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Lawrence W. Reed

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When I first took the podium to deliver the speech reprinted here, I was addressing the Detroit Economic Club, a world-renowned forum for sharing ideas. But even with my natural optimism and the publicity associated with that prestigious venue, I never imagined the amount of attention the "Seven Principles of Sound Public Policy" would receive in the days and years that followed.

By last count, I've given this address in about 100 different places, including probably 20 states and a dozen foreign countries. The text has been translated into at least 12 languages, including Chinese, Korean, Spanish and Kiswahili. In a twist stranger than fiction, I was invited to deliver this speech at the People's University in Beijing. Readers familiar with my views or with the seven principles will no doubt be struck by the irony — and the victory — inherent in my espousing these principles in the heart of the world's largest communist state.

Why has interest in the "Seven Principles of Sound Public Policy" exceeded all expectations? Looking back, I think it was due to a gamble I took when I first wrote and delivered this address. At the time, I began by telling the audience:

"I know that (the Detroit Economic Club) has heard many policy addresses by many leaders in government, business and academia — policy addresses that dealt in some detail with specific pressing issues of the day, from transportation to education to health care and countless other important topics. At the Mackinac Center for Public Policy, our specialty is researching and recommending detailed prescriptions for today's policy questions, and I thought about doing that very thing here today.

"But upon reflection, I decided instead to step back from the minutiae of any particular issue and offer you something a little different: a broad-brush approach that is applicable to every issue. I'd like us all to think about some very critical fundamentals, some bedrock concepts that derive from centuries of experience and economic knowledge. They are, in my view, eternal principles that should form the intellectual backdrop to what we do as policymakers inside and outside of government."

The reception the speech received that day and in the years since suggests that, at bottom, people value a serious attempt to deal with issues that matter. They recognize that principles expressed in simple words are not necessarily simplistic.

Moreover, they realize that approaching issues with an open mind does not mean approaching them with an empty one. After all, we've learned a few things over the centuries. It's not uninformed bias that prompts us without debate to accept the notion that the sun comes up in the east. It isn't blind ideology that tells us that a representative republic is superior to dictatorship or monarchy. The general assumption that private property and free-market economies are superior to state ownership and central planning is no longer just an opinion; rather, it is now a settled truth for people who value reason, logic, facts, evidence, economics and experience.

The seven principles of sound public policy that I want to share with you are pillars of a free economy. We can differ on exactly how any one of them may apply to a given issue, but the principles themselves, I believe, are settled truths.

These principles are not original with me; I've simply collected them in one place. They are not the only pillars of a free economy or the only settled truths, but they do provide a solid foundation. In my view, if the cornerstone of every state and federal building were emblazoned with these principles — and more importantly, if every legislator understood them and attempted to be faithful to them — we'd be a much stronger, much freer, more prosperous and far better-governed people.

I. FREE PEOPLE ARE NOT EQUAL, AND EQUAL PEOPLE ARE NOT FREE.

First, I should clarify the kind of "equalness" to which I refer in this statement. I am not referring to equality before the law — the notion that you should be judged innocent or guilty of an offense based upon whether or not you did it, with your race, sex, wealth, creed, gender or religion having nothing to do with the outcome. That's an important foundation of Western civilization, and though we often fall short of it, I doubt that anyone here would quarrel with the concept.

No, the "equalness" to which I refer is all about income and material wealth — what we earn and acquire in the marketplace of commerce, work and exchange. I'm speaking of economic equality. Let's take this first principle and break it into its two halves.

Free people are not equal. When people are free to be themselves, to be masters of their own destinies, to apply themselves in an effort to improve their well-being and that of their families, the result in the marketplace will not be an equality of outcomes. People will earn vastly different levels of income; they will accumulate vastly different levels of wealth. While some lament that fact and speak dolefully of "the gap between rich and poor," I think people being themselves in a free society is a wonderful thing. Each of us is a unique being, different in endless ways from any other single being living or dead. Why on earth should we expect our interactions in the marketplace to produce identical results?

