

Atlas INVESTOR REPORT



A Quarterly Insider Update – SPRING 2005



From the
President's Desk

FROM KILLING FIELDS TO KILLING POVERTY

A few weeks ago I visited Central America and spent several days with policy makers and free market allies in El Salvador. In the battles to preserve it from falling into communism, this tiny country, approximately the size of New Jersey, suffered more deaths than all the other Latin American countries lumped together. Today, just over twelve years since the end of the war, El Salvador has climbed to the 24th and 27th place in the competing indices of economic freedom. This puts it ahead of Italy, Spain, and even Japan and South Korea.

ing, allies at the Francisco Marroquín University, in neighboring Guatemala, began exposing Salvadorian leaders to sound economics. Older think tanks such as FUSADES, and newer ones such as *America Libre*, and universities, such as ESEN, provide a nurturing environment for reformers. From putting large segments of the education system in hands of the parents, especially in the poorest rural regions, to the adoption of the US dollar, El Salvador has made great progress.

Salvadorians, who were the first to ratify a trade agreement with the US in the hope that it will expand freedom and transparency, still have work to do.

The rate of economic growth has been declining almost at the same pace as it is moving toward economic freedom. A combination of weak rule of law and cumbersome regulations still provide ample room for corruption, which takes away the leaven out of liberty.

Challenges remain in Central America, and think tanks have been ready and “fertilizing the fields” to make them more hospitable to market oriented reform.

The *Centro de Investigaciones Nacionales* (CIEN) in Guatemala, for example, recently released a comparative study on labor legislation. Central America has some of the more cumbersome and expensive labor regulations in the world, where governments grant too

much, not too little, “protection” for the workers. This so called protection is so costly that few can afford it. It encourages people to escape to the informal sector, (approximately 40% of Central American economy) or to the United States.



CIEN's recent study, Labor Politics in Central America: Opportunities or Barriers to Development?

Another group, the *Asociación Nacional de Consumidores Libres* (ACL), a free market consumer advocacy organization in Costa Rica, helps educate the population about the benefits to consumers arising from free trade. ACL recently won one of our Templeton Freedom Awards for Institute Excellence.

There are many ways in which you can help so that Central Americans can continue to focus on killing poverty and keep the killing fields as a thing of the past. Atlas contributes by helping create a new line of more dynamic think tanks, encouraging local universities to collaborate with them and sending some of their young stars to train and study at the best think tanks and academic centers in the world.



While in El Salvador, Atlas's Alex Chafuen met with former Salvadorian President Francisco Flores and former members of Flores's cabinet. From left to right stand: Flores's former communications strategist Manuel Melendez, Alex Chafuen, President Flores, Executive Director of America Libre and former Finance Minister Juan J. Daboub, and Director of America Libre and former Minister of Public Works José Angel Quiros.

The courageous members of the local civil society and the top businessmen, who decided to stay and fight, deserve much of the credit for salvaging this country. They especially deserve credit for helping promote market oriented reforms. While the battle was still rag-

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The Atlas Economic Research Foundation works with think tanks and individuals around the world to advance a vision of a society of free and responsible individuals, based upon private property rights, limited government under the rule of law and the market order. Atlas is a nonprofit 501(c)(3) organization that is supported solely by donations from individuals, foundations and corporations.

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At Atlas

Atlas Launches “International Thursday” Monthly Meetings

Taking advantage of its new location closer to Washington, DC, Atlas is organizing monthly meetings to bring together allies with interests abroad to share perspectives on developments overseas and to provide opportunities for networking and discovering synergies. The first *International Thursday* took place on April 7, 2005.

The format is similar to the coalition-building “Wednesday meeting” that Grover Norquist runs at Americans for Tax Reform, except that Atlas’s International Thursdays focus entirely on international issues and will have less focus on short-term politics. The next International Thursday will take place on **May 12th**. Please contact Atlas at 703-934-6969 or events@atlasUSA.org for more information.



General (ret.) John Thompson reported on the situation in Venezuela at Atlas’s inaugural International Thursday.



From left to right: Todd Lofgren (Global Development Alliance, USAID), Radwan Masmoudi (Center for Islam and Democracy, Washington, DC) and Maja Drakic (Center for Entrepreneurship and Economic Development, Montenegro) all gave updates on the work of their different organizations and initiatives.

