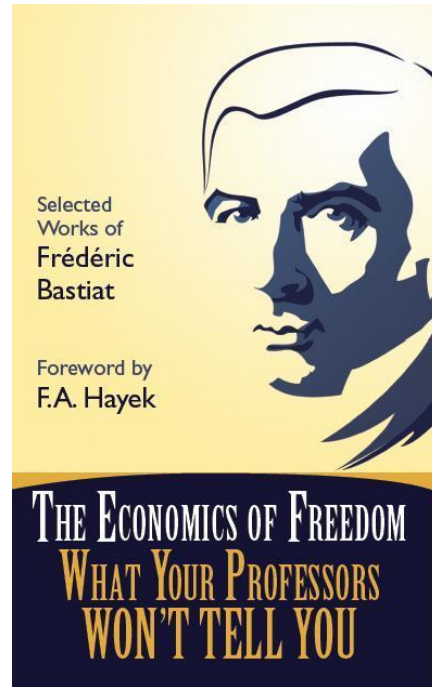




**Students For Liberty**

# The Students For Liberty Bastiat's Legacy Essay Contest Winners



*“The state is the great fictitious entity by which everyone seeks to live at the expense of everyone else.” – Frédéric Bastiat*

As students for liberty, we are well acquainted with economic fallacies. For as long as the debate over liberty has been waged, our opponents have used unsound arguments to try to justify greater government involvement in our economic affairs. We encounter these fallacies expressed by students, professors, administrators, and many others along the way. Some claim that acts of destruction can result in economic growth. Others assert that professional licensing is good for consumers. Still more argue that restrictions on trade lead to a higher standard of living.

These dangerous beliefs are not limited to the academic realm. Today more than ever public policy is dictated by flawed economic reasoning. Stimulus packages, cash for clunkers, trade quotas, tariffs, regulations, and licensing requirements are all in vogue amongst today's politicians and policy makers.



## **Students For Liberty**

Our generation is not the first to be confronted by these erroneous arguments. In fact, they have already been confronted and proved fallacious by Frederick Bastiat. A 19th century French political economist, Bastiat dedicated his life to proving that government by its nature possesses neither the moral authority to intervene in our economic freedom nor the practical ability to create prosperity through intervention. He systematically debunked his opponents' claims and observed that economic intervention is most commonly proposed by one group in society trying to gain for themselves at the expense of everyone else.

Bastiat's analysis is as relevant now as it was when he first penned the famous critiques. To defeat the economic fallacies once again, Students For Liberty is partnering with the Atlas Economic Research Foundation to introduce The Bastiat Project.

SFL and Atlas have published a new book, *The Economics of Freedom: What Your Professors Won't Tell You*. It features a feature a collection of Bastiat's best essays including such classics as "What is Seen and What is Not Seen" and "A Petition", along with contemporary essays by Nobel Laureate F.A. Hayek and Atlas Foundation Vice President Tom G. Palmer. In the fall of 2010 we printed 30,000 of these books and gave them to pro-liberty student groups for mass distribution on college campuses. A full PDF of *The Economics of Freedom* can be downloaded at <http://studentsforliberty.org/college/bastiat-project/>.

The second part of the project was an essay contest challenging students to relate a central theme from *The Economics of Freedom* to a current public policy issue. Students For Liberty received many high-quality submissions from students around the world and the following were selected as the very best.

### **Grand Prize Winner**

Kelly Tian – University of Chicago

### **2<sup>nd</sup> Place Winner**

Evan Soltas – Phillips Exeter Academy

### **Runners Up**

George Edwards - Indiana University Kokomo  
Stephan Palubinski - American University  
Theodore Phalan - George Mason University  
Jasmine Whiting - American University  
Ian Hosking - George Mason University  
Meg Patrick - George Mason University  
Michael Booher - East Tennessee State University  
Matthew McKillip - Georgetown University



## Students For Liberty

### Grand Prize Winner

**Kelly Tian**  
**University of Chicago**

#### The Impact of the Stimulus Bill on the Labor Market: Does It Work, or Doesn't It?

The rallying cry of “Buy American!” can be heard pervasively across the nation, stirring nationalist sentiments as America trudges along the path of economic recovery from the worst recession since the Great Depression. One of the most sharply divided debates in public policy is the one about the stimulus bill implemented in February 2009 called The American Recovery and Reinvestment Act.

The American Recovery and Reinvestment Act’s controversial Buy American provision stipulates that if a project is on a public work, then all the iron and steel used in the project must be produced domestically. This provision aims to preserve or create at least three million manufacturing jobs for Americans. Will this policy retain jobs for Americans and spur economic growth, or will it ultimately diminish the welfare of the nation? In the short run, protectionism indeed preserves jobs for protected industries. However, as indicated by the 19<sup>th</sup>-century French economist Frédéric Bastiat, protection through free-trade restriction is an economic fallacy; in the long run it will slow down economic progress and represents a sheer loss to society.

Frédéric Bastiat, in his influential commentary on economic sophisms “What is Seen and What is Not Seen,” reveals the fallacies contained in the argument for protectionism as a method of stimulating economic growth. Without limitations on trade, consumers can enjoy lower prices for the goods they consume. His essay outlines the argument of “Mr. Protectionist,” who asserts that by eliminating foreign competition, domestic firms can profit more through higher prices. When firms charge higher prices, they help stimulate the economy by employing more workers and other resources. In turn, the incomes of resources owners will increase, and they will then consume more, thus fostering economic activity across the nation.

