A.I.E.R. After 75 Years

Our History
and Plans for the Future

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I.

INTRODUCING AIER

AMERICAN Institute for Economic Research (AIER) was organized in 1933 as a private, independent, scientific, and educational charitable organization. The Institute's research is planned to help individuals protect their personal interests and those of the Nation. The industrious and thrifty, those who pay most of the Nation's taxes, are the principal guardians of American civilization. By publishing the results of scientific inquiry, carried on with independence and integrity, the Institute's Voting Members, Board of Trustees, and staff hope to help those citizens preserve the best of the Nation's heritage and choose wisely the policies that will determine the Nation's future.

Experience shows that economic information and advice are most useful when they come from an objective source free of either commercial or political special interests. As described below, the provisions of AIER's Charter and Bylaws ensure that neither the Institute nor members of its staff may profit from organizations or businesses that may benefit from the results of its research. Moreover, the Institute represents no fund, concentration of wealth, or other special interests. Its financial support comes primarily from small annual fees of thousands of sustaining members, from sales of its publications, from tax-deductible contributions, and from the earnings of its wholly owned investment advisory organization, American Investment Services, Inc. The Institute is a qualified public charity under IRS code 501(c)3, and its financial accounts are available for public inspection during the Institute's normal working hours.

AIER's Origins

The Institute's early work was shaped predominantly by the research of its founder, Col. Edward C. Harwood (1900–1980). A graduate of the United States Military Academy, he was serving in the Army Corps of Engineers in the 1920s when, as an avocation, he undertook an intensive study of economics, with a particular emphasis on money and credit problems. In 1928 and 1929, he warned in several articles that appeared in leading financial journals that the speculative "boom" then underway was attributable primarily to the government's excessive creation of purchasing media (*i.e.*,

inflating the money supply), and that failure to stop the inflating process would soon lead to a major "bust."

By 1933, the magnitude of the Great Depression suggested the need for a research organization to inquire into the economic, social, and monetary developments that had contributed to that catastrophic economic contraction. The hope was that by further developing and applying modern scientific procedures of inquiry, results could be obtained that would be useful to the Nation for avoiding a repetition of the disaster.

Col. Harwood saw that such an organization must avoid financial dependence on either government sources of funding or on a few individuals or groups with pet panaceas or special interests. After reading Harwood's *Cause and Control of the Business Cycle* (1932), Dr. Vannevar Bush, then vice president of the Massachusetts Institute of Technology, suggested that some of the results of such independent research might be helpful to individuals seeking to resolve their personal economic problems and that the sale of publications based on that research could provide a significant source of income. If, in addition, small annual contributions could be gained from thousands of individuals, an organization *entirely independent* of any one or a few wealthy individuals, or of a conventional endowment fund, might be possible.

With the sum of $200, the Institute began operations in 1933 under Harwood's direction. The initial plan proved sound. Since its inception, Institute publications have sold millions of copies, and thousands of sustaining members and individual contributors provide a financial base for its work.

AIER first was housed in the office of a staff member at the Massachusetts Institute of Technology, but soon outgrew the space. For several more years the Institute occupied buildings in Cambridge, Massachusetts, prior to moving in 1946 to the present property in the Berkshire Hills of western Massachusetts. By 1957, the Institute again outgrew its space and further expansion was required. In 1963, the E. C. Harwood Library was completed, and housing for staff members, graduate students, and Fellows was added in 1968.

In 2002, a full renovation of the E. C. Harwood Library was undertaken. The workspace was doubled to 20,000 square feet, and the expanded library includes new offices for researchers and administrators, new student facilities, and a 100-seat auditorium.

Edward Crosby Harwood

Oct. 28, 1900–
Dec. 16, 1980

Graduated U.S. Military Academy 1920. Founded AIER 1933. In charge of Army Corps of Engineers' Cape Cod Improvement Program 1934–36. Served in European and Pacific Theaters of Operations WWII. Decorated Legion of Merit and Bronze Star. Author of many economic articles and books beginning 1923. Member, Trustee, and Director of several economic organizations.

Col. Harwood, a graduate of the United States Military Academy, was serving in the Army Corps of Engineers in the 1920s when he undertook as an avocation the intensive study of economics, with particular emphasis on money-credit problems. He began with economic texts by authors whose names began with "A" and exhausted a library in less than three years. He found chaos among economists' views arising from semantic mires and pre-scientific notions about human "knowledge."

To make sense out of chaos, he next began intensive study of what philosophers and logicians had said about "knowing," finding there, too, muddled inquiries. American philosophers Charles S. Peirce and William James had broken with ancient traditions by incorporating scientific procedures. Later, John Dewey and Arthur F. Bentley advanced scientific analysis with their development of a "transactional" approach to "problem solving." Since its beginning, AIER has recognized the importance of developing and adhering to such useful procedures of inquiry as antecedent and inseparably linked to inquiry in all fields, including economics.

In 1928 and 1929 Col. Harwood warned in several articles published in the financial journals that the speculative "boom" then underway was attributable primarily to the excessive creation of purchasing media and that failure to stop the inflating process would lead to a major "bust."

By 1933 the magnitude of the Great Depression suggested the need for a self-sufficient and objective research organization to inquire into the wide range of economic, social, and monetary developments that had contributed to the catastrophic economic contraction. Col. Harwood deemed necessary that such an organization avoid financial dependence on a few individuals or groups with pet panaceas or special interests. Vice President Vannevar Bush of MIT suggested that an independent research organization offering its results directly to the public might be successful.

With $200, Col. Harwood began operations in 1933. Since its inception, the Institute's publications have enjoyed a wide sale, and thousands of Sustaining Members provide a financial base for its work.

Related Organizations

In 1979, American Investment Services, Inc. (AIS), wholly owned by AIER, was registered with the SEC as an investment advisor and began operations. AIS shares AIER's facilities and applies AIER's fundamental research procedures and findings in developing its recommendations for individual investors. In addition to offering its low-cost, eight-page *Investment Guide* newsletter to all investors, AIS provides discretionary investment advisory services. Its selections of recommended investments and portfolio allocations are based on empirical research covering the risk-and-return characteristics of many asset classes. AIS receives no compensation from any third party and reviews all publicly traded investment vehicles, with the goal of optimizing risk-adjusted returns at the lowest possible cost.

Although AIER's primary emphasis is on economic problems, those problems are related to many of the concerns—and inadequacies—of other behavioral science fields. In the early 1960s, AIER, Col. Harwood, and others formed the Behavioral Research Council for Scientific Inquiry into the Problems of Humans in Society (BRC). Two of the books published by BRC, *A Current Appraisal of the Behavioral Sciences* and *Useful Procedures of Inquiry*, have been unusually successful. In 1984 BRC became a division of AIER.

