



American Legislative Exchange Council

New Releases

September 8, 1995

THE STATE FACTOR

Volume 21, Number 6
June 1995

Questionable Policy Based on Uncertain Science: Global Warming and the Rio Climate Treaty

In this edition of the *State Factor*, noted University of Virginia Professor Dr. Patrick Michaels debunks the myths about global warming spun by many environmentalists. Michaels asserts that many global climate predictions, including those upon which the Rio Climate Treaty is based, are not supported by facts. The Earth's temperature is in a constant state of flux, and global climate data does not support the contention, held by some, that human activity has contributed to global warming. The consequences of U.S. compliance with the Rio Treaty, which is based on such faulty premises, will be disastrous. The treaty will cost jobs — estimates suggest a loss of 50,000 jobs each in California, Texas, Illinois, Ohio and Pennsylvania. The Rio Treaty will cost the average family \$3,000 per year by the year 2000 with no discernible environmental benefit. ALEC's model resolution calls for the U.S. to legally withdraw from the Rio Climate Treaty using Article 25 of the Treaty.

ALEC PROCEEDINGS

Volume 2, Number 4
July 1995

The remarks of the Honorable William J. Bennett, recipient of the 1994 Thomas Jefferson Freedom Award, and Charles and David Koch, co-recipients of the 1994 Adam Smith Free Enterprise Award

This special edition of ALEC Proceedings features the remarks of three prestigious ALEC award recipients at the 1994 Annual Meeting held in Tampa. In his remarks, William J. Bennett reflects on America's greatest strength, its people. Throughout American history, Bennett says, individuals, not government, have made our country great. In order to remain a leader, we must recommit ourselves to that Jeffersonian vision. As recipients of the Adam Smith Free Enterprise Award, Charles and David Koch reflect on the responsible and innovative ways in which Koch Industries, one of America's leading corporate citizens, uses the free enterprise system and Adam Smith's "invisible hand" to benefit everyone.

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THOMAS JEFFERSON FREEDOM AWARD

*...a wise and frugal government,
which shall restrain men from injuring one another,
which shall leave them otherwise free to regulate their
own pursuits of industry and improvement,
and shall not take from the mouths of labor the bread it
has earned. This is the sum of good government.*

THOMAS JEFFERSON



Honorable William J. Bennett



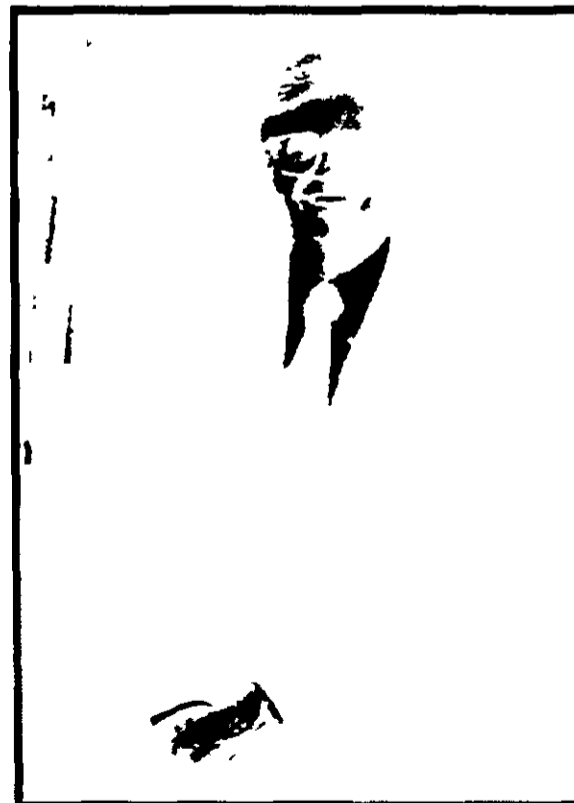
ADAM SMITH FREE ENTERPRISE AWARD



David H. Koch

*Every individual necessarily
labors to render the annual
revenue of society as great as
he can. He generally indeed
neither intends to promote
the public interest, nor knows
how much he is promoting it.
He intends only his own gain,
and he is in this,
as in many other cases,
led by an invisible hand
to promote an end which has
no part of his intention.*

ADAM SMITH



Charles G. Koch

AMERICAN LEGISLATIVE EXCHANGE COUNCIL

The American Legislative Exchange Council (ALEC) was founded in 1973 by a small group of Democratic and Republican state legislators who shared a common commitment to the Jeffersonian principles of free markets, free enterprise, limited government and individual liberty.