We are different in terms of our talents. Some have more than others, or more valuable talents. Some don't discover their highest talents until late in life, or not at all. LeBron James is a talented basketball player. Should it surprise anyone that he makes infinitely more money at basketball than I ever could? Will Kellogg didn't discover his incredible entrepreneurial and marketing talent until age 46; before he struck out on his own to start the Kellogg Company, he was making about $25 a week doing menial jobs for his older brother in a Battle Creek sanitarium.

We are different in terms of our industriousness, our willingness to work. Some work harder, longer and smarter than others. That makes for vast differences in how others value what we do and in how much they're willing to pay for it.

We are different also in terms of our savings. I would argue that if the president could somehow snap his fingers and equalize us all in terms of income and wealth tonight, we would be unequal again by this time tomorrow because some of us would save our money and some of us would spend it. These are three reasons, but by no means the only three reasons, why free people are simply not going to be equal economically.

Equal people are not free, the second half of my first principle, really gets down to brass tacks. Show me a people anywhere on the planet who are indeed equal economically, and I'll show you a very unfree people. Why?

The only way in which you could have even the remotest chance of equalizing income and wealth across society is to put a gun to everyone's head. You would literally have to employ force to make people equal. You would have to give orders, backed up by the guillotine, the hangman's noose, the bullet or the electric chair. Orders that would go like this: Don't excel. Don't work harder or smarter than the next guy. Don't save more wisely than anyone else. Don't be there first with a new product. Don't provide a good or service that people might want more than anything your competitor is offering.

Believe me, you wouldn't want a society where these were the orders. Cambodia under the communist Khmer Rouge in the late 1970s came close to it, and the result was that upwards of 2 million out of 8 million people died in less than four years. Except for the elite at the top who wielded power, the people of that sad land who survived that period lived at something not much above Stone Age conditions.

What's the message of this first principle? Don't get hung up on differences in income when they result from people being themselves. If they result from artificial political barriers, then get rid of those barriers. But don't try to take unequal people and compress them into some homogenous heap. You'll never get there, and you'll wreak a lot of havoc trying.

Confiscatory tax rates, for example, don't make people any more equal; they just drive the industrious and the entrepreneurial to other places or into other endeavors while impoverishing the many who would otherwise benefit from their resourcefulness. Abraham Lincoln is reputed to have said, "You cannot pull a man up by dragging another man down."

II. WHAT BELONGS TO YOU, YOU TEND TO TAKE CARE OF; WHAT BELONGS TO NO ONE OR EVERYONE TENDS TO FALL INTO DISREPAIR.

This essentially illuminates the magic of private property. It explains so much about the failure of socialized economies the world over.

In the old Soviet empire, governments proclaimed the superiority of central planning and state ownership. They wanted to abolish or at least minimize private property because they thought that private ownership was selfish and counterproductive. With the government in charge, they argued, resources would be utilized for the benefit of everybody.

What was once the farmer's food became "the people's food," and the people went hungry. What was once the entrepreneur's factory became "the people's factory," and the people made do with goods so shoddy there was no market for them beyond the borders.

We now know that the old Soviet empire produced one economic basket case after another, and one ecological nightmare after another. That's the lesson of every experiment with socialism: While socialists are fond of explaining that you have to break some eggs to make an omelette, they never make any omelettes. They only break eggs.

If you think you're so good at taking care of property, go live in someone else's house, or drive their car, for a month. I guarantee you neither their house nor their car will look the same as yours after the same period of time.

If you want to take the scarce resources of society and trash them, all you have to do is take them away from the people who created or earned them and hand them over to some central authority to manage. In one fell swoop, you can ruin everything. Sadly, governments at all levels are promulgating laws all the time that have the effect of eroding private property rights and socializing property through "salami" tactics — one slice at a time.

III. SOUND POLICY REQUIRES THAT WE CONSIDER LONG-RUN EFFECTS AND ALL PEOPLE, NOT SIMPLY SHORT-RUN EFFECTS AND A FEW PEOPLE.

It may be true, as British economist John Maynard Keynes once declared, "In the long run, we're all dead." But that shouldn't be a license to enact policies that make a few people feel good now at the cost of hurting many people tomorrow.