AIER's independence from special-interest groups—and the close attention paid not only to proposed solutions to fundamental economic problems but also to useful procedures of inquiry into those problems—makes us unique among economic research organizations. Our long-run success has been much assisted by a program of charitable giving, described in Chapter VI, whereby donors transfer property to AIER as trustee and remainderman but reserve a life income interest for themselves and other beneficiaries. By the end of 2007, the market value of the assets held in these trusts was $150 million. As the remainderman portion comes to AIER through the years ahead, its ongoing scientific and educational efforts can expand accordingly.

Requirements of an Independent Research Organization

First and foremost, we direct our efforts toward the pursuit and dissemination of useful knowledge that is derived from *genuinely independent* scientific research. Our hope is that such efforts may foster greater understanding of the fundamental economic relationships affecting the citizens of the United States, both as individuals and as members of a complex society. In this respect, our ultimate objective is to advance the welfare of the American people.

To achieve this purpose, the Institute's Bylaws (see Appendix A) require that its operations adhere to a number of provisions that render it unique among "think tanks." Unlike other prominent charitable research organizations with an interest in public policy, and unlike any number of "public interest" research groups that in effect are special-interest lobbies, AIER accepts no funding whatsoever from either government sources or large corporate donors, and it has no commercial connection with any outside enterprises. Unlike most academic institutions, the Institute is prohibited by its Bylaws from seeking or maintaining a large endowment; rather, the funds AIER receives must be expended for Institute purposes within a reasonable time after receipt. We do not accept advertising of any sort in our publications, and we do not sell or rent the names of our subscribers or contributors to anyone. No shareholders or individuals may have a personal or private interest in the resources of the Institute. Moreover, the Institute is completely nonpolitical. None of the income or property of the Institute may be contributed to any political party or candidate, and Institute personnel are prohibited from engaging in political activities of any kind during

regular work hours. In short, AIER has no commercial or political interest in promoting one product or policy over another, and it has no political or corporate patrons to whom it must cater. Our sole purpose is to work for the interests of the public and the Nation.

In this endeavor, we "live or die" by the market. A large portion of our revenue comes from sales of our research findings directly to individuals, and unless our readers judge that research useful, we will not prosper. Our situation thus differs markedly from that of most "ivory tower" academic departments, which are isolated from the market and largely out of touch with the genuine needs of most families and businesses. In this age of out-of-control educational costs and out-of-touch educational curricula, we believe that the need for useful, low-cost information about matters of genuine importance to individuals and the Nation is greater than ever. Through our publications and other educational programs, American Institute for Economic Research is uniquely positioned to help lead the way toward a sensible approach to finding solutions to economic problems.

II.

PUBLICATIONS

MOST of the Institute's educational efforts are carried on through its publications, which we seek to distribute to as many readers as possible. To this end, we have tried to keep the costs of our published works low. Much like this publication, they have neither slick covers nor the patronizing illustrations and other "bells and whistles" found in trendy business and personal financial publications that sell for many times the price.

Although the "look" of our publications is plain (some might say old-fashioned), they are meaty, and contain very little wasted space and much substance. We trust that most readers value them for their content rather than their appearance. That said, we generally assume that readers have little prior acquaintance with the technical aspects of the subject under consideration, and we supplement our writing with clear graphics as an aid to comprehension. We do assume, however, a level of literacy that permits us to engage the reader's interest without resort to flashy gimmicks.

Sustaining Memberships with AIER

Two serials, the monthly *Economic Education Bulletin* and the twice-monthly *Research Reports* (with combined issues in January and August), form the core of AIER's publications and are sent to all individuals who subscribe to an Annual Sustaining Membership with the Institute. Through these publications, we keep Sustaining Members informed not only about current issues on personal finance and public policy, but also about fundamental economic and monetary trends. For 75 years, AIER's quiet research often has anticipated "popular wisdom" by months and sometimes years. Some of our work has been quoted in newspapers and magazines (e.g., *Barron's*, *Newsweek*, *Business Week*, *The New York Times*, *The Wall Street Journal*, *Fortune*, *Forbes*). Confirmation of our findings often has awaited disclosure in the popular media of some crisis that we saw brewing long before (such as the Medicare and Social Security "crises") or of other "surprising findings" that belatedly address matters about which our readers already are informed.

Each issue of *Research Reports* discusses two or three current economic

events in a concise 4– to 8–page newsletter with executive summaries at the beginning of each article. One *Research Reports* article each month is devoted to current business-cycle conditions. Each of these monthly discussions includes a full set of charts of AIER's primary leading, coincident, and lagging statistical indicators of business-cycle changes. Unlike the "snapshot" analyses in most popular news media, which often hype inconsequential monthly changes in one or two economic time series, AIER's analyses follow moving averages that capture cyclical trends. While many media reports show only a month or two (or perhaps a few years) of data, AIER Sustaining Members each month see historical data extending back to 1945, with charts that not only highlight recent changes but allow readers to compare them with every business recession since the end of World War II. In short, Sustaining Members get to review data that add detail and perspective to the economic statistics that feed the media grist mills.

Unlike many economists, we do not attempt to provide quantitative forecasts of future economic performance (for example, predicting that the economy will "grow by 2.9 percent next year"). We do not believe that such estimates can amount to more than guesswork or wishful thinking, at best, or telling readers what they want to hear, at worst.

In fact, we believe that a quantitative forecast that is wrong can be worse than no forecast at all. Such forecasts typically are based on "models" (sets of algebraic formulae) that necessarily rely heavily on extrapolating recent trends into the future. Experience shows that such models are less likely to indicate turning points in economic activity than our procedure of looking directly for such turning points. Yet it is the turning points—the periods when the economy enters into a recession or emerges from one—that are of most relevance to economic decision makers. We believe our findings can be useful to business people, consumers, or even to workers interested in changing jobs.

We do not claim that our procedures are infallible. They have changed considerably over the years and we are always looking for ways to improve them.

While our *Research Reports* seek to provide a concise discussion of some current issue, AIER's *Economic Education Bulletin* seeks to provide in-depth discussions of matters relating to fundamental questions in economics, personal finance, and general policy questions. The *Economic Education Bulletin*, which may vary in length from four pages to book-length studies

of more than 150 pages, covers topics such as Social Security, Medicare, retirement planning, estate planning, homeownership, life insurance, annuities, budgeting, and other personal financial information. General topics covered recently include the evolution of property rights, the role of gold in fostering sound money, globalization, the economic aspects of immigration, and global warming.

In addition to revenues from AIER's Sustaining Memberships, the Institute receives substantial revenue from sales of its books to nonmembers. Each year, tens of thousands of individuals purchase AIER's books. In terms of the number, now more than 100,000 books sold each year and many thousands more books and monthly reports sent to members, the Institute ranks as one of the largest providers of private economic education in the United States.

AIER On-Line

In addition to distributing our publications, the Institute maintains a website, www.aier.org. The site provides information about our history, our research findings, publications, educational programs, and job opportunities. It also offers our popular "Cost-of-Living Calculator," an interactive, easy-to-use program that allows you to calculate the present-day equivalent, in terms of purchasing power, of a dollar amount from any year since 1913. Visitors to the site also may download many sample publications.

III.