Today, ALEC has grown to become the nation's largest bipartisan, individual membership organization of state legislators, with nearly 3,000 members throughout the 50 states, Puerto Rico and Guam. Nearly one-third of ALEC's members hold leadership positions in their legislatures. Approximately 63 million Americans are represented by the citizen legislators of ALEC.

ALEC brings the states and the nation together through conferences, seminars, publications, and its fifteen National Legislative Task Forces. Each provides a unique vehicle for legislators to communicate across state lines, share experiences and ideas, and work in unison with the private sector to create effective public policies.

ALEC's goal is to ensure that our legislative members are fully armed with the information, research and ideas they need to win in the legislative arena. Our publications keep members up-to-date on emerging trends and provide in-depth analyses of issues at the state level. Our conferences and meetings promote colleague to colleague communication by linking like minded legislators together. Our Legislative Task Forces provide a forum in which legislators and the private sector discuss issues, develop policies and write model legislation.

Unlike other state legislative organizations, ALEC's credo is that business should be an ally, not an adversary, of state legislators. ALEC provides the private sector with an unparalleled opportunity to have their voices heard, their perspectives appreciated, and their interests put before nearly 3,000 pro-free enterprise state legislators of ALEC. Through ALEC, legislators and the private sector work in a dynamic partnership to develop public policies that harness the immense power of free markets and free enterprise to encourage economic growth, increase the nation's competitiveness, and improve the quality of life for all Americans.

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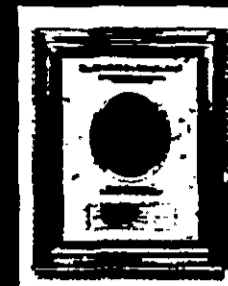
ALEC Proceedings has been published by the American Legislative Exchange Council (ALEC) as part of its mission to discuss, develop and disseminate public policies which expand free-markets, promote economic growth, limit government and preserve individual liberty. ALEC is the nation's largest bipartisan, voluntary membership organization of state legislators, with nearly 3,000 members across the nation. ALEC is governed by a 21 members Board of Directors of state legislators, which is advised by a 23 member Private Enterprise Board representing major corporate and foundation sponsors.

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Designed by Noel Card and Michael Hatra Cover photos by Jeanne Ames, Reflections Photography, Washington, D.C.

1994 ADAM SMITH FREE ENTERPRISE AWARD

Charles and David Koch



Charles and David Koch serve, respectively, as Chief Executive Officer and Executive Vice President of Koch Industries, one of America's 20 largest corporations. Since 1967, when Charles Koch assumed his current position, Koch Industries' assets have grown from \$200 million to \$24 billion. An M.I.T. Engineering Graduate, Charles began working for Koch Engineering in 1961. He is Director of the First National Bank in Wichita, a co-founder of the Cato Institute, and Chairman of the Institute for Humane Studies at George Mason University. David Koch, also an M.I.T. graduate, leads Koch Industries' Chemical Technology Group. He serves on the Board of the Reason Foundation, and is Chairman of the Board of Citizens for a Sound Economy. Through the efforts of Charles and David Koch, Koch Industries, a private corporation, has become a public policy leader. ALEC chose Charles and David Koch as the 1994 recipients of the Adam Smith Free Enterprise Award in recognition of their successful effort to promote free enterprise and free markets.

Mr. Charles G. Koch

I'm personally extremely honored to receive the Adam Smith Award from ALEC, especially since it comes from an organization that's committed to curing social and economic problems with market-based solutions.



Together, I think we share the belief that market-oriented policies offer our states the best opportunity to correct problems that have been aggravated by the command-and-control policies of the past.

Both our company and our foundations try to advance the understanding and application of market-oriented policies for the same reasons that Adam Smith and our Founding Fathers were dedicated to a free society; our belief that these poli-

cies provide the best opportunities for advancing the well-being of society.

Let me give you a contemporary example that I hope provides context for my remarks. As Ron Scheberle, Chairman of ALEC's Private Enterprise Board, indicated, we sponsor programs for an organization called the National Foundation for Teaching Entrepreneurship, known as NFTE, in three metropolitan areas — Wichita, Minneapolis-St. Paul, and Washington, D.C.