Though Mr. Protectionist’s arguments are not *false*, they fail to account for economic consequences not immediately visible, as is the case with supporters of the stimulus plan. Bastiat reasoned that a law restraining free trade involves three key players. The first two are directly involved in the transactions as the buyer and seller. They are *seen*. The third *could* have been involved as the seller of whatever goods or services the consumer would have purchased from had it not been for the trade restriction; this third figure *is not seen*. At same time, this third player could have had more money to spend had it not been for the protectionist policy.

Supporters of the stimulus plan may wonder, “How is it possible for *anyone* to have more spending power when jobs are being ‘outsourced?’”

The consumers who would have paid less for building materials could have spent the money they saved elsewhere. Additionally, they could have purchased something else and gained



## **Students For Liberty**

enjoyment from the consumption of what they purchased. However, restrictions such as the Buy American provision result in consumers losing the value of whatever goods they could have purchased when free trade and competition resulted in lower prices before the protectionist policy. The double loss of the consumers offsets the gains made by the manufacturers and sellers of steel and iron.

In applying Bastiat's central theme to the Buy American provision of the stimulus plan, the three million jobs created or saved in the United States' manufacturing industry are undeniable; because steel and iron cannot be obtained from abroad for public construction, they *must* be produced domestically, which means manufacturing jobs for Americans. This is *seen*.

The *not seen* are the jobs that would have been created in other industries, as well as the enjoyment that would have been obtained from the consumption of the goods and services provided by non-Americans. Frédéric Bastiat's concept of unseen consequences does not simply exist in theory. For example, in the 1930's the Smoot-Hawley Tariff Act imposed taxes on over 20, 000 imported goods, which distorted and limited free trade. Economists now widely believe that this tariff greatly exacerbated the severity of the Great Depression.

To echo the sentiments of Harvard economist Dr. Nicholas Gregory Mankiw in his 2009 *New York Times* article, this is no time for protectionism. Both the arguments presented by Frédéric Bastiat and lessons learned from public policy history demonstrate that protectionist policies lower the overall economic well-being of the nation and serves only to impede economic growth. The American Recovery and Reinvestment Act is therefore counterproductive; the Act defies economic wisdom and undermines the very economy it seeks to help recover.



## **Students For Liberty**

**2<sup>nd</sup> Place**

**Evan Soltas**  
**Phillips Exeter Academy**

### Usury, or a Lifeline? The “Unseen” Cost of Banning Payday Loan

*“[Payday lending is] part of the financial sector that has fought really hard to be not nationally regulated at all. And that’s because what they do is something that’s commonly thought of as loan sharking. They don’t call themselves loan sharks, of course, they call themselves ‘payday lenders,’ which makes themselves sound less like cartoon villains, but doesn’t really change what they actually are.” – MSNBC host Rachel Maddow, April 22, 2010*

Maddow’s attack on payday lenders exposes the unremitting error of the economics of the American left. Not only do they perceive “exploitation” in voluntary transactions—a mistake beyond the scope of this essay—but their solutions often worsen the social ill they intended to correct.

Typically, payday lenders offer small amounts of money, often between \$100 and \$500, to cash-strapped customers for periods of approximately two weeks. With proof of income and a checking account, lenders advance a portion of the borrower’s paycheck. For this service, the average fee is \$15 for every \$100 borrowed. The regular practice is to take out eight to twelve of these loans each year to make ends meet. Critics have asserted that these fees amount to an “usurious” implied annual rate of 390 percent.

Eleven states have banned payday lending outright; another five have made the practice economically uncompetitive. After these states have passed laws that limit interest rates, politicians have trumpeted themselves as the protectors of the poor from their “cartoon villain” predators.

Nothing, however, could be further from the truth: by restricting consumer choice and access to credit, these bans only worsen the chronic income insecurity of the poor. Laws cannot change their fundamental need for short-term credit, and so those living on the margins of society turn to suboptimal alternatives found in even riskier loans, such as home equity lines of credit (HELOCs) or car title loans.

The regulation of payday loans is a classic case of what the celebrated economist Frédéric Bastiat once described as the divergence between “what is seen and what is not seen.” As an extension of the law of unintended consequences, Bastiat’s thesis holds that “when the immediate consequence is favorable, the later consequences are disastrous.”

This, he posits, is the fundamental difference between cogent and fallacious economics: “the bad economist confines himself to the *visible* effect; the good economist takes into account both the effect that can be seen and those effects that must be *foreseen*.”



## **Students For Liberty**

While the visible effect may be a marked decrease in payday lending, the Bastiat’s “later consequences” are predictably tragic. What appears to be a legal “free lunch” is in reality only one side of a larger trade-off with ugly side effects.

As *Reason* reporter Katherine Mangu-Ward found, when Montana and Arizona capped interest rates for payday loans at 36 percent, what Montanans and Arizonans got wasn’t cheaper loans—they got no loans at all, as lenders packed their bags and left the state.

While Maddow and others cheered the death of a “debt trap,” they failed to observe these unseen effects. These, however, became painfully visible to the poor, as Federal Reserve Bank of New York economists Donald Morgan and Michael Strain found: “[m]ost of our findings contradict the debt trap hypothesis,” they wrote in 2007.