OVERVIEW OF AIER'S FINDINGS

ECONOMICS as a scientific field of inquiry presupposes no particular design of the economic order, such as socialism, fascism, or even capitalism. Rather, economic science *per se* avoids both the implicit and explicit normative judgments about outcomes that often are found in socio-political philosophies advocating one or another version of "economic order." Scientific economists seek to ascertain and describe a wide variety of relationships, including socio-political relationships, that influence economic events. While doing so, they also seek to identify those human arrangements that tend to foster progress or regress in social welfare, where progress is described broadly by increases in standards of living, human longevity, and the increased satisfaction of human wants and needs.

Any number of social arrangements have occupied the pages of human history, and invariably all have included methods of allocating available resources among members of the social groups. Some provided for control by a few based on brute strength (tyrannical or warlord societies), on title by birth (monarchies and societies with rigid class distinctions), on mystical abilities (witch doctors and seers), and so forth. Judged by the criteria of progress described above, however, a broad view of history suggests that such arrangements have been unsuccessful.

In our view, the most innovative and successful social order to date has been that based on individual sovereignty, which began to evolve in late medieval England. The development of English Common Law, especially Magna Carta and the termination of Star Chamber proceedings, greatly advanced the rights of persons to be secure in their persons and possessions. However, the most significant subsequent experiment was the Constitution of the United States, especially its Bill of Rights. In addition to limiting the power of government by the express enumeration of federal responsibilities, the U.S. Constitution affirms the basic common law rights of each person to freedom from coercion by others, and embraces the fundamental dictum of equity justice that no one has a right to take without compensation the fruits of another's effort.

Although it often is overlooked (or taken for granted), this social order has enabled humans to achieve hitherto undreamed-of advances in satisfy-

ing their wants and needs, both material and psychological. Consider that little more than two centuries ago the United States was an infant Nation, an economic pygmy in a world dominated by a few economic giants. In just 150 years, this pygmy grew to become the greatest economic giant of all time.

To what aspects of the social order was such great progress attributable? Many have cited the abundant natural resources found in the new Nation, and these no doubt helped. Yet, other nations such as Argentina, Brazil, and Russia enjoyed similar natural advantages and yet did not flourish. Rather, what seem chiefly to have distinguished the experience of the United States were greater individual freedom and a legal structure that preserved individual property rights, both of which evidently promote rapid economic progress in a number of ways. For one, they foster individual enterprise. Persons who might have been prohibited from developing and using their talents in the more restrictive social orders in the United States were permitted, indeed encouraged, to turn their efforts to any task that might suit them. Of course, not everyone will become a Thomas Edison or Henry Ford or Bill Gates, but the more a society fosters the opportunity to develop one's full talents, the greater the chance that those who have talents and can apply them will be able to employ them for the benefit of themselves and the social group.

Underlying such a social order is the observation that the preservation of behavioral incentives fosters increases in both individual and social well-being. Increased productivity is encouraged, offering greater reward to those who better serve their fellows. This benefits society by making available to everyone, in proportion to their like contributions to output, more of the things that their fellow humans indicate they want. Provision of higher reward to the more productive promotes progress in another way. Larger rewards take the form of larger claims on the resources and products of the society. Thus, in providing larger rewards to those individuals who by their actions demonstrate an ability to better serve their fellow humans, society gives the successful more control of the limited resources available. Oppositely, those who fail to make available useful things lose their power to claim and waste resources. Accordingly, society automatically and continuously reallocates control of its limited resources away from the less successful and toward the more successful.

The inefficiencies possible without the market mechanism for economic

reward and punishment may be seen in any number of government-funded operations, which in spite of a general recognition of their hopeless inefficiency not only continue in operation but also claim ever more resources in order to overcome the inefficiency. Government fiat makes such things possible. Wherever government has interfered with rewards commensurate with talent and effort, wasteful inefficiency has prevailed.

Some Arrangements That Apparently Aid Progress

The key economic aspects of a social order founded on the above premises are grouped under the name "free enterprise competitive market capitalism." "Free enterprise" recognizes the right of individuals to associate voluntarily in groups to process things. "Markets" reflect the striking of bargains between those wanting to exchange. (A "seller" exchanges a particular thing for a claim to things in general, or money, and a "buyer" exchanges the opposite.) "Competition" is another name for voluntary cooperation, as would-be sellers voluntarily strive to cooperate most effectively with would-be buyers and thereby earn the favor of an exchange. In doing so, would-be sellers voluntarily are guided into the economic roles where each can serve his fellows more effectively and thereby maximize his own reward. Capital is man-made wealth used to process other things; therefore, "capitalism" recognizes the private property rights of individuals applied to a particular type of man-made wealth, namely, that used for processing other things.

A society based on property rights and open markets implies a limited role for government, inasmuch as history records that more people have been oppressed through the mechanism of government than through any other device. This is not to say that government has no legitimate role; quite the contrary. Our Constitution sets forth clear tasks for government, which can be summarized as the protection of freedom and justice from those—domestic or foreign—who would deny them. Thus, defense of the Nation's borders from would-be conquerors is a proper province of government. The institution and administration of a legal system clearly is another legitimate task of government, but the system of laws and the administration of them must have as their objective the advancement of liberty if progress is to be optimized. In summary, the system should work toward providing and protecting a "fair field with no favor" in which each individual's freedom is restricted only as necessary to protect the equal freedom of others. This

would appear to be a useful gauge by which to assess the probability that specific laws will foster progress or regress of the social order.

In practice, anticipating the precise results of legislation often has proven difficult, if not impossible. Even with the best knowledge and intentions, laws may be passed from time to time that lead to regress rather than progress. In our view, the legal system will function usefully only if laws are considered tentative, are reviewed continually for their effect on the social order, and are changed readily when progress falters. Moreover, given its tentative and experimental character, the process of legislating might usefully pursue incremental decisions that limit the effects of bad laws rather than "all or nothing, go for broke" legislative programs that, if wrongheaded, are disastrous to society.

A Truncated Revolution?

In spite of widespread advances in individual liberty and the economic progress it fostered, at the beginning of the twentieth century the social revolution described above was far from complete. Imperfect competition among market participants fostered glaring abuses that few could ignore: women and children worked 12 and 14 hour days in sweat shops, urban slums were a common blight, and ostentatious wealth contrasted starkly with deep poverty.