Atlas Hosts Visiting Fellows from Slovenia



As part of their fellowship, Rado Pezdir (left) and Mico Mrkaic (center) gave a presentation on March 17th at Atlas about the state of the economy in Slovenia and the efforts of ICK to advance the ideas of economic freedom in Slovenia. Mrkaic, who also serves as the chairman of Slovenia’s council of economic advisors to the prime minister, currently teaches intermediate macroeconomics at the Tepper School of Business at Carnegie Mellon University in Pittsburgh, PA. They are pictured here in conversation with Atlas’s Brad Lips (right)

From March 10-20, 2005, Atlas hosted two visiting fellows Mico Mrkaic and Rado Pezdir from Slovenia’s Institute for Civilization and Culture (ICK). Atlas first came into contact with ICK in September 2004 at the conference, “Inhibited Transitions: Reasons & Remedies,” that Atlas co-sponsored with the Centre for Research into Post Communist Economies (United Kingdom). During their time at Atlas, Mrkaic and Pezdir visited the American Enterprise Institute, Americans for Tax Reform, Cato Institute, Center for International Private Enterprise, Heritage Foundation, Institute for Humane Studies and Mercatus Center. Pezdir later remarked to Atlas, “It was a great experience visiting Atlas. [We have met many] people and institutions that I think will be of great help for our struggle for freedom in Slovenia.”

The Staff at the Atlas Economic Research Foundation

Seated, from left to right:
Leonard Liggio, Alex Chafuen, Jo Kwong
Standing, from left to right:
Priscilla Tacujan, René Wildermuth, Carol Coulter Davis, Ann Donaldson, Colleen Dyble, Brad Lips, Romulo López, YiQiao Xu, Mary Groen, Elena Ziebarth



Scholarship and Islam at George Mason University

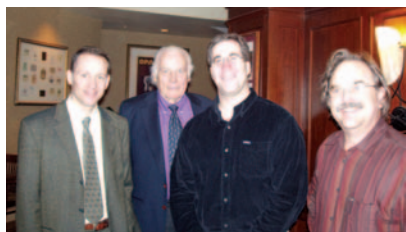
A World of Ideas

by Leonard P. Liggio,
Executive Vice President



George Mason University continues to grow as a major scholarly center. In August 2005 Professor Daniel Klein, recipient of Atlas's Prize for Achievement in Austrian Economics in 2004, will join the economics faculty after teaching at the University of California and Santa Clara University. Dan did his bachelor's degree at GMU and his doctorate at New York University.

One of Dan's most significant accomplishments is editing *Reputation* (1998), an important book that was published by the University of Michigan Press, containing essays on topics like the medieval Fairs of Champagne and the Jewish merchants to the Arab Mediterranean. *Reputation* was published in a series edited by Timur Kuran, King Faisal Professor of Islamic Thought and of Development Economics of the University of Southern California (currently visiting at Hoover Institution and Stanford University).



From left to right, Daniel Klein, Richard Cournelle, Pierre Desrochers, and Gus DiZerega during the Atlas's Spontaneous Orders conference in January 2005. Along with Klein, Desrochers and DiZerega are also recipients of Prizes for Achievement in Austrian Economics from Atlas's Fund for the Study of Spontaneous Orders.

According to Kuran, an understanding of the economic predicaments of Islam provides an interesting comparative study of economic development among Islamic, Christian, and Jewish economic systems. The Prophet Mohamed was a merchant and was married to the owner of a major caravan. When his successors began to administer the former Byzantine and Persian provinces, they drew upon administrators from those traditions, in particular those trained in the newly issued Byzantine Code of Justinian. Islam is an individualist religion; there is no intermediary or priesthood between God and the believer. Among those who submit to Islam, there cannot be any intermediate institutions or subdivisions of Moslems since all are equal. In Islamic societies, Jews and Christians were formed into separate communities or 'corporations.' There could not be any subgroups or corporations of Moslems, just as in classical Roman law, corpo-

Timur Kuran recently presented a seminar at a GMU's political economy workshop on "Why the Islamic Middle East Did Not Generate an Indigenous Corporate Law." Kuran is the leading scholar in the US, working on Islamic economic institutions and development. His most recent book is *Islam and Mammon: The Economic Predicaments of Islam* (Princeton, NJ, Princeton University Press, 2004).

rations were limited to religious units, such as family administered tombs, but not for secular purposes.