I can think of many such policies. When Lyndon Johnson cranked up the Great Society in the 1960s, the thought was that some people would benefit from a welfare check. We now know that over the long haul, the federal entitlement to welfare encouraged idleness, broke up families, produced intergenerational dependency and hopelessness, cost taxpayers a fortune and yielded harmful cultural pathologies that may take generations to undo. Likewise, policies of deficit spending and government growth — while enriching a few at the start — have eaten at the vitals of the nation's economy and moral fiber for decades.

This principle is actually a call to be thorough in our thinking. It says that we shouldn't be superficial in our judgments. If a thief goes from bank to bank, stealing all the cash he can get his hands on, and then spends it all at the local shopping mall, you wouldn't be thorough in your thinking if all you did was survey the store owners to conclude that this guy stimulated the economy.

We should remember that today is the tomorrow that yesterday's poor policymakers told us we could ignore. If we want to be responsible adults, we can't behave like infants whose concern is overwhelmingly focused on self and on the here-and-now.

IV. IF YOU ENCOURAGE SOMETHING, YOU GET MORE OF IT; IF YOU DISCOURAGE SOMETHING, YOU GET LESS OF IT.

You and I as human beings are creatures of incentives and disincentives. We respond to incentives and disincentives. Our behavior is affected by them, sometimes very powerfully. Policymakers who forget this will do dumb things like jack up taxes on some activity and expect that people will do just as much of it as before, as if taxpayers are sheep lining up to be sheared.

Remember when George Bush (the first one) reneged under pressure on his 1988 "No New Taxes!" pledge? We got big tax hikes in the summer of 1990. Among other things, Congress dramatically boosted taxes on boats, aircraft and jewelry in that package. Lawmakers thought that since rich people buy such things, we should "let 'em have it" with higher taxes. They expected $31 million in new revenue in the first year from the new taxes on those three things. We now know that the higher levies brought in just $16 million. We shelled out $24 million in additional unemployment benefits because of the people thrown out of work in those industries by the higher taxes. Only in Washington, D.C., where too often lawmakers forget the importance of incentives, can you aim for 31, get only 16, spend 24 to get it and think that somehow you've done some good.

Want to break up families? Offer a bigger welfare check if the father splits. Want to reduce savings and investment? Double-tax 'em, and pile on a nice, high capital gains tax on top of it. Want to get less work? Impose such high tax penalties on it that people decide it's not worth the effort.

Right now in both state and federal legislatures, much attention is being given to the question of how to deal with deficits due to recession and declining revenues. At the Mackinac Center, we believe that government ought to deal with such circumstances the way you and I and families all across the country deal with similar circumstances: curtail spending. That's especially true if we want to stimulate a weak economy so it will produce more jobs and more revenue. When the patient is ill, the doctor doesn't bleed him.

V. NOBODY SPENDS SOMEBODY ELSE'S MONEY AS CAREFULLY AS HE SPENDS HIS OWN.

Ever wonder about those stories of $600 hammers and $800 toilet seats that the government sometimes buys? You could walk the length and breadth of this land and not find a soul who would say he'd gladly spend his own money that way. And yet this waste often occurs in government and occasionally in other walks of life, too. Why? Because invariably, the spender is spending somebody else's money.

Economist Milton Friedman elaborated on this some time ago when he pointed out that there are only four ways to spend money. When you spend your own money on yourself, you make occasional mistakes, but they're few and far between. The connection between the one who is earning the money, the one who is spending it and the one who is reaping the final benefit is pretty strong, direct and immediate.

When you use your money to buy someone else a gift, you have some incentive to get your money's worth, but you might not end up getting something the intended recipient really needs or values.

When you use somebody else's money to buy something for yourself, such as lunch on an expense account, you have some incentive to get the right thing but little reason to economize.

Finally, when you spend other people's money to buy something for someone else, the connection between the earner, the spender and the recipient is the most remote — and the potential for mischief and waste is the greatest. Think about it — somebody spending somebody else's money on yet somebody else. That's what government does all the time.

But this principle is not just a commentary about government. I recall a time, back in the 1990s, when the Mackinac Center took a close look at the Michigan Education Association's self-serving statement that it would oppose any competitive contracting of any school support service (like busing, food or custodial) by any school district anytime, anywhere. We discovered that at the MEA's own posh, sprawling East Lansing headquarters, the union did not have its own full-time, unionized workforce of janitors and food service workers. It was contracting out all of its cafeteria, custodial, security and mailing duties to private companies, and three out of four of them were nonunion!