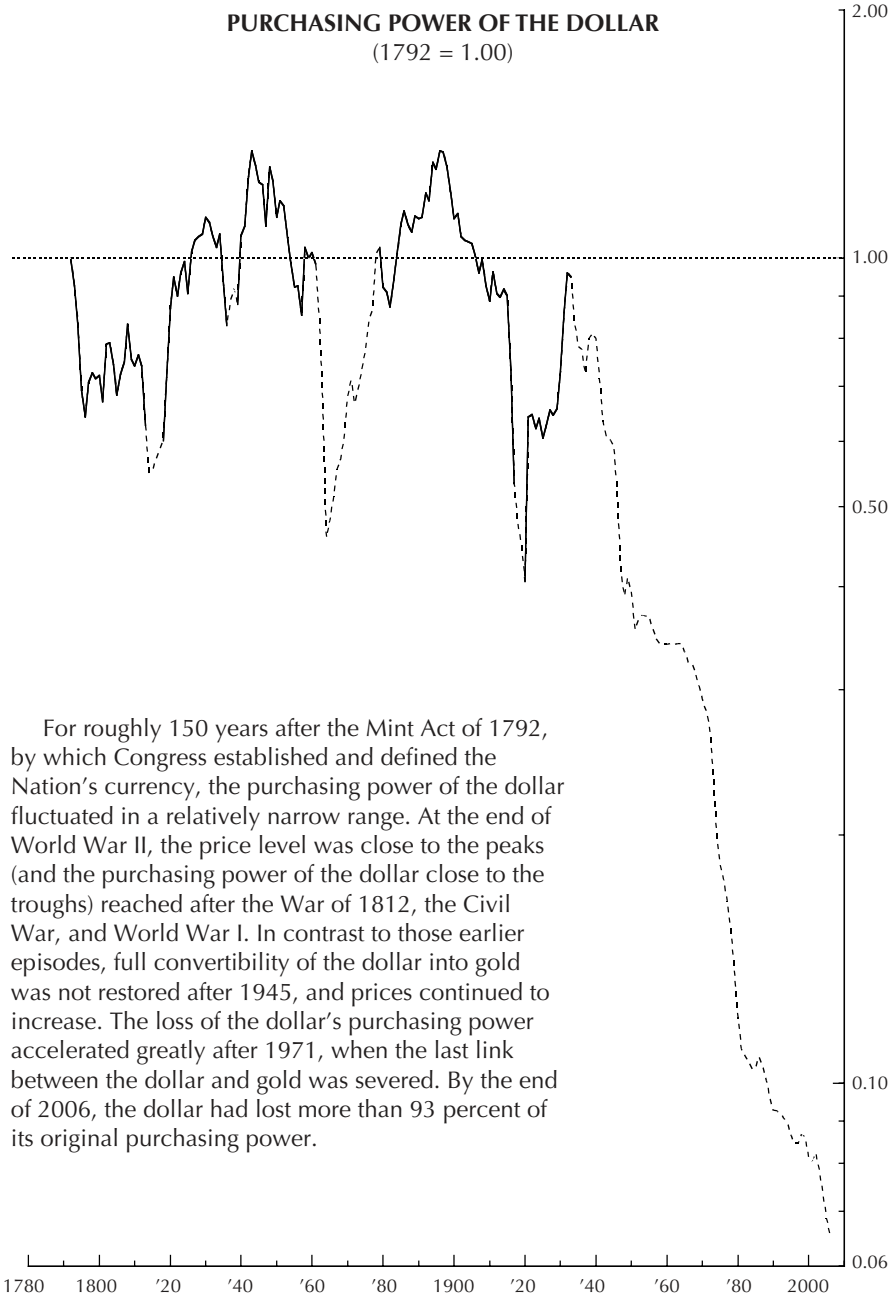
In the haste to eliminate glaring social inequities and problems, many well-intentioned reformers apparently overlooked the possibility that a major source of society's problems lay in the direction of imperfect, or incomplete, freedom. While the social arrangements of the time amply encouraged the efforts of the Henry Fords and Thomas Edisons to increase man-made wealth, they also enabled the likes of, say, the Astor family to amass huge wealth not by processing things wanted by their fellow humans but by purchasing much of the land in New York City and claiming as theirs the value added to the site location by society's investment in the community around the sites. The injustice of an order that allows individuals to appropriate for their private use the community-created wealth was described vividly by Henry George in *Progress and Poverty*, first published in 1879. But this terribly harmful special privilege was not eliminated by appropriate reforms then (such as assessing and taxing community-created wealth to pay for public expenditures and offsetting other taxes by the same amount). It remains among the greatest injustices of the U.S. social order to this day.

An apparent remedy to the social ills deriving from incomplete freedom is the further extension of opportunity and justice through the elimination of all special privilege. But all too often, the solution to the inequities resulting from the retention and accumulation of special privileges by some parties (which are vestiges of older regimes rather than by-products of the new) has been government intervention that bestows yet more special privileges on others. Since the 1930s, government program after government program has been legislated ostensibly to reduce the suffering of us all, but in practice those programs simply confer advantage to one or another interest group. Federal deficit has piled on top of federal deficit, year after year, without evidence that long-run economic advance has been stimulated. On the contrary, the evidence strongly indicates that government meddling with free enterprise, especially in the form of inflationary policies, fosters economic inefficiency.

Today's economists cannot agree on a set of policies that would end inflating, maintain economic expansion, and promote a high rate of economic growth. It should not be surprising that these desirable objectives seem beyond reach. Why should anyone expect that a complex and relatively free social structure like that of the U.S. economy would function without dislocations developing from time to time? Literally billions of transactions occur daily among millions of persons, each reflecting personal preferences, an accumulated capital structure and productive machinery, a particular level of technology and of labor skills, a massive distribution network, and so forth. In addition, most of these things are changing daily, requiring that accurate information be available to producers, savers, investors, consumers, etc., in order that they may adjust their behavior appropriately.

In short, some—but not necessarily extreme—fluctuations in business activity appear to be an inevitable part of a dynamic, free enterprise, capitalistic economy. Corrective contractions perhaps are no more avoidable than are the mistakes people must be allowed to make if they are to develop sound judgment. In this way, economic freedom is consistent with the breadth and depth of human experience and is conducive to a high rate of advance in economic well-being. Legislative efforts to rid the economy of temporary adversities have had the unintended effect of preventing early corrections of distortions, of inhibiting the full development of economic capability, and of denying humans their sovereignty.

Students of American economic history generally have discovered that



For roughly 150 years after the Mint Act of 1792, by which Congress established and defined the Nation's currency, the purchasing power of the dollar fluctuated in a relatively narrow range. At the end of World War II, the price level was close to the peaks (and the purchasing power of the dollar close to the troughs) reached after the War of 1812, the Civil War, and World War I. In contrast to those earlier episodes, full convertibility of the dollar into gold was not restored after 1945, and prices continued to increase. The loss of the dollar's purchasing power accelerated greatly after 1971, when the last link between the dollar and gold was severed. By the end of 2006, the dollar had lost more than 93 percent of its original purchasing power.

Note: Purchasing power was calculated from the Wholesale Price Index (Source: Bureau of Labor Statistics, U.S. Department of Labor). The broken portions of the curve are periods when redeemability of the dollar into the monetary commodities at fixed rates was suspended.

business activity tends to move in a cyclical fashion. A cycle, put simply, constitutes a period of time in which series of events repeat themselves more or less regularly and in roughly the same order. The tendency of business activity to move in a cyclical manner has been traced back in the United States to 1854, at least. From that time through 2007, 32 complete business cycles have been identified (and we are now in our 33rd cycle). The structure of our economy has changed greatly since 1854, yet the business cycle persists. The occurrence of business cycles appears to be one of the few economic events one can count on and AIER has long devoted much effort toward the understanding and description of such cycles.