“Payday credit, as expensive as it is, is still cheaper than a close substitute: bounced check ‘protection’ sold by credit unions and banks,” Morgan and Strain wrote. “Forcing households to replace costly credit with even costlier credit is bound to make them worse off...banning payday loans is not the way to motivate competitors to lower prices or invent new products.”

In fact, as Morgan and Strain imply, the “protection of the poor” is the politicians’ justification for what is really an enormous transfer of wealth—“a potentially huge transfer”—from payday lenders to politically-favored lenders.

As Bastiat would go on to write in his magnum opus *The Law*, legislation is at its most dangerous when it is used as an instrument of force. Through political influence, credit unions have found a way to bar free and open competition, and it is no coincidence that many anti-payday lending proposition campaigns are bankrolled by credit union lobbyists.

Before another state bans payday lending, it would be well served by reading the current reporting, the vast body of economic literature on the topic, and most importantly of all, Bastiat’s “What is Seen and What is Not Seen.” They would at least reconsider.



## **Students For Liberty**

### **Runner Up**

#### **George Edwards University of Indiana – Kokomo**

##### Bastiat on Government “Jobs Creation”

Bastiat’s That Which Is Seen, and That Which Is Not Seen has a clear and resounding theme of opportunity cost, or the unseen cost which he states as “that which is not seen.” In dispelling myths of broken windows, war, military jobs, and public work employment as all being net gains of employment in an economy, Frederic Bastiat shows the reader how to be an economist and how to apply the concept of opportunity cost to current legislation. Today we see “job creation” bills, like the one signed into law by President Obama on March 18, 2010, that are intended to create jobs through public works. Let’s see what Frederic Bastiat had to say about this.

Under the subtitle “Public Works” in the above mentioned essay, Bastiat states: “When a railroad or a bridge are of real utility, it is sufficient to mention this utility. But if it does not exist, what do they do? Recourse is had to this mystification; ‘We must find work for the workmen.’” This statement was published in 1850, two years after Bastiat was elected to the national legislative assembly of post-revolutionary France in 1848. The argument for “job creation” is nothing new to political discourse no matter how much Keynesian sophistry is added to the argument since the days of Bastiat. To be fair, even Keynes was beholden to this argument in his suggestions for what kind of new jobs should be created in an economy as a result of deficit spending.

Bastiat’s argument, in this instance, is aimed at those public works which are justified on the basis of jobs they will create rather than the utility derived from the public works themselves. The concept of opportunity cost, an argument that Bastiat delineated under the subtitle “The Broken Window,” can be brought into this analysis. In “The Broken Window,” a debate is underway in the streets of a town over the broken window of a baker. One person argues that the child who threw the stone should be celebrated for what amounts to “stimulating” the economy by breaking the window. Bastiat dispels this notion by saying; “It is not seen that as our shopkeeper has spent six francs upon one thing, he cannot spend it upon another.”

It is this unseen cost or opportunity cost that policy makers are not taking into account when making panicked decisions regarding rising unemployment. Not being sure why employment levels decrease, policymakers introduce bills that, on the surface, create new jobs. However, it is important to point out the unseen costs in this very legislation.

The 17.4 billion dollar bill signed into law by President Obama is a prime example of this job creating folly. Sure, there will be jobs created by this spending but there is absolutely no



## **Students For Liberty**

mention of jobs that will be lost because of this measure. Unless all of the 17.4 billion dollars is printed, which would have unintended side effects of its own, the money must come from either taxation or borrowing. The unseen cost of taxation is the inability of businesses on the margins to stay in business. The unseen cost of borrowing is the crowding out of private borrowing. The justification for this spending should not be to put people to work, the alternate use of the money could do the same thing, but rather that there is value enough in the execution of these projects to justify incurring the unseen costs.

In That Which Is Seen, and That Which Is Not Seen, Frederic Bastiat teaches the reader to be an economist. Rather than claiming that we should pass this or that policy or public work he teaches us that whatever the ends may be, we should look at ALL costs, even the unseen, before making decisions on whether or not to pass certain legislation. Looking at both the seen and the unseen gives policymakers the insight needed to make much better decisions with our money rather than simply spending for the sake of spending.



## **Students For Liberty**

### **Runner Up**

**Stephen Palubinsky**  
**American University**

#### The Broken Car Window

Bastiat proudly considered the “seen and unseen” consequences of government intervention in the economy. Several months ago, I witnessed firsthand how the seen benefit of political involvement in the economy can easily create devastating unseen effects. While patronizing an automobile scrap yard, I noticed a large amount of vehicles with orange spray paint coating the engine compartments and “clunker” written across the body panels. These derelict automobiles may have seemed inconsequential but they were the end result of a wasteful government policy known as “Cash for Clunkers.” In using this program, the United States subsidized the destruction of working vehicles in order to boost demand at the time (Romer). This program amounts to little more than the broken window fallacy and in the long run will leave the nation in considerably worse condition than it would have been in.