The goal of these programs is to help at-risk students understand markets and learn how to advance themselves by satisfying the needs of others; to help them learn that they can control their own destiny, rather than rely on the well-intentioned but crippling trap of the welfare system as we know it.

Listen to the testimony of April Shelton, a student in the NFTE program in Wichita. These are her words: "NFTE has given me a new outlook, has built up my self-esteem. When I was younger, I had some people tell me there were certain things I couldn't do because I already had three strikes against me: I was black, I was female, and I didn't have any money."

"I don't believe that anymore. And because of all I've been able to do through NFTE, I don't think they do either. Now I know that I can become financially independent if I apply the entrepreneurial concepts I've learned and if I work hard. NFTE has given me the confidence to know that I can stand on my own."

April's experience is not exceptional. History has shown that when barriers are removed and people are free to use their potential, they advance not only themselves but the well-being of all, and that people can fully develop and use their potential only in an environment of freedom and accountability.

A free society derives its power to release its potential from three sources — three pillars, pillars that are lacking in a command-and-control environment. Those pillars are: Use of dispersed knowledge, beneficial incentives, and rules of just conduct — that is, of beneficial culture.

I'd like to take a moment to describe each of these pillars as I understand them, because I believe each should be carefully considered every time policy-makers debate new legislation.

"Dispersed knowledge" refers to the knowledge of the particulars of time and place, of people and what they value, of local conditions — knowledge that enables everyone to contribute because we all possess unique information that can be helpful to others.

For us to use our dispersed knowledge, it requires that we be free to make choices, choices such as where to work and what to buy. And that includes schools and health care.

This freedom results not in the elimination of planning, but in people planning for themselves. Unfortunately, command-and-control legislation takes that freedom away.

"Beneficial incentives" refer to those that reward people for contributing to the general wel-

fare; incentives that enable people to do well by doing good.

For incentives to be beneficial requires that property rights and other laws be structured so that people can only profit by efficiently satisfying the needs of others. This is known as the economic means of making profits. Profits made in this way are a direct measure of a person's or firm's contribution to the well-being of society.

Our third pillar, the "rules of just conduct," refers to the generalized rules or values that enable us to best live and work together. These

values create a civil society; because values, more than anything else, determine behavior.

They include such qualities as: integrity and respect for the rights and property of others; a work ethic; self-discipline; the desire to make a contribution; tolerance or treating others as you would have them treat you; taking responsibility for your own behavior; and taking the long view — being willing to make the sacrifices or investments today that help bring a better future.

Together, these pillars allow people to live and work in harmony, so that each benefits by contributing to the well-being of others. They represent the powerful process referred to by Adam Smith as "the invisible hand."

Conversely, when dispersed knowledge, beneficial incentives, and rules of just conduct are ignored, society itself begins to decline.

One source of this erosion seems to be taking prosperity for granted. It's the attitude that we're prosperous so we can rearrange society however we choose without affecting that prosperity.

We quickly forget or have failed to learn the desperate lessons of the failure of command-and-control societies. We forget that 99 percent of the history of the world has been one of dire abject poverty. And we forget that when society has moved forward, it has been due to the use of dis-

We should review all our policies to ensure that the incentives encourage people to increase the size of the pie, rather than to merely grab for a bigger piece.

In short, we must commit ourselves to examining every policy and our every action from the standpoint of their effect on the pillars of a free society, and then to dedicate our efforts to market-based programs that provide real solutions to society's problems.

persed knowledge, beneficial incentives, and the rules of just conduct.

As legislators, you recognize the consequences of failing to reinforce and build on these pillars — consequences that include economic stagnation; higher deficits and taxes; increased poverty and crime; politicized, less-productive businesses; failed education; class warfare, and deteriorating rules of just conduct. A society that destroys rather than creates wealth, leaving a smaller pie to meet much greater needs. So, what can we do together, communities, businesses, and legislators, to support the pillars of a free society?

To begin, we would do well to remind ourselves of the Hippocratic oath, "First, do no harm." The failure to exercise this restraint stems from what Hayek called "the fatal conceit," the belief that leaders or technical experts know what is

best for everyone, while ignoring the depth and diversity of what people in society know and value. The consequences are disastrous, because no person or committee, no matter how brilliant, can have all the constantly changing knowledge needed to plan a complex society.