As mentioned above, during the 1920s, E. C. Harwood published his findings concerning the then ominous business-cycle implications of unsound credit creation, and it was the accuracy of his findings that facilitated AIER's founding in 1933. Over the years, we have revised and expanded our efforts to monitor current business-cycle developments, and analyses of money and credit trends remain an important part of our research.

We also have focused on the long-run implications of the distortions fostered by unsound money and credit practices. This approach enabled AIER to predict that the economy would eventually recover from the Great Depression, that a prolonged boom would follow World War II (at the time, the vast majority of economists were predicting chronic "secular stagnation"), and also that official disregard of even the minimal discipline imposed by the gold-exchange Bretton Woods monetary system would lead to its rejection and a marked surge in price inflation. The most obvious and lasting effect of these developments has been the destruction of over 90 percent of the purchasing power of the dollar during the past 75 years (see the chart on p. 16), but the increasing government constraint on the economic decisions of citizens has been even more insidious. Freedom has been most at risk at business-cycle troughs, when its enemies have the maximum opportunities to gain public acceptance of the proposition that alternative institutions must be substituted for the free interaction of producers and consumers because, detractors say, the market has failed.

As discussed below, such coercive government intervention in economic affairs can take many forms. For convenience all of them may be described as "socialism." Among the most encouraging developments of the past two decades has been a worldwide tendency to reject government intervention as a panacea for economic problems, a development in which we believe

AIER has played some part.

Is Socialism Dead?

All around the world, socialist policies are on the wane. Brutal experience has at last forced many advocates of socialism to concede that capitalism has been the more efficient social order. But many socialists continue to advocate centralized control of economic decisions (the essential ingredient of many "isms" besides socialism) on other grounds, such as morality or economic justice. More doctrinaire socialists deny that the actual experience of socialism is a valid test of its worth; that is, they claim that genuine socialism has yet to be tried. While neither of these propositions can be disproved, they ironically are most often expressed in countries with the least experience with socialism.

Socialists have been thrown out of office in many of the industrialized democracies of the "first world," and the policies of those who remain have become more moderate. Many of the nations of the "third world" have begun to question and change the socialist policies that led to their stagnation and bankruptcy rather than to their advancement. Even in the "second world" of centrally planned communist societies, the dogmas of Marxism have been overthrown to permit individual rewards, risks, and choices.

The Idea of Socialism

We should first attempt to understand what it is that makes a given proposal or policy "socialistic." There are many varieties of socialism and entire libraries of gobbledygook are dedicated to the economics of socialism. Yet only one basic notion is involved: that *the allocation of resources must be guided by an elite group*, who must be given the power to override the decisions of ordinary people. Although most socialists would be infuriated by reduction of their convoluted analytic and historical arguments to this simple proposition, there really is little else that is essential to the socialists' position.

Socialists share the assumption that allocation of economic resources by a small group is preferable, if not inevitable, with some strange bedfellows—monarchists, mercantilists, theocrats, and fascists, to name a few. The issues such as the ownership of the means of production, control of the distribution of goods, criteria for admission to the elite, etc., that distinguish socialists from, say, monarchists are less economically fundamental

than the belief in centralized control that they share. All such groups, in theory, share the same goals of justice and prosperity (no one advocates a particular system as a way of fostering injustice and misery, after all), and they all reject or ignore the findings of Adam Smith and other students of market processes.

Thus, the central economic issue for socialists is determining who is to be in charge of the allocation of resources. This explains not only why disputes among socialists tend to be bitter and vicious, but also why socialists had to posit "capitalism" as its major rival. But "capitalism" as a dogma exists only among socialists who abhor a people left to choose their own economic pursuits.

The main challenge to socialism and the system that socialists wish to supplant is what most of the world continues to call "liberalism." (In the United States, this name has been stood on its head—U.S. "liberals" today advocate policies, such as wage and price controls, protectionism, regulation, subsidies, etc., that liberals traditionally opposed.) And, as F. A. Hayek observed, "There is nothing in the basic principle of liberalism to make it a stationary creed; there are no hard-and-fast rules fixed once and for all. The fundamental principle that in the ordering of our affairs we should make as much use as possible of the spontaneous forces of society, and resort as little as possible to coercion, is capable of an infinite variety of applications."[1]

During the nineteenth century, liberal policies brought about an unprecedented prosperity where they were implemented. At the same time, a new type of individual, the entrepreneur or capitalist, emerged as the dominant force in economic life. Inasmuch as such persons appeared to be the main beneficiaries of liberalism, in terms of wealth and power, socialists apparently concluded that liberalism was simply the means by which the capitalists had shouldered aside the aristocrats, landlords, and clerics that had previously dominated society.

So it was that classical liberalism was transformed into "capitalism" in the socialists' thinking. What they overlooked or denied was that an individual entrepreneur only acquired or maintained prominence to the extent that he or she served the rest of society; that is, the position of an individual capitalist was not acquired or maintained by law, custom, a self-perpetuating oligarchy, or raw force.

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[1] *The Road to Serfdom*, University of Chicago Press, 1944, p. 19.

Some socialists, notably economist John Kenneth Galbraith, addressed this issue by asserting that consumers are simply manipulated by businessmen (via advertising and other means) into purchasing whatever businessmen decide to produce. But this simply amounts to the assumption that consumers are incapable of acting in their own best interest and to a restatement of the notion that, since economic decisions will always be made by an elite, the fundamental issue of economics is how the elite is selected and what its goals are.

The Practice of Socialism

There are many ways in which a small group can assert control of the public's economic decisions. They range from the confiscation of some or all private property, which, despite the rhetoric ("it now belongs to everyone") means that the control of property is concentrated in far fewer hands, to subsidies and/or "normative" taxation of private transactions (that is, taxes that are designed more to influence private economic decisions than to raise revenue). Between those two extremes lie an almost infinite variety of regulations affecting who may do what, where, and when. What all such measures have in common is that prices will differ from what they would be in their absence. Indeed, the notion that prices should not deviate from levels deemed to be "just," "fair," or "reasonable" underlies all forms of official intervention in economic life. In a full-blown "command economy," where all enterprises are owned by the state, nominal prices are set by fiat.[2] Elsewhere, tariffs are imposed and domestic monopolies (such as labor unions or the post office) are supported to prevent "unfair" competition from foreigners or less favored domestic producers. Rent controls are imposed to prevent "gouging" by landlords, and so forth. In these situations, someone has a notion of what prices should or should not be and the political clout to impose that notion on others.