The first fallacy that Bastiat discusses in “What is Seen and What is Not Seen” is the broken window fallacy. He described this fallacy as the belief that destroying goods can actually lead to economic growth because it increases demand (Bastiat, 2). Bastiat rebuked this commonly held belief by arguing that instead of simply increasing demand for one industry, “breaking a window” (or any other good) simply caused the replacement of a good that already existed at the expense of an additional good that could not be purchased (Bastiat, 3). Most people would accept his example that breaking one window deprives society of a pair of shoes (Bastiat, 3). However, this simple truth can become considerably more muddled when it is applied to the world’s largest economy during a time of substantial financial turbulence.

As stated previously, government officials argued for “Cash for Clunkers” because they believed it would provide some stimulus by increasing demand for automobiles at that point in time (Romer). Owners of “older and inefficient” vehicles would be subsidized, up to \$4,500, to trade these vehicles in for newer, more efficient models (The Economist). The “clunkers” were then deactivated: the engines were destroyed by adding an abrasive agent to oil and the remaining hulks were to be sold in salvage markets for 270 days before they needed to be crushed (Cars.gov). In short, working vehicles were decommissioned and destroyed before they would have been naturally. Agents of the government actively destroyed goods as part of a process to boost demand.

In accord with Bastiat’s consideration, politicians and the media heralded the program as a way to create business for automakers. They vehemently argued that automakers would suffer if demand was not artificially stimulated by the government. In their consideration, destroying a vehicle would increase business for automakers just as the politicians in Bastiat’s time argued that breaking windows helped glaziers. Just as in the 19<sup>th</sup> century, purposeful destruction only



## **Students For Liberty**

reduces society's wealth in total. Not only did taxpayers spend billions of dollars to replace working vehicles but individuals that would have purchased engines from junkyards were deprived of a good. Poorer individuals who depend on cheaper, used vehicles were also harmed by increased prices in the used car market caused by a decrease in demand. Instead of benefiting from the use of a vehicle and the purchase of an additional good, Americans were forced to pay additional taxes in order to destroy vehicles and replace them with newer models. These are the effects that were unseen.

Using data gathered by the government, Christina Romer argued that the "Cash for Clunkers" program diverted new vehicle purchases that would have been made up to 2.87 years after the program took place (Romer). By knowingly undertaking such activities, government officials were informally stating that they believed they had the knowledge to determine that pushing demand forward would be beneficial to the economy. Bastiat would disagree with this assertion, arguing that the market, not politicians, should be used to determine the supply and demand of a good (Bastiat, 55). The "Cash for Clunkers" program only truly succeeded in stealing tomorrow's sales for today. The market, rather than politicians, should have guided the decisions of American consumers. More poignantly, "Cash for Clunkers" commits the broken window fallacy by arguing that society can be better off through by utilizing destruction rather than net creation.

### Works Cited

"Bangers and Cash." *The Economist*. N.p., 24 Aug. 2009. Web. 29 Nov. 2010.  
<<http://www.economist.com/node/14296297>>.

*Car Allowance Rebate System*. United States Government, 8 Sept. 2010. Web. 29 Nov. 2010.  
<<http://www.cars.gov/>>.

Romer, Christina, and Christopher Carroll. "Did 'Cash-for-Clunkers' Work as Intended?"  
*Council of Economic Advisors*. White House, 5 Apr. 2010. Web. 29 Nov. 2010.  
<<http://www.whitehouse.gov/blog/2010/04/05/did-cash-clunkers-work-intended>>.



## **Students For Liberty**

### **Runner Up**

**Theodore Phalan  
George Mason University**

#### Taxes Are Not the Absence of Gifts

*“Good Lord! What a lot of trouble to prove ... that two and two make four; and if you succeed in doing so, people cry, ‘It is so clear that it is boring.’ Then they vote as if you had never proved anything at all!”*

Have you overheard a bit of conversation recently on the lips of John Q. Citizen: “In tough times like these, we just cannot afford tax cuts; it is irresponsible to add more to the deficit.” Or perhaps you listened to the “Weekly Address” when the President spoke of the proposed extension of certain tax cuts, describing them as “the same tax cuts that have added hundreds of billions to our debt.” Politicians of all stripes, economists of dubious intention, and newsmen of limited insight have all spoken words like these.

Words are merely the sounds of ideas and, as sounds go, these few seem harmless enough; the *idea* they represent, however, is insidious. Once it has taken root it will lead to all manner of mischief. For deficits and debts are creatures of *spending* – they arise when your *expenditures* outweigh your revenues – if tax cuts are “spending” by the government, then they are *gifts* of the government. And if tax cuts are gifts, then their absence is merely the absence of gifts. The money, they implicitly claim, is all of it theirs.

Now you say that deficits may occur when revenues fall unexpectedly, and that this is proof that revenues can dictate a deficit. But you may as well say that the ship sank, not for the surplus of holes in the hull but the surplus of water in the sea! The tax base is finite, whereas spending opportunities are instead limited only by the imagination of our Public Servants (and the cunning of the tax collector). It is spending that must be at all times restrained, and is always to blame when an imbalance occurs.

But all of this is what the point is *not*. It doesn’t matter under which shell the pea is hidden if the name on your bank account has been changed during the game. They have declared that the dollars that make it through the gauntlet and into your wallet are theirs, that your livelihood is their whim, and that your existence is conditional.