Timur Kuran notes that the Moslem rulers generously donated lands to their officials. However, the officials might wonder if a successor might not desire to regain the lands for donation to his own followers. Islamic judges, possibly drawing on the Roman concept of Trusts (religious endowments), recognized Islamic Trusts (Waqf). An endowment for a religious purpose was sacred or consecrated and therefore absolutely protected from any confiscation by the government which would be a sacrilege. The donor endowed the Waqf to build a mosque, a school, a bridge, a road, a water fountain, and became the administrator of the Waqf and appointed the employees and his successor. Since the merchants were not in government, there was no institution to protect their property. (Timur Kuran, "The Provision of Public Goods under Islamic Law: Origins, Impact and Limitations of the Waqf system," *Law and Society Review* 35:841-897.)

Merchants for thousands of years around the world have formed partnerships. Happily there are records of partnerships which have survived (mainly due to dry climates) such as Sumerian cuneiform tablets or the Gineza documents of 10-11th century Cairo. The Gineza documents were contracts and commercial records of rabbinic courts which were stored in the Old Synagogue of Cairo. (Please see my column in the Spring 2003 *Investor Report*)

However, the Islamic economies suffered from the consequences of the legal system: all the children of the deceased were to share in the estate. When a partner in a firm died the partnership needed to be closed so that the deceased's share could be distributed to heirs. Thus, it was difficult for longer-term and larger capitalized commercial enterprises to come into existence. The study of economic and legal institutions provides many answers to questions about comparative economic development.



During Atlas's 2nd Annual Liberty Forum in Philadelphia in 2002, Atlas dedicated one session to "Building Bridges with the Islamic World." The panelists included (from left to right), Anthony Sullivan, Dean Ahmad (Minaret of Freedom Institute, Maryland), Radwan Masmoudi (Center for the Study of Islam and Democracy, Washington, DC) and Atilla Yayla (Association for Liberal Thinking, Turkey).

Freedom of Human Action: The Road to Prosperity and Democracy

Democracy is once again making headline news on the global front. The recent democratic elections in Iraq are raising hopes for democratic reforms not just in Iraq, but in other Middle Eastern countries as well.

On the heels of this exciting event, I had the good fortune to address women leaders from Iraq at a March 7th luncheon that was hosted by the Independent Women's Forum of Washington, D.C. For the second time in recent months, I welcomed the opportunity to speak to Iraqi women about one of my favorite topics – freedom and democracy. While democracy is heralded around the world, the importance of freedom is often less understood.

While the image of blue ink stained fingers serves as a symbol of something very tangible – democratic elections – I talked about important institutions that are far less visible: rule of law, free and open exchange, and property rights. I explained how these institutions create an environment of freedom from which democracy can flow. If we put the cart before the horse – democracy before these institutions – we may end up with rather disappointing results.

Discussions about freedom may seem very elementary to those who have grown up in the United States. And in fact, one journalist at the event turned to our host during my remarks and said “Why is she talking about these very basic things... everyone knows this!”

But it wasn't until Narmin Othman, State Minister for Women's Affairs, shared her story at the podium that the journalist later remarked, “Oh, I see...Kwong DID need to give that talk, didn't she?” Ms.Othman explained that those who have shared her experience in Iraq most certainly understand the virtues of freedom. Her husband was in prison for five years. She herself was in and out of prison for many years. She described how the former

regime, which severed links between hard work and opportunity, dampened the incentive for young women to pursue a good education, despite being raised by women who are doctors, scientists, and mathematicians. In stark contrast to the US immigration experience in which each generation in the US tends to



Atlas's Jo Kwong with the Iraqi Minister of Higher Education at a program hosted on March 8th by Secretary of State Condoleezza Rice and First Lady Laura Bush for Iraqi and Afghan women in recognition of International Women's Day.

*“Freedom is
the engine
of human action”*

Perspectives on Liberty

by Jo Kwong,
Director of Institute Relations



be better educated and more prosperous, these Iraqi women found it difficult to encourage their daughters to take education seriously.

As I explained, freedom provides the catalyst for human action. From this initiative, many things flow: new inventions, new ideas, new processes, and new places to go. Without freedom, none of these things can happen. This is most eloquently explained by F.A. Hayek in his classic, *The Constitution of Liberty*.