As long as such directives significantly determine economic life, socialists probably are correct in their belief in the primary importance of the selection of the elite and its goals. For example, when the British Parliament was dominated by the "landed gentry," it enacted *maximum*-wage laws that criminalized paying an employee more than a certain amount, a marked

[2] Of course, in such situations the real price usually is the nominal price plus the costs of standing in line, bribing sales clerks, or doing without, and was amply demonstrated by the experience of communist economies.

contrast to today's *minimum*-wage laws. In this example, liberals (in the sense used by Professor Hayek, above) long ago concluded that mandating artificially low wages reduced both the supply of labor and economic activity, because some employers could not obtain workers at the maximum wage that they could have obtained by paying a higher wage. Today, by the same token, minimum wages curtail the demand for labor. In short, when prices are not free to reflect supply and demand, the result is either a chronic shortage or a glut. Either situation shows an economy performing at less than its potential.

To repeat, an increased reliance on what Hayek called the "spontaneous

SOCIALISM IN THE UNITED STATES

Socialism as an international political movement never made much headway in the United States. Indeed, politicians of an interventionist bent long ago learned never to use the "S-word" in describing their policies.

Nevertheless, many, if not most, of the programs advocated by the U.S. Socialist Party during the early decades of this century have been adopted in one form or another. Moreover, many aspects of the taxation and regulation of economic activity in the United States today employ the techniques of socialism even when they are used to advance purposes (such as sectional interests, special privilege, or "environmentalism") that were not incorporated into traditional socialists' goals.

Our progress toward reducing the extent of interventionism in the U.S. economy during recent years has been relatively minor in comparison to that in many other countries. One reason, of course, is that we have had much less to remove. For example, Margaret Thatcher had many more opportunities to "privatize" industry than Ronald Reagan, simply because large segments of British industry already were nationalized when she took office. But another factor may be that the U.S. electorate is less conditioned to recognizing intervention for what it is—the substitution of the judgment of a small, often unaccountable group, for that of the vast majority of producers and consumers in the marketplace.

If the recent trajectories of change are maintained, it is possible that the U.S. economy could eventually become more socialist in practice than other countries, even those that proclaim themselves to be socialist.

forces of society" produced the greatest and most rapid transformation of economic life in the history of the world. From the beginning there were critics, who opposed this transformation because they believed that they were losing status and/or because they longed for a simpler pastoral society where "everyone knew his place." What distinguished the socialists from other critics was their claim that their proposals would end what they perceived as the "inefficiency and waste of ruinous competition," and would promote sound and perhaps even more rapid economic growth with a more equitable distribution of consumption. Central control of the means of production and investment flows, they believed, would facilitate "more rational" planning.

Some socialist economists recognize the importance for economic efficiency of setting prices so that the amount produced equals the amount purchased. However, they approach the question as an algebra problem, ultimately solvable with improved "models" and techniques, such as linear programming, high-speed computers, or input-output analysis. The difficulty is that the map is not the same as the territory—even if the planners were free from political interference, they can never respond to technological innovation, or even to unforeseen circumstances (such as the bugaboo of Soviet agriculture—"bad weather") as readily as free markets.

Despite the theories, "Socialism as a system of political economy has come a cropper wherever it has been tried. It has turned out to be politically oppressive, culturally stifling, and economically disastrous."[3] This accounts for the current retreat of socialists and socialism.

The recognition that socialism simply does not work as promised or expected accounts for the political and ideological shifts around the globe. Some minor holdouts against the trend (such as Fidel Castro) remain, but the shift is remarkable and pervasive. The most significant aspect is not specific changes, such as the establishment of a stock exchange in mainland China and private businesses in the former Soviet Union, the "privatization" of large segments of industry in Great Britain (and elsewhere), or the marked reduction in the top rate of personal income taxation in the United States from the 70 percent that prevailed until the 1980s. One could have predicted these changes 30 years ago only at the risk of being called a lunatic, but the even more astonishing change that underlies all the rest is that few socialists

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[3] John Neuhaus, "A Death Much Exaggerated," *National Review*, August 28, 1987, p. 44.

now argue that the traditional socialist policies will lead to a more efficient and productive economy. In this sense the notion of socialism as a coherent and practical program seems to have "died."

The Socialist Dream

Nevertheless, some cling to their socialist dreams. These include the now more comfortable intellectual heirs of the "old Bolsheviks," sent to the gulag by Stalin himself, who believed that things would be different "if only Stalin knew." For some, no amount of experience can shake their faith in the possibility of socialist perfection. A second group continues to advance socialist nostrums in the recognition that they would be costly in terms of economic efficiency, but are desirable nevertheless because they are "moral," "just," or even the "right" thing to do. Some of the most zealous environmental advocates appear to fall into this category.

For both groups, socialism seems to be a matter of religious-like faith rather than behavioral science. In this sense socialism will never die as long as some people exercise selective imagination and assume that society can be improved at no cost or that they can better assess the costs than anyone else.

IV.

THE FELLOWSHIP PROGRAMS

MOST of AIER's educational efforts are carried out through the sale and distribution of its publications to the general public. However, for many years the Institute also has sponsored a variety of fellowship programs that provide direct training and financial support to advanced students of economics. As discussed below, our fellowship programs form a key part of the Institute's educational efforts.

Early History

In order to "aid in the development of economic scientists," in 1946 the Institute established a competitive two-year graduate fellowship program designed to train students while in residence here at Great Barrington. World War II had interrupted the formal education of a great number of students. Although many possessed the enthusiasm and intellectual capacity for graduate training, many also were understandably deficient in subjects crucial to any advanced program of study in economics. Thus, the Institute's earliest fellowship programs offered students a wide range of tutorials in basic English composition, semantics, logic, and economics before they proceeded to courses in advanced economics.

Only after they had completed a first-year curriculum in these subjects did they receive advanced instruction in money and banking, business-cycle analysis, American economic history, the development of political and economic thought, and the evolution of modern scientific method—topics that today form the core curriculum of the Institute's summer program. Given the relative dearth of developed graduate programs in economics, this early program met with some success. It was, however, soon interrupted by the onset of the Korean War, which again interrupted the formal education of many young men.

In response to this unavoidable setback, the fellowship program was reorganized in the mid-1950s under the administration of the Interfoundation Committee for Economic Scholarships, which drew support from five participating organizations: AIER, the Economic Education Institute, the Economic Education League, the John C. Lincoln Foundation, and the Robert Schalkenbach Foundation. The Interfoundation Committee was formed

to award scholarships to promising undergraduates who showed interest in economic subjects. Some 200 undergraduate scholars were accepted into the program each year, and each was encouraged, but not required, to elect a college curriculum consistent with the requirements necessary for advanced study in economics. AIER hoped that as these students progressed academically, they would form a substantial pool of applicants for AIER's graduate fellowship program.

However, a rapid expansion of the graduate fellowship program did not occur. During the late 1950s and early 1960s, only a few highly qualified students continued to enter the graduate fellowship program each year. In effect, the program became a casualty of vastly expanded government spending on academic research programs. An abundance of federal support via research grants and scholarships and private scholarship endowments such as the Fulbright Scholarship (and the National Merit Scholarship program for undergraduates) placed the Institute's program at a severe competitive disadvantage. Understandably, many graduate students of the highest caliber were attracted to the prestigious universities that offered the most grant money for research projects in their field of interest.