So the MEA — the state's largest union of cooks, janitors, bus drivers and teachers — was doing one thing with its own money and calling for something very different with regard to the public's tax money. Nobody — repeat, nobody — spends someone else's money as carefully as he spends his own.

VI. GOVERNMENT HAS NOTHING TO GIVE ANYBODY EXCEPT WHAT IT FIRST TAKES FROM SOMEBODY, AND A GOVERNMENT THAT'S BIG ENOUGH TO GIVE YOU EVERYTHING YOU WANT IS BIG ENOUGH TO TAKE AWAY EVERYTHING YOU'VE GOT.

This is not some radical, ideological, anti-government statement. It's simply the way things are. It speaks volumes about the very nature of government. And it's perfectly in keeping with the philosophy and advice of America's Founders.

It's been said that government, like fire, is either a dangerous servant or a fearful master. Think about that for a moment. Even if government is no bigger than our Founders wanted it to be, and even if it does its work so well that it indeed is a servant to the people, it's still a dangerous one! As Groucho Marx once said of his brother Harpo, "He's honest, but you've got to watch him." You've got to keep your eye on even the best and smallest of governments because, as Jefferson warned, the natural tendency is for government to grow and liberty to retreat. You can't wind it up and walk away from it; it takes eternal vigilance to keep it in its place and keep our liberties secure.

The so-called "welfare state" is really not much more than robbing Peter to pay Paul, after laundering and squandering much of Peter's wealth through an indifferent, costly bureaucracy. The welfare state is like feeding the sparrows through the horses, if you know what I mean. Put yet another way, it's like all of us standing in a big circle, with each of us having one hand in the next guy's pocket. Somebody once said that the welfare state is so named because in it, the politicians get well and the rest of us pay the fare.

A free and independent people do not look to government for their sustenance. They see government not as a fountain of "free" goodies, but rather as a protector of their liberties, confined to certain minimal functions that revolve around keeping the peace, maximizing everyone's opportunities and otherwise leaving us alone. There is a deadly trade-off to reliance upon government, as civilizations at least as far back as ancient Rome have painfully learned.

When your congressman comes home and says, "Look what I brought for you!" you should demand that he tell you who's paying for it. If he's honest, he'll tell you that the only reason he was able to get you something was that he had to vote for the goodies that other congressmen wanted to take home — and you're paying for all that, too.

VII. LIBERTY MAKES ALL THE DIFFERENCE IN THE WORLD.

Just in case the first six principles didn't make the point clearly enough, I've added this as my seventh and final one.

Liberty isn't just a luxury or a nice idea. It's much more than a happy circumstance or a defensible everyday concept. It's what makes just about everything else happen. Without it, life is a bore at best. At worst, there is no life at all.

Public policy that dismisses liberty or doesn't preserve or strengthen it should be immediately suspect in the minds of a vigilant people. They should be asking, "What are we getting in return if we're being asked to give up some of our freedom?" Hopefully, it's not just some short-term handout or other "mess of pottage."
Ben Franklin went so far as to advise us, "Those who would give up essential Liberty, to purchase a little temporary Safety, deserve neither Liberty nor Safety."

Too often today, policymakers give no thought whatsoever to the general state of liberty when they craft new policies. If it feels good or sounds good or gets them elected, they just do it.
Anyone along the way who might raise liberty-based objections is ridiculed or ignored. Today,

government at all levels consumes more than 42 percent of all that we produce, compared with perhaps 6 percent or 7 percent in 1900. Yet few people seem interested in asking the advocates of still more government such cogent questions as, "Why isn't 42 percent enough?" "How much more do you want?" or, "To what degree do you think a person is entitled to the fruits of his labor?"

I yearn for the day when all Americans practice these seven principles. I think they are profoundly important. Our past devotion to them, in one form or another, explains how and why we fed, clothed and housed more people at higher levels than any other nation in the history of the planet. And these principles are key to preserving that crucial element of life we call liberty. Thanks for the opportunity to share them with you today and thanks for whatever you may do from this day forward to put these principles into common practice.

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