And so, in my conversation with these impressive Iraqi women, I talked about how freedom is the engine of human action. With action, change occurs. Change brings new ways of doing things. As we change and do things better, we create wealth. With wealth comes prosperity. And why is wealth important – other than the obvious? Economic studies suggest that countries need to reach a per capita income of at least \$3,000-\$6,000 before stable democracies take root.

In connecting the dots between the freedom of human action, wealth and prosperity, and stable democracies, the journalist began to understand my message. Fortunately, it was one that the Iraqi women already knew.

As friends of Atlas, you also know this key message. From these Iraqi women, to our many other partners around the world, we thank you for helping Atlas promote freedom around the world.



Atlas's Jo Kwong also spoke in July 2004 at the Independent Women's Forum's summit on democracy, economic liberty, free markets and women for a delegation of Iraqi women visiting the United States. She is pictured here with a few members of the Iraqi women's delegation. From left to right stand: Golizar Mustafa Madhar, Ghada Hadi Altikreeti, Jo Kwong, Nagham Kadhum.

Egypt and the Democracy Deception

The recent fervor for “democracy,” as if it were an end in itself, is worrisome for those of us who believe foremost in liberty. Madison and the other U.S. Founding Fathers knew that populist democracy is the enemy of individual rights. Venezuelans know it, Iranians know it, Germans who recall Hitler’s democratic rise to power know it; and I fear that Iraqis will soon know it as well.

Conversely, there have been instances where undemocratic regimes have productive reforms that lay the groundwork for future prosperity and, eventually, a democracy. My personal experiences in Egypt lead me to believe it is just such a country, where the impulse to hold elections (“democracy”) may ironically have a negative effect: undoing very positive reforms that increase individual liberty.

Over the last year, Hosni Mubarak’s regime, after a decade of intermittent liberalization is now pursuing decisive, sometimes radical economic reforms. It’s not just talk. Since the new government took over last July, there is action and implementation.

For example, at the beginning of December, 2004, the government proposed a tax reform that would reduce the maximum marginal income tax rate for individuals and corporations to 20% from over 40% today. Atlas recruited Mart Laar, who introduced Eastern Europe’s first flat tax when he was Prime Minister of Estonia, to speak in Cairo in support of radical tax reform. Thanks to Mr. Laar’s attendance, organizers expanded a planned speech by economist Robert Hall (*The Flat Tax*) into a prominent one-day conference that also included Finance Minister Yousef Boutros-Ghali. The new law is expected to be passed soon.



Former Estonian Prime Minister Mart Laar with Atlas’s Jo Kwong in Borovets, Bulgaria for the first European Resource Bank in October 2004.



by Bruce MacQueen

“Democracy” is likely to derail the radical reform process. The ideological battle between those who favor free markets and those who favor state control has been occurring for several years within Mubarak’s National Democratic Party. The economic liberals, led by the President’s son, Gamal, are now on top. They control the prime ministership and the three principal economic ministries. It is not the time to pull the rug from under them, but that is exactly what those who confound democracy and liberty are doing.

As for civil liberties, I assure you that Egypt is not an oppressive police state, despite the impression that one sometimes gets from American politicians and journalists. Most Egyptians see themselves as poor but not as oppressed. As Robert Nozick wrote, “The mark of an ideology is the failure to recognize differences of degree.” Egypt today reminds me of Korea under Park Chung-hee. By contrast, the difference of degree between Mubarak’s Egypt and, say, Ceausescu’s oppressive Romania that I also experienced first hand, is a gulf.

The mere holding of elections is not a sufficient condition for a stable democracy. Open markets and the rule of law are far more likely to deliver prosperity and liberty than is a majority or plurality of voters free from enforceable constitutional constraints.

Bruce MacQueen has over twenty-five experience in international finance and economics. While he has worked or lived on six continents, his activities since 2002 have primarily involved the Middle East. Since 1995 Mr. MacQueen has periodically served as an advisor to the government of Egypt, most recently as Privatization Policy Advisor (2002-2004). During his banking career he lived in Korea, Australia, Belgium, and France.

Atlas invited Bruce to express his views on trends in Egypt after providing assistance for the December 2004 conference in Cairo discussed in this piece.