A period of considerable uncertainty for the fellowship program followed. In part as a result of the attractiveness of the National Merit program,

the Interfoundation Committee's undergraduate scholarship program was discontinued and AIER's summer fellowship program was broadened to include both graduate students and a small number of distinguished undergraduates. Even so, in some years during the late 1960s and 1970s, AIER awarded no fellowships.

In recent years the fellowship program has enjoyed considerable success. But its early experiences would seem to provide a textbook illustration of some of the unintended consequences of government funding of "scientific" research: namely, distortion of the intellectual marketplace in ways detrimental to genuinely independent research and education. As related below, this is not a new problem.

Government-Funded Research and Education: A Booby Trap?

For many years public sentiment has favored the expansion of government spending on research and education for a wide variety of human problems. However, the complex relationship of behavioral scientists to government has yet to be explored adequately. Often, the assumptions underlying popular beliefs about government-sponsored science seem naive or inconsistent.

Even though most people apparently assume that scientific considerations "automatically" outweigh political considerations in the exchange of money for results, history plainly suggests the opposite. Even the briefest reflection on some of the official "scientific" findings in Nazi Germany reveals the extent to which unbiased inquiry can be subverted by the political process. Also, history has shown that the more extreme the politics, the more extreme the distortions of scientific procedure.

Even under a relatively benign regime, scientifically warranted assertions and policy recommendations based on those assertions may be so unpalatable to politicians that they will not provide the financial support desired or needed. The lure of large amounts of federal money, for example, may lead behavioral scientists into a situation in which they cannot function as scientists but can function only as special pleaders for the politicians in power (or politicians they hope will come to power and provide them with patronage). The current "scientific" debate over any number of environmental and health issues (such as global warming) seems a case in point.

Governments now recognize how important the work of behavioral scientists has become. For example, the Communist party in the now-defunct

Soviet Union took great pains to control the work of behavioral scientists to ensure that their work served the interests of those in power. In the United States during recent years, each political party in office has used some behavioral scientists in ways intended to further the retention of power.

Many people today seem so impressed with the benign aspects of democratic or republican forms of government that they forget the lessons of history. The first democratic government in Europe following the French Revolution, which was inspired in part by the success of the American Revolution, ordered the beheading of Lavoisier, the father of modern chemistry. On the other hand, much early scientific work in the 17th and 18th centuries was made possible because benevolent despots in various European countries chose to defy some religious leaders and protect a few scientists as well as support their inquiries. More recently, economic advisers to United States presidents have endorsed economic action so unsound that, in the words of a distinguished Harvard professor, it should "make every economist blush."

In our view, an important lesson to be learned from the experiences of history is that scientists should not expect to be assured of unrestricted freedom of inquiry and discussion as the servants of government or of any vested interest having special privileges or positions of power that those interests desire to perpetuate. Behavioral scientists especially should guard against becoming the tool of agencies that may inhibit full freedom of inquiry and discussion, because, of the three major fields of science—physical, physiological, and behavioral—the last deals heavily with controversial matters of consequence to diverse vested interests.

To date, no government of any form has demonstrated that it can be trusted to allow scientists full freedom of inquiry and discussion. In AIER's view, this major difficulty confronting behavioral scientists might be solved if an important group of them could derive the principal support for their continuing research and education from many thousands of citizens rather than from government or from powerful private entities that may have special-interest agendas of their own.

Development of AIER's Procedures of Inquiry

Even the most independent research and education program has little hope of yielding useful results if it is devoted to, or based upon, "bad" science. Therefore, a major component of the Institute's ongoing research,

and especially of its summer fellowship program, focuses on useful procedures of inquiry. As a primary requirement of the program, summer fellows study procedures of inquiry with a view toward developing a critical facility—especially with respect to a number of procedures that currently enjoy popularity with professional economists but that in our view are fundamentally flawed.

In this latter respect, E. C. Harwood, AIER's founder, decades ago wrote the following about the relationship of economic conclusions to the methods of inquiry used by economists. His words are just as pertinent today:

"That economists frequently do not agree has become so commonplace that some economists no longer seem to be troubled by the suggestion that such a state of affairs is scandalous. That many economists do agree on certain analyses and conclusions is equally scandalous from the viewpoint of modern science, however, because that agreement rests on methods of inquiry that have been found unreliable and have been discarded by capable scientists. That a few conclusions on which some economists agree do have adequate scientific bases by contrast emphasizes the more fundamental disagreement among economists regarding the methods of inquiry that can be expected to yield useful results."

In light of the above, we have developed and refined our views about procedures of inquiry, including the following key aspects:

(1) An emphasis on the importance of firm "naming" in economic inquiry. Such naming, although firm in the sense that much terminology in developed fields is firm, is not final. As inquiry progresses, improvement in naming is to be expected, just as occurred with the name "atom" in physics. Much of the conventional work in economics is plunged almost immediately into a semantic swamp by the use of naming that is inconsistent, incoherent, and frequently based on ancient epistemological ideas that have been long outmoded.

(2) An emphasis on the entire pertinent transactional field, rather than on presumed separate and interacting "reals" making up that field. The "reality" of the various aspects and phases of the transaction generally depends on the field itself. For example, borrowing cannot exist without lending, and vice versa. Concentration on too limited an area of transaction is associated with much of the inquiry conducted by conventional economists. For example, Keynesian economists have tended to emphasize the volume of current consumption to the exclusion or minimization of its effects on

future production and consumption.

(3) An emphasis on the fundamental importance of continuous testing of the conjectures (often called hypotheses) that are developed about what happens under specified circumstances by careful observation of available data and events. Conventional economic inquiry often proceeds by the development of elaborate conjectures far in advance of any significant testing of them or of their underlying assumptions against observed facts. Conventional economic inquiry relies on logical consistency, initial plausibility, assumed truisms, etc., and has resulted in intricate theories or models in which the developers have great confidence. Unfortunately, in light of subsequent events, the predictions based on such untested models often have been conspicuously inaccurate.

The facts and notions with which we begin an inquiry also may turn out to be inaccurate, requiring that assertions following therefrom must be carefully qualified. Inquiry, then, neither begins with certainty nor attempts to achieve certainty. Rather, the objective is the development of warranted (but not final or certain) assertions adequate to solve the problem at hand.

We also eschew the general procedure of inquiry employed among academic economists who place great emphasis on the deductive and mathematical elaboration of a few "axioms." Such models should be tested against the facts, but in practice the major emphasis is placed on the "internal" deductive and mathematical elaboration.

To summarize, we long have maintained that the "quest for certainty," whether through deduction, revelation, intuition, or any other means, has not been a reliable source of useful solutions to human problems. That policy recommendations based on the results of such procedures often have proved disastrous supports this view. A major difficulty for economics today is that *a priori* beliefs, which pose a major obstacle to scientific inquiry, still are being celebrated by some as useful. It would seem that little genuine progress has been made by economists in recent decades toward developing procedures of inquiry that meet the requirements of a genuinely scientific approach. To accentuate that difference in procedures to fresh thinkers, economics students must be introduced to modern scientific method at the outset of their studies.