You scoff and say that it is too serious to talk of “livelihood” and “existence,” that you are concerned with practical matters. But it is this confusion of thought that leads men to defend myriad programs lavishing supposed beneficence on the grounds that it would be pure foolishness to turn down Public Manna! With the aid of the sound “public,” a talisman that instantly makes a thing both moral and indispensable, the case is made for any project or policy without the slightest regard to cost. Indeed, it is as though it would be a cost to *forgo* the park, road, or bridge; the bailout or the bomb. The nation is a “parched piece of land and the tax ... a



## **Students For Liberty**

life-giving rain. So be it. But you should also ask yourself where this rain comes from, and whether it is not precisely the tax that draws the moisture from the soil and dries it up<sup>ii</sup>.”

“I know that anything spent must first be earned, and that anything eaten must first be grown. But this case is different. After all,” you say, “would you have us vote for the State *not* to *give* it to us?”

And now, though his eyebrow arches briefly in surprised, then resigned, recognition, he casts his vote for the new county park and hopes it will be built near to him.

---

<sup>i</sup> Bastiat, F. (2010). <http://studentsforliberty.org/wp-content/uploads/2010/04/The-Economics-of-Freedom-PDF.pdf>. (C. Ruper, Ed.) Retrieved December 1, 2010, from studentsforliberty.org: <http://studentsforliberty.org/wp-content/uploads/2010/04/The-Economics-of-Freedom-PDF.pdf>

<sup>ii</sup> Bastiat, F. (2010). <http://studentsforliberty.org/wp-content/uploads/2010/04/The-Economics-of-Freedom-PDF.pdf>. (C. Ruper, Ed.) Retrieved December 1, 2010, from studentsforliberty.org: <http://studentsforliberty.org/wp-content/uploads/2010/04/The-Economics-of-Freedom-PDF.pdf>



## Students For Liberty

### Runner Up

**Jasmine Whiting**  
**American University**

#### Overheard

A brisk February wind rushed into the small cafe as he pulled the suit around him, slouching further into his seat.

“Close the damn door already.”

“Easy,” the newcomer cooed. She slid into the booth across from him, loosening her shapeless tweed coat. “Coffee, two sugars please.” she directed the approaching waitress.

“Another,” her companion slurred, holding up an empty pint glass.

The woman pulled her briefcase onto the table snapping it open and removing a dossier. She looked at him disdainfully. “You reek.”

He flinched, “I've been waiting for you since five.”

“Something came up. Let's just get this over with shall we, I can't stand the sight of you any longer.”

“It's not my fault Botox keeps your eyes permanently open.” he muttered.

She continued as if he hadn't spoken. “Sections 1604 – 1607. Your people have been terribly difficult in accepting this portion. Just get it passed and we can forget this sordid encounter ever occurred.”

He snatched the document. “Buy American Section 1605. Use of American iron, steel and manufactured goods. None of the funds appropriated or otherwise made available by this Act may be used for a project for the construction, alteration, maintenance, or repair of a public building or public work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States.” He looked up blankly, “What the hell is this?”

“It will encourage domestic production,” she explained, “If we are rebuilding America we must use American materials. Thank you.” retrieving her coffee from the waitress, she turned back to him, adding sarcastically, “It's the *patriotic* thing to do.”

“Protectionism.” he stated flatly.



## **Students For Liberty**

“Oh don't act so innocent. The steel industry has been ever so...generous. Besides, your people have been pushing farm subsidies for decades, and *now* you become the bastion of free trade? You're pitiful.”

He took a swig from the beer that was replaced before him. She leaned forward eagerly, “Just think of all the good that will come of it- with increased production of steel comes increased demand of any number of related services. Mining. Shipping. Refining. Packaging. And with their increased wages consumption shall increase across the board. Why even a child could see that there's no American, from the wealthy shareholders to the humblest of McDonald's workers, who would not benefit from this provision. But then again, when have you ever concerned yourself with the greater good of the people?” she spat.

Why did those words sound so eerily familiar? He drained his glass.

“I don't have all day. Just sign here” she whipped out a Mont Blanc, handing it to him, “and here. And tell your people exactly what I said.”

“And what exactly, did you say?” he whispered, feeling an ominous sense of *deja-vu*.

“Prosperity!” she exclaimed, exasperated, “Wealth! More for everyone! If America manufactures more steel, there will have to be more factories! Increased employment! Increased consumption!”

Suddenly it hit him, as the cogs in his mind spun wildly. College. Economics. Bastiat. A Petition from the Manufacturers of Everything Connected with Lighting. “Yes,” he echoed distantly, “*If France consumes more oil, we shall see an expansion in the cultivation of the poppy, the olive...our moors will be covered with resinous trees. Numerous swarms of bees will gather from our mountains, the perfumed treasures that today waste their fragrance, like the flowers from which they emanate. There is not one branch of agriculture that would not undergo a great expansion!*”

“How poetic,” she sneered, “but I see you catch my drift.”

He keeled forward onto the table, knocking over his empty glass. She caught it expertly and prodded him with the pen.

“Sign. I have places to be. The public to serve. I cannot concern myself with your wretched behavior.”

He lifted his swimming head and focused on the document. “Eh?”

“Here.”



## **Students For Liberty**

He signed. She tucked the document into her briefcase and got up swiftly. “This has been...lovely,” she frowned at his wilted figure in the booth, “but I shall expect your votes on Tuesday.”

He watched her retreating figure exit the cafe, and once again his face was hit with the icy air from outside. “It...it's...” nursing his pounding head, “...it's what is not seen,” he mumbled before slumping into a dreamless sleep.