Then, we should focus on improving understanding of how to mobilize this dispersed knowledge. We need to develop the methodology for analyzing how each program, policy, law and regulation affects the use of dispersed knowledge. To me, the benefits would surpass even that which the discipline of law and economics, when used, has had on judicial decisions.

A current example is the health care debate. Reform proposals should be analyzed as to

whether they do a better or worse job of allowing people to use their individual knowledge, knowledge of their own health needs, of what they value, and of the trade-offs they must make.

We should review all our policies to ensure that the incentives encourage people to increase the size of the pie, rather than to merely grab for a bigger piece.

This requires that we restrict legislation to determining what the formal rules of just conduct are, not dictating how they're to be met. And it includes creating sustainable jobs that truly contribute to satisfying

people's needs, rather than make-work jobs based on subsidies and counterproductive legislation that destroy real jobs.

And most importantly, we should determine which actions of government, business, and the media build and which erode our rules of just conduct. Central to this effort would

be designing policies that require business to profit only by the economic means of wealth creation, not by the political means of wealth redistribution.

In short, we must commit ourselves to examining every policy and our every action from the standpoint of their effect on the pillars of a free society, and then to dedicate our efforts to market-based programs that provide real solutions to society's problems.

I have faith that we can get there, that we will get there, because of the exemplary work of organizations such as ALEC.

I am proud of what you have accomplished, and I look forward to working with you to meeting the challenges ahead.

Thank you very much. ■



*Charles Koch receiving the
1994 ADAM SMITH FREE ENTERPRISE AWARD from
ALEC Executive Director Samuel A. Brunelli and North Carolina Speaker and
1994 ALEC National Chairman Harold J. Brubaker*

Mr. David H. Koch



My brother and I are very pleased to be recognized by the American Legislative Exchange Council, because we respect your philosophy and your efforts regarding individual liberty and free markets. It is clear that we have much in common.

It is clear that we both recognize the dangers of a creeping tide of socialism and an enormous growth in government in this country, which threatened our Founding Fathers' fundamental concept of a free society.

It is clear that the increasing presence of command-and-control initiatives seriously inhibit creative solutions to real problems. And it is clear that these command initiatives really hinder organizations attempting to grow in the marketplace through serving the legitimate needs of others.

But while all of this may be clear to us, creating clear understanding and implementing methodologies to support market-based concepts is often met with suspicion at least and, at times fierce resistance.

So what can we do, individually and together, to overcome this resistance?

Charles and I believe that much can be accomplished if we remain firm in our resolve to maintain the principles of free enterprise. We pursue these principles with great dedication at Koch Industries, our family company, and in the organizations we support.

We recognize that Koch Industries has been a great beneficiary of the free enterprise system, and we're appreciative of its splendid efficiency. Because of our success and the tremendous benefits this system has brought to the prosperity of America, we honor the free enterprise system faithfully, even when it is clear that Koch Industries would receive short-term financial benefits from command-and-control laws or regulations.

This means that, at Koch Industries, we oppose any form of corporate protectionism. We will not go to the government seeking protective legislation passed at the expense of our competitors. We will not support government subsidies for corporations, or tariffs, or import fees, since they inevitably create inefficiencies, distort the marketplace, and limit choice.

And while this philosophy may reduce or eliminate short-term gains for us, it is consistent with the point Charles made earlier, that we all benefit by taking the long view, making sacrifices today that will bring about a better future.

In addition to supporting these marketplace concepts at Koch Industries, and because we have gained from these

concepts, we also believe in supporting institutions like the American Legislative Exchange Council and others who share in this mission, institutions that support these concepts in their respective fields.

Let me describe some of the institutions that Charles and I support because of their important impact on policy debates and on the long-term future of the free enterprise system in this country.

We support the Institute for Humane Studies, (IHS) based in Virginia, because it promotes mar-

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ket-based thinking in academia by identifying and training young economists who understand the role of markets within varying disciplines. By providing fellowships, summer seminars, and access to its network of thousands of professors, IHS is helping young people develop enhanced careers in academia, law, journalism, Charles and public policy.

We support the CATO Institute, based in Washington, D.C., because as a market-oriented liberal public policy organization, it takes academic theories and turns them into realistic policy initiatives, influencing the public debate by generating awareness and publicity for values that should guide our public decisions.