In October 2004, Bruce MacQueen spoke at the conference, “Family Business Governance: Success, Growth and Succession,” in Alexandria Egypt.

IEA Turns 50: Celebrating Fisher Meeting Hayek

Fifty years ago this summer a little book was published in London. It was entitled *The Free Convertibility of Sterling* and was authored by an experienced financial journalist George Winder. In the front, Antony Fisher wrote as director of the Institute of Economic Affairs, “It [the book] is of vital concern to all those who are interested in their own freedom and the freedom of their country”.

Henry Hazlitt gave the book a brilliant review in *Newsweek* on July 25th 1955 and all 2,000 sold out. One can make a very good case for saying this was the start of the free market public policy institute movement that today encircles the world.

That little book did so well that Fisher was emboldened to approach a young economist named Ralph Harris. Harris in turn saw a chance to do good by challenging the post World War II Keynesian consensus.

This summer, in June and July, the IEA celebrates not just the 50th anniversary of that little book, but also the 60th anniversary of Fisher meeting Hayek at the London School of Economics.

“I’ll go into politics,” said Fisher. “I’ll put it all right,” he promised.

“No you won’t,” said Hayek. He went on: “Society’s course will be changed only by a change in ideas. First, you must reach the intellectuals, the teachers and writers, with reasoned argument . . . It will be their influence which will prevail and the politicians will follow.”



John Blundell and Lord Ralph Harris during Atlas’s 10th Anniversary in 1991.



by John Blundell
General Director, Institute of Economic Affairs

Hardly a blueprint for action but by 1974 the IEA was clearly having an impact on public opinion, and people started showing up at 2 Lord North Street asking “how do you do this?”

Fisher soon launched himself on his eighth career namely as an institute entrepreneur, and by 1979, the IEA and the Fraser Institute (which was founded in 1974), were joined by the Manhattan Institute, the Pacific Research Institute, the Adam Smith Institute and the Centre for Independent Studies in Australia.

To act as the focal point for this burgeoning family, Fisher created Atlas in 1981.

To celebrate 50 eventful years at the IEA we have published *Towards A Liberal Utopia?* The first 16 chapters look forward to 2055 as younger/current IEA authors tackle a very broad range of topics from policing to education and from health to welfare. The last four chapters are delightful recollections by Ralph Harris of the early days and the keys to his success. His brother in arms Arthur Seldon adds a rich appendix.



All of this history came flooding back to me in March when I spoke at the launch of Centre for Political Studies (CEPOS), the latest addition to the IEA/Atlas family in Copenhagen, Denmark. During this program on March 10th in the Hotel D’Angelterre in downtown Copenhagen, some 350 people hung on every word as a range of speakers, including Denmark’s leading composer and top comedian, spoke on the need for a think tank.

Fisher and Hayek would be so pleased. Indeed, Milton Friedman just wrote to me: “John, I trust you get some satisfaction from how far the influence of the IEA has spread, directly and indirectly.”

John Blundell has served as Director General of the Institute of Economic Affairs since January 1, 1993. He served as President of the Atlas Economic Research Foundation from October 1987 to May of 1991 and has since served as Chairman of the Executive Committee of the Board.

Towards A Liberal Utopia? is available from the Institute of Economic Affairs website www.iea.org.uk at a price of £16.50 or US\$30.00 incl p&sp.

Freda Utley's Living Legacy



Freda Utley

The story of my mother is a story of the triumph of freedom during her time. As Russell Kirk wrote, “Freda Utley has had some part in many of the grand and grim events of our time, and has known half the people worth knowing.”

She wrote 12 books and was a witness to the struggles which so characterized the 20th Century. Her insights were on target, predicting events and consequences that ultimately happened in China, Japan, the Soviet Union, Germany, and the

Middle East. She was an early anti-communist in the 1940's and a leader of the struggle for freedom.

After graduating with honors from the London School of Economics in 1925, she became active in British Socialist circles, later becoming a communist after visiting Russia at the time of the New Economic Policy in 1927, when it was flowering. She fell in love with my father, a Russian who worked in London with the Soviet (Arcos) trade mission and then lived with him in Japan in 1929, where he worked as a Soviet trade official.