Sources:

Frederick Bastiat – “A Petition”  
2010 Stimulus Plan



## Students For Liberty

### Runner Up

**Ian Hosking**  
**George Mason University**

#### The Soul of Man Under Subsidization

If that which is not seen is considered when evaluating government funding for the arts, the only reasonable conclusion is to end all such state subsidization of culture. Frederic Bastiat writes that opponents of such subsidization are mischaracterized as "barbarians who judge the arts useless."<sup>1</sup> In fact though, it is the state which is guilty of barbarism, for it would plunder society and corrupt art for the sake of "cultivation." The government boasts of "bringing the arts to all Americans,"<sup>2</sup> but what is not seen is how, in order to do so, the state robs from society and depraves art.

The government is currently the largest single financial supporter of the arts in the country. In 2006, government-controlled organizations spent \$1.6 billion on the arts.<sup>3</sup> The National Endowment for the Arts, which contributes more than any other organization, had an appropriations budget of \$167.5 million in 2010.<sup>4</sup> What is the source of this money? It did not spontaneously appear, or "hatch out from the ballot box."<sup>5</sup> No, each dollar spent by the state on the arts is a dollar taken from the taxpayer. The prima donnas are being enriched by the poor. How many better preferred goods and services, including works of art, did society go without as a result of the government's plundering of private coffers? That is what is unseen.

The justification of such plunder rests on thoroughly elitist, paternalist grounds. The advocates of state arts funding seek to bring "the arts" to all Americans. Of course, Americans already consume more art, and of greater variety, than ever before. There are tens of thousands of successful private radio stations, television networks, print publishers, and other non-governmental purveyors of art.<sup>6</sup> But not politically correct art. As Sir Humphrey Appleby, a character in the British series *Yes, Minister*, says, "subsidy is for art, for culture. It is not to be given to what the people want. It is for what the people don't want but ought to have. If they want something, they'll pay for it themselves."<sup>7</sup>

This high-brow paternalism produces no less than a subsidy from the poor to the rich, what Bastiat describe as a reallocation of possessions and wages.<sup>8</sup> State-funded art forms (e.g. opera,

---

<sup>1</sup> Frederick Bastiat. "What is Seen and What is not Seen," in *The Economics of Freedom: What Your Professors Won't Tell You*, ed. Clark Ruper (Arlington: Students for Liberty 2010). p 12

<sup>2</sup> National Endowment for the Arts. "How the United States Funds the Arts." National Endowment for the Arts, 2007.

<sup>3</sup> Ibid. 2 p 7

<sup>4</sup> National Endowment for the Arts. "National Endowment for the Arts Appropriations History" Accessed December 1, 2010 <http://www.arts.gov/about/Budget/AppropriationsHistory.html>

<sup>5</sup> Ibid. 1 p. 14

<sup>6</sup> Nick Gillespie. "All Culture, All the Time." *Reason*, April 1999.

<sup>7</sup> *Yes, Minister* Episode no. 21, first broadcast 23 December 1982 by BBC. Written by Antony Jay, Jonathan Lynn.

<sup>8</sup> Ibid. 1 p. 14



## **Students For Liberty**

ballet, interpretive dance) are traditionally patronized by the wealthy. In effect, the nation's consumers of middle and lowbrow art are being taxed so that their congressmen and lobbyists may enjoy cheaper seats at the opera.<sup>9</sup> The proper response to "the elitist arrogance of those who pick the pockets of working people and slur them in the process" ought to be revolt.

But revolution of mind and body is made more difficult by state involvement in the arts. How can the artist remain the "last champion of the individual mind and sensibility against an intrusive society and an officious state" if he is a tool of the state?<sup>10</sup> Art stands in opposition to authority, as governments well recognize<sup>11</sup>, and it cannot become beholden to power without losing its spirit. Anti-authoritarians would do well to understand that "it is precisely because art has power, because it deals with basic human truths, that it must be kept separate from government."<sup>12</sup>

Any union with authority results in the stagnation of art, and eventually, its decay. Art cannot meaningfully exist without change, innovation, and experimentation. The great artists are great precisely because they defy conventional wisdom, and in doing so reinvent what is wise. The nature of the state is essentially incompatible with art, for the state exists to oppose change in defense of the status quo. By subsidizing art, the present is purchased at the expense of the future.

When one looks to that which is not seen, it becomes clear that the true patron of the arts ought to oppose government involvement, lest they betray all that is beautiful and human about art. Art is creation, and governments can only destroy. As Bastiat writes, "our adversaries believe that an activity that is neither subsidized nor regulated is abolished. We believe the contrary. Their faith is in the legislator, not in mankind. Ours is in mankind, not in the legislator."<sup>13</sup>

---

<sup>9</sup> Ibid. 2 p. 5

<sup>10</sup> John F. Kennedy. "Power and Poetry." February 1964.

<sup>11</sup> Louis Menand. "Unpopular Front: American art and the Cold War." *The New Yorker*. Accessed December 1, 2010 [http://www.newyorker.com/archive/2005/10/17/051017crat\\_atlarge](http://www.newyorker.com/archive/2005/10/17/051017crat_atlarge)

<sup>12</sup> David Boaz "The Separation of Art and the State." *Vital Speeches*, June 15, 1995. [www.cato.org/speeches/sp-as53.html](http://www.cato.org/speeches/sp-as53.html).