We support Citizens for a Sound Economy, because it takes market-based policy initiatives and market-based critiques of public policy to the general population, to help citizens understand how they will be affected by government legislation. It has been very effective in mobilizing large numbers of people on many issues. In just 10 years, it has grown to over 250,000 citizen-members. And last year, it played a key role in defeating the administration's plans for a huge and cumbersome Btu tax.

This year, it is one of the leading proponents of a market-based health care system.

We support, as was mentioned earlier, the Reason Foundation, because it promotes market-based ideas through its national monthly magazine and develops solutions to real-world

problems by working to privatize municipal services.

We support the Institute for Justice, because it seeks to protect economic liberty by challenging, in the Courts, the many government barriers to entrepreneurial initiatives. By striking down many licensing regulations, it has opened up numerous markets to new entrants and increased competition and the quality of products and services.

We support the Pacific Research Institute in San Francisco and the Pioneer Institute in Boston, two similar organizations, because they attempt to promote private alternatives to government service in their respective states.

And we support the National Foundation for Teaching Entrepreneurship, because as Charles mentioned earlier, NFTE teaches the most vulnerable Americans, which are at-risk children from inner cities, how to embrace the market and unleash their entrepreneurial

spirit in order to rise from poverty and lead full, rewarding lives.

We are seeing firsthand how many young lives are changing for the better in the cities where we support NFTE, such as Wichita, Kansas; Washington, D.C.; Minneapolis; New York City; and many other places.

Each of these institutions pro-

vides leadership in their respective areas at a time when strong leadership is needed, especially as command-and-control initiatives appear to be gaining influence.

Similarly, ALEC provides leadership for mar-

Similarly, ALEC provides leadership for market-oriented policies in your various states. And if you accept the premise that all politics is local, much of our shared cause will be driven by the work you do back home.



David Koch appearing on Live Line America, a nationally syndicated radio talk show, with hosts Mary Beals and Doug Stephen, during ALEC's 21st Annual Meeting in Tampa

ket-orientated policies in your various states. And if you accept the premise that all politics is local, much of our shared cause will be driven by the work you do back home.

All of you here today are state leaders in this regard. All of you here today are leaders who support change to provide a social and economic environment that encourages everyone to reach for their potential. Command-and-control initiatives, by their very nature, do quite the opposite. They suggest to us that we aren't capable of making our own decisions, conditioning us to believe that we are victims, that society prevents us from using what potential we do have.

This conditioning is even more oppressive for the disadvantaged, who are often told they have no hope, no chance, no way out of poverty. And unfortunately, well meaning welfare legislation often reinforces this point of view, in offering, in addition, its recipients to not even try.

As leaders in the legislative arena, you can help your peers and constituents overcome this conditioning. You can help them understand the enormous potential that lives within each individual, regardless of race, creed, or color, and that your role is to create, rather than limit, opportunity.

You can avoid giving directives that stifle initiative. Instead focus on building the culture, understanding the structure and incentives that encourage the full development and use of everyone's capabilities.

All proposed legislation should be considered in this context: Will it create or limit individual opportunity? Will it promote or restrict open competition? Will it reward or punish economic growth and success? Will it support wealth creation or concede to wealth redistribution?

As leaders, you can help define the debate in these terms. While it is easy to agree on the goal of advancing the well-being of society, you play a key role in helping your colleagues appreciate that a free-market environment has proven to be the most efficient means of creating a prosperous society.

And you can sound the warning every time government leaders are tempted by command-and-control initiatives that threaten prosperity. Now, as you know, is one of those times. It is time to sound the warning as nationalized health care appears more possible with each passing hour.

While the notion of national health care for all may be well-intentioned, the result would be even greater government intrusion into our private lives, reduced options in the delivery of health care, more bureaucracy, higher costs, and reduced quality.

In more personal terms, nationalized health care will threaten the well-being of our children and our parents, who rely on their doctors and on critical life-saving procedures and new life-saving drugs that may never be developed, because pharmaceutical companies won't be able to afford research and development.

It's easy for those of us in relatively good health to say we won't be affected much by this health care debate, but it is time to think of others, those who will suffer if we adopt nationalized health care rather than market-based reforms.

Let me conclude by saying please accept my best wishes as you take on this and other critical challenges. And thank you so much, again, for recognizing us with the Adam Smith Free Enterprise Award.

Thank you. ■



David Koch with his ADAM SMITH FREE ENTERPRISE AWARD and Ronald F. Scheberle, former Chairman of the ALEC Private Enterprise Board

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