In 1936, six years after they returned to Moscow in 1930, my father was arrested during the purges and died two years later in a concentration camp in Vorkuta. Even a letter to Stalin that my mother instigated on his behalf, signed by Bertrand Russell, Bernard Shaw, Harold Lasky and other top English intellectuals, did not help him. The letter and her books are on the internet, see www.FredaUtley.com.

In 1939 she immigrated to America from England, taking me with her and my grandmother.

Five of her pivotal books were *Japan's Feet of Clay* (1938), *The Dream We Lost* (1940), *The High Cost of Vengeance* (1948), *The China Story* (1950), and *Will the Middle East Go West* (1956). *The Dream We Lost* explained the misery in Russia and how the Soviet system really worked. It had definitive influence upon key American intellectuals, who later went on to lead the anti-communist and pro-freedom movement revival after the Second World War. While a correspondent for *Reader's Digest* in Germany, she wrote *The High Cost of Vengeance* about the occupation which also helped stop the continuing dismantlement of German industry. The book's chapter on the “Nuremberg Judgments” was one of the first critiques, and is still read widely today.

The China Story, a best seller published by Henry Regnery, was used widely during the McCarthy Senate hearings to explain how the communists won and in showing that communist victories were not inevitable for the developing world. Years after her death in 1978, Konsin Shah, the ambassador of Free China (Taiwan) in Washington, asked to visit her grave site. When told



by Jon Utley



Jon Utley regularly attends Atlas events such as the Asian Resource Bank in September 2004 in Hong Kong, China. He is pictured here with Xingyuan Feng of the Rural Development Institute at the China Academy of Social Sciences (left) and Liu Junning of China's Cathay Institute for Policy Analysis (right).

that her ashes had been put into the Pacific Ocean, he answered, “Oh, good, then she will come to us.”

Although she loved America as the best embodiment of her ideals, Freda Utley took up many unpopular causes, compassionately defending the most downtrodden of her day: Russians and East Europeans under communism, the Chinese suffering from Japan's invasion, starving Germans in their ruined cities after World War II, the Palestinians in refugee camps.

To honor her, I and the other directors of the Freda Utley Foundation have decided to establish the Freda Utley Prize for Advancing Liberty through the Atlas Economic Research Foundation. We see Atlas as an ideal partner in continuing her legacy, because it has the infrastructure, experience, and focus to use funds effectively to promote liberty, especially in the world's poorer nations. Atlas's core beliefs are very much in tune with Freda Utley's: namely, concern for human poverty and misery, and the belief that peoples of all nations have similar aspirations and can learn the universal lessons of freedom and prosperity. My mother would have found the Atlas team very, very much to her liking and affinity, not just in its beliefs, but in its common sense and activism.

The Freda Utley Prize for Advancing Liberty will honor think tanks that are the most successful in spreading the freedom message in developing and post-communist societies that remain plagued by poverty, hopelessness, and restrictive government. The project was inspired by the John Templeton Foundation's matching grant challenge at Atlas, which calls for more philanthropy dedicated to bringing Atlas's work to difficult parts of the world.

The Social Security Debate in 1990

The current debate in the United States on how to improve Social Security by expanding the range of choices available to individuals is reaching its height. Scholars and policy analysts come up with ideas and intellectual entrepreneurs push for the packaging and adoption of policy reforms. But there is no invisible hand turning ideas into policy. Unless political leaders are willing to work to establish a consensus for reform, good policies might have to wait in the sidelines. Think tanks and Atlas in particular try to help forge that consensus by encouraging research, enhancing its marketing, and promoting replication of successful experiences.

Fifteen years ago in May 1990, Atlas's 12th International Workshop highlighted successful social security reform efforts around the globe. We brought together people who already had been working for over a decade on the issue: John Goodman, President of National Center for Policy Analysis (Texas), and Peter Ferrara, then at the Cato Institute, who are still major champions of this issue. During the workshop, Atlas presented their views and focused on the successful experiences of Singapore and Chile to an audience that included reformers from El Salvador to Poland. John Fund (*Wall Street Journal*), Grover Norquist (Americans for Tax Reform), Stephen Moore (Free Enterprise Fund), and many other luminaries of today attended the meeting.

Independently of how successfully this year's Social Security debate ends, you can rest assured that the think tanks we support will continue in their efforts to enhance freedom throughout the world.



Shown here is the coverage of the 12th International Atlas Workshop from the Spring 1990 Highlights and a section of the conference program.