<sup>13</sup> Ibid. 1 p. 12



# **Students For Liberty**

## **Runner Up**

**Meg Patrick**  
**George Mason University**

### A Nefarious Petition

Like Amity Shales' forgotten man, the poor consumer in today's market is all too often disregarded in political discourse. In an age of rapid globalization, this situation is particularly depressing - for a worldwide expansion of markets should make it much easier for each consumer to get more of what he wants for less money. Indeed, due to a rise in technology and an expansion in trade over the years since the Industrial Revolution, the material welfare of billions of people all across the globe has risen dramatically. Yet alas, it is a sorry state of affairs that this increased opportunity for trade has brought with it increased cries for protection of domestic industries. Though one could choose from an almost infinite number of industries to illustrate this disconnect, I will focus my discussion on the US policy of erecting trade barriers to imported fuel ethanol.

An analogous story to that of the US ethanol policy was made in 1845 by French journalist extraordinaire Frederic Bastiat, who published a satirical piece entitled simply "A Petition". In this piece, the makers of candles and other manufacturers engaged in lighting industries lobby the French government to force consumers to block out the sun in their homes and workplaces, arguing that this policy will be extremely economically profitable for a plethora of interests throughout the country. Not only will the candlemakers and other related lighting manufacturers benefit, but it will most certainly have ripple effects throughout such industries as shipping (as more ships will be needed to engage in increased whaling) and metalworks (as more candles will mean more candlesticks will be needed), all the way down to the lowly maker of matches. However, it is clear that Bastiat is drawing protectionist arguments to their logical extreme, for this is a manifestly absurd proposal; it is easy to see in this instance that such a policy would benefit only some producers at the expense of all consumers.

Currently, the United States Congress is considering extending the soon-to-expire 54 cent-per-gallon tariff that is imposed on imported fuel ethanol, in addition to extending the 45 cent-per-gallon subsidy received by those who blend fuel ethanol with gasoline. Say lawmakers, this is a reasonable policy because it not only will encourage domestic corn production (the raw material by which we make fuel ethanol), but also will sustain jobs in a number of related industries. They often then will cite our nine percent national unemployment rate and say that at such a time of crisis, we cannot afford to lose such critical jobs.

Yet as the candlemakers wanted to block out the sun because it was much more efficient at light production than were they, the only possible reason we would want to place trade barriers on foreign fuel ethanol is because our own product is incapable of fairly competing. Consider this: when we produce fuel ethanol from corn, we must first convert the corn into sugar before distilling it into usable ethanol; yet because countries like Brazil make fuel ethanol out of sugarcane, this extra step is unnecessary, which makes it vastly less expensive for them to



## **Students For Liberty**

produce this product. By artificially trying to make US fuel ethanol producers appear more competitive, \$6 billion per year is imposed on the US taxpayers; essentially, we are forced to pay \$6 billion per year for an inferior product. By terminating these trade barriers, not only would US consumers save billions in tax dollars, but would also see lower prices at the pump.

While undoubtedly the political rhetoric will continue to elaborate on the primacy of protecting our domestic industry and thus saving jobs, in its essential characteristics the US fuel ethanol industry is no different than the lighting production industry in Bastiat's tale. By allowing the truly efficient producers - like Brazil and Australia - to compete fairly on the world market, certainly some US fuel ethanol producers will be harmed; yet the benefits to the multitudes of consumers would far outweigh the loss to a few choice producers. Furthermore, since corn can be used in the production of a variety of different products, few if any jobs would be lost in the US corn-farming sector, but rather shifted into industries in which we are more efficient - like food products. Even those jobs that are lost will be shifted into industries in which we are more efficient, for the \$6 billion that was previously supporting an inefficient industry is now available for new growth-sustaining industries. Truly, the producer of one industry is the consumer of nearly all others; so out with these special privileges and in with true freedom of exchange!



## **Students For Liberty**

### **Runner Up**

#### **Michael Booher East Tennessee State University**

The claim that governmental regulation can cure the ills of fraud and promote fair commerce is short-sighted and fallacious. One such attempt by the government culminated in the Sarbanes-Oxley Act of 2002. While the legislation claims to establish necessary standards for financial reporting, it actually represses the development of business and inhibits economic growth. In his essay titled *The Broken Window*, economist Frédéric Bastiat identifies this type of erroneous thinking as the phenomenon of “what is seen” and “what is not seen.” Although the Sarbanes-Oxley Act of 2002 presents a façade of beneficial oversight and assurance in the financial industry, its unseen effects arrest the development of business and act as impediments to economic growth.

*The Broken Window* provides a simplified example of the “what is seen” and “what is not seen” phenomenon. Bastiat’s prose introduces a situation wherein a homeowner’s child has carelessly broken a window while at play at the home. According to Bastiat, it is common for observers of the situation to appreciate it in a peculiar, positive light. Their rationale is that such misfortune helps to keep the window repairman in business. Indeed the window repairman receives compensation for his efforts, and the homeowner’s home is restored to its previous state. These results are seen; what is unseen is that the homeowner is unable to use the money he spent to repair the window on a good or service of his preference, and in turn the provider of that foregone good or service is denied relative compensation.

