlled trade in their particular areas. With a payment to the king or a reigning lord they were granted monopoly privileges. In modern times, we have the equivalent; we just call them political contributions.

Almost every group in the nation has come to feel that the government owes it a special privilege or favor. Manufacturers feel that the government owes them protective tariffs. Farmers feel that the government owes them crop subsidies. Unions feel that the government should keep their jobs protected from non-union competition. Residents of coastal areas feel that the government should give them funds for rivers and harbors. Intellectuals feel that the government should give them funds for research. The unemployed and the unemployable feel that the government owes them a living. Big business feels that the government should protect them from the rigors of market competition. Members of

almost every occupation, profession, or trade feel that the government should use licensing requirements and other forms of regulation to protect their incomes from competition that would be caused by others entering the trade.

Conservatives are by no means exempt from this practice. They rail against food stamps, legal aid, and Aid to Families with Dependent Children, but they come out in favor of aid to dependent farmers, aid to dependent banks, and aid to dependent motorcycle companies. They don't have a moral leg to stand on. They merely prove to the nation that it is just a matter of whose ox is being gored. Conservatives as well as liberals validate H. L. Mencken's definition of an election: “...government is a broker in pillage, and every election is a sort of advance auction sale of stolen goods.” To the extent that he was right, we must acknowledge that we, not the politicians, are the problem.

Our government has become destructive of the ends it was created to serve. John Stuart Mill, who wrote the classic text *On Liberty*, said, in discussing the limits of government power, “[T]he only purpose for which power can be rightfully exercised over any member of a civilized society, against his will, is to prevent harm to others. His own good, either physical or moral, is not sufficient warrant.” Mill added, “He cannot rightfully be compelled because it would be better for him to do so...because it will make him happier” or because, in the opinion of others, “to do so would be wise, or even right.” Finally, Mill

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The Legitimate Role of Government — Part II

Walter E. Williams
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said, “these are good reasons for remonstrating him, or persuading him, but not for compelling him, or visiting him with an evil in the case he do otherwise.”

We have gone much further than what Mill and John Locke argued are limits to coercion in a free society. Part of the problem is that the Constitution contains little language explicitly protecting economic rights. We must find a way to set a limit on what Congress can take from us. It should

take the form of a constitutional amendment limiting peacetime federal spending to a specific, lower percentage of the Gross Domestic Product. If we can’t get Congress to pass such an amendment, we should reconvene the constitutional convention for the narrow purpose of a spending-limitation amendment. I know that a lot of people fear the dangers of a runaway convention, but I take a position similar to that of Mae West, who said, “When choosing between two evils, I like to try the one that I’ve never tried before.”

If the Founders were to come back to today’s America, I think they would be very disappointed in our choice to

accept what we see as safety in exchange for liberty. But I would also say that it is not too late for us to wake up and respond to the erosion of our liberties. Americans have never done wrong things for a long while. But we must get about the task of putting government back where our Founders intended while we have the liberty to do so.

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