Acting as self-proclaimed saviors of the public good whenever calamity strikes, governments produce and promote binding legislation and regulations to prevent recurrences of any misfortune or misdeed deemed to be a threat in the public sphere. During the past decade, a handful of notable financial frauds have spurred the federal government of the United States to elevate the reporting requirements of publicly traded firms doing business in the US. At least within the sheltered realm of academia, accountants often jest that increasing regulations on financial reporting are a form of job security. Indeed, revenues for the services of auditors have undoubtedly increased since the passage of the Sarbanes-Oxley Act of 2002. However, it is important to note that the legislation has increased the cost of doing business for publicly traded companies, and it has failed to eliminate the recurrence of fraudulent financial reporting. This principle of unseen loss applies to any firm that is forced to comply with the requirements of the Sarbanes-Oxley legislation.

The majority of publicly traded firms in the United States are not rife with executive teams whose sole aim is to fraudulently inflate stock prices for personal gain. All the same, should honest, profit-seeking firms wish to continue to raise capital through the public exchange of their stock, they are forced to comply with the mandates of Sarbanes-Oxley. So, any marginal capital projects in which a firm may have otherwise invested must be foregone in order to satisfy the burgeoning regulatory requirements of the federal government. Further, this cumbersome



## **Students For Liberty**

legislation has been unsuccessful in its attempts to prevent the occurrence of further financial fraud, while most firms still must abide by it. This scenario simply underscores the largely unseen costs of the federal government's attempts to protect the public.

The key point is that the government's encroachment onto free commerce is certainly not a panacea for the ills of fraudulent activities, but it is an impediment to economic equilibrium. In the end, no amount of intervention or regulation by the government will eliminate fraudulent financial reporting. By the same token, an absolute absence of government involvement in the generation of financial reporting standards and accounting principles will likewise not prevent such malefaction from taking place. Yet an absence of governmental mandates focused on efforts to prevent and detect financial fraud eliminates the unseen opportunity cost of firms allocating resources to ensure compliance with practically worthless authoritative requirements. A step that should be taken toward the restoration of economic strength and liberty eroded by governmental intervention in economic development is the abolition of the Sarbanes-Oxley Act.



## **Students For Liberty**

### **Runner Up**

#### **Matthew McKillip Georgetown University**

The logic that leads the Obama administration to upset social norms and eat away at social capital stems from what economist Frederick Bastiat denounced as one of the most persistent fallacies in politics: “It is not considered sufficient that the law should be just; it must be philanthropic.” This misconception guides President Obama’s actions, most clearly displayed when he stated that he believes “empathy” is a crucial characteristic of a Supreme Court Judge. To hold the notion of “benevolent” government is to expect that somehow, if one goes about it intelligently enough, force can foster compassion. Common sense and history denounce this idea: the government does not bolster compassionate giving, it merely replaces it with forced giving.

The flawed reasoning of “philanthropic” government manifests in destructive policy and a prime example occurred over the summer when President Obama signed a bill for extended unemployment benefits into law. The president announced the extension on July 19<sup>th</sup> while he was accompanied on stage by Leslie Macko, a woman who was later discovered to have committed fraud. The din that surrounded Macko’s past fraud conviction served to mask more worrisome statements by the President. He credited the federal government with helping Leslie Macko avoid “what she never thought she’d have to do. Not at this point, anyway. She’s turning to her father for financial support.” These words unmistakably confirmed how far the state has seeped into the private sphere *by design*. The extension of unemployment benefits not only diminishes the incentive to be a productive member of the economy, but also, as implied by the President’s own words, invites the state to overtake the duties of the family.

President Obama undermines his own message about the importance of fatherhood by congratulating the federal government for usurping the responsibility of Macko’s father. The President should instead be commending the virtues of a father who is willing to make personal and economic sacrifices in order to help a daughter who is in a difficult place. Charles Murray reminds us of the value in a parent who sacrifices for their family: “A man who is holding down a menial job and thereby supporting a wife and children is doing something authentically important with his life.” In direct contrast to this notion, federal handouts signal that supporting your own family, your own blood, is not to be a point of pride; if you slack in your duty, the government can always do it for you.

Not only is the federal government blocking people the opportunity to be good parents, on a more practical level, it is distorting the market incentives that people like Leslie Macko have to seek employment. If she was forced to ask her father for help “at this age,” she would witness the financial burden placed on her father. Out of personal pride and compassion for her father and his kindness, Leslie Macko would be highly motivated to search for new employment. When the taxpayers foot the bill as they have been doing, the cost to support her is the same, but the money collection is spread out among anonymous taxpayers. The result is that the



## **Students For Liberty**

responsibility for supporting her seems to vanish. The social restraints that normally deter someone from remaining dependent on others have been cleared away by government intervention.

The government's girth has already disrupted private community structures and the current administration has no qualms about letting the government intercede further into our private lives. Bastiat is one of the most clear and articulate voices to decry that intrusion of government and warn that positive government, fueled by plundering its own people, will undermine the very society which brought it into being. The market must not be twisted in an attempt to create a desired outcome: attempts to infuse morals through policy have the opposite effect. The President's promise to support Leslie Macko is a resounding warning sign that the overzealous Federal Government is overstepping its bounds and we as a citizenry should be alarmed. The government is pursuing policies that substitute the dynamic bond between a parent and child with the muted scratching of pens filling out tax forms.