The Summer Fellowship Today

AIER awards more than a dozen summer fellowships each year to college

and university economics students. Summer fellows come to the Institute for an intensive four-week period of study near the beginning of their graduate careers. Those who demonstrate exceptional potential during that program receive Fellowships In Absentia for the succeeding academic year, including full or partial payment of tuition or a monthly stipend for all or part of the academic year. As students progress toward the Ph.D., additional in-absentia awards may be made on the basis of performance.

Since students not only attend seminars at the Institute but also share office space in the E. C. Harwood Library and take meals together with the staff, the summer program provides many opportunities for students to interact with the Institute staff and visiting senior fellows.

The program's structure involves several major topic areas, including the methodology of economists, monetary economics, business-cycle analysis, the role of prices and incentives in the allocation of resources, and property rights. In addition, there are a number of lectures presented by visiting senior fellows who bring expertise in a wide variety of fields related to AIER's research interests. In keeping with AIER's insistence that the pursuit of inquiry be grounded in observation, the summer program provides students with the chance to observe working economists in a practical environment

that contrasts sharply with some purely academic settings. Here students are exposed to any variety of questions that confront contemporary analysis but that often are ignored by academic economists.

The program has achieved marked success in attracting distinguished graduate students and visiting senior fellows. U.S. colleges and universities represented in the Institute's fellowship program have included, among others, Brown, Case Western Reserve, Columbia, Cornell, Duke, Harvard, Indiana University, Johns Hopkins, MIT, Notre Dame, U. Penn, Princeton, Stanford, Syracuse, University of California, University of Chicago, University of Illinois, University of Michigan, Vanderbilt, and Yale.

From its earliest years, the fellowship program has included international students and has been enhanced by the participation of students from Europe, Latin America, and Asia, representing institutions as diverse as Cambridge, Oxford, the London School of Economics, Rotterdam University (the Netherlands), the University of St. Gall (Switzerland), the University of Milan, the University of the Philippines, the University of Lima (Peru), and Fudan University (China).

Guest speakers have included a number of luminaries, among them Richard A. Posner, U.S. Court of Appeals Judge for the Seventh Court and Senior Lecturer, University of Chicago Law School; Congressman Ron Paul; author George Gilder; Professor C. Lowell Harriss of Columbia University;

Professor Edward Kane of Boston College; Scott Bullock, Senior Attorney with the Institute for Justice; and Anna Schwartz of the National Bureau of Economic Research.

The Visiting Research Fellowship

The Institute's educational efforts began a new phase in 1997 when AIER began to sponsor a visiting research fellowship program. Unlike the summer fellowship program, which is designed for graduate students and college seniors, the visiting research fellowship is offered to distinguished economic scholars. These scholars are invited to spend part of the summer, and sometimes longer, at the Institute pursuing their chosen course of research.

The field of research is open, but we especially welcome Visiting Research Fellows who understand the American antecedents for public governance; the role of individual freedom, private property rights, and free enterprise in economic progress; money, banking, and credit; and economic and monetary history. Fellows are expected to present their research findings to AIER's research staff, other Visiting Research Fellows, and Student Fellows, and to communicate their research findings to a general readership in our flagship publications, *Research Reports* and the *Economic Education Bulletin*. Our hope is that visiting scholars will produce research that is useful not only to themselves and fellow economists, but to our readers at large.

Outlook

The AIER fellowship programs today show the promise of fulfilling the hopes of the Institute's founder. As with all educational ventures, their success will depend upon a variety of interrelated conditions. Most important, it will depend on the quality of the teachers, scholars, students, and their "product"—that is, research findings and professional training that can be usefully applied to genuine human problems.

Experience suggests that achieving this result may depend in turn on incentives for unbiased inquiry. Given the demand for increased government funding for research on any variety of actual and imagined problems—and the apparent popular appetite for prescribed results—the maintenance of a climate favorable to genuinely independent inquiry into those problems is by no means assured.

The Institute's Bylaws require that all of its programs, including the fellowship programs, remain independent of any special interest or concentration of wealth, whether from government agencies, private lobbies, corporate foundations, and the like. Unlike those of virtually any other organization with similar purposes, the Institute's educational programs operate without benefit of either government or substantial private institutional support. At bottom, the success of our fellowship program (and all our other programs) depends upon the support of thousands of individuals who may benefit from our research and who value our efforts to promote independent scientific inquiry and education. In short, our existence depends on the generosity of readers of this bulletin and other Institute publications. The description of AIER's charitable giving programs in Chapter VI will be of interest to those who may wish to help support our work by including the Institute in their financial plans.

For more information about our fellowship programs and an application, please direct inquiries to:

Director of Fellowship Programs
American Institute for Economic Research
P.O. Box 1000
Great Barrington, Massachusetts 01230

Telephone: (413) 528-1216
or FAX: (413) 528-0103
E-mail: fellowship@aier.org

For the latest information about our educational programs, including dates for upcoming programs, see our website at www.aier.org.

V.

CONFERENCES

IN recent years the Institute has sponsored a number of conferences on topics we think are particularly important and deserving of more attention from both scholars and the general public. The goal is to advance our understanding of a key economic issue by bringing together distinguished professors, researchers, and others to share their findings. To ensure that we reach as wide an audience as possible, we collect the proceedings of these conferences into books that we distribute to thousands of readers.

In 2004 we held the first such event, the E. C. Harwood Memorial Conference on "Prospects for a Resumption of the Gold Standard." The roster of distinguished speakers included Anna Schwartz, the co-author with Milton Friedman of *A Monetary History of the United States, 1867–1960*, one of the most influential economics books of the twentieth century; economists Lawrence White and Richard Sylla; and W. Lee Hoskins, a former president of the Federal Reserve Bank of Cleveland.

The topics covered by these and other speakers included central banks and the restoration of the gold standard, the 1981–82 Gold Commission Report, possible alternatives to gold, and whether there is enough gold in Fort Knox. The published proceedings enjoyed a wide readership, leading us to follow up with additional conferences on other topics.

Our second conference in 2004 was on "Property Rights: The Essential Ingredient for Liberty and Progress." The speakers included Tom Bethell of the Hoover Institution, who spoke on private property and human nature; Judge Richard A. Posner, who spoke on the importance of property rights in the common-law tradition; Gerald P. O'Driscoll, Jr. of the Cato Institute, who talked about property rights in development finance; Mary Anastasia O'Grady of *The Wall Street Journal*, who spoke about property rights in Latin America; and Bert Gall of the Institute for Justice, who spoke about eminent domain abuse.

This conference proved especially timely, as the proceedings were published in May 2005, a month before the U.S. Supreme Court issued its controversial ruling in the *Kelo v. City of New London* case, upholding the use of eminent domain to transfer land from one private owner to another in the name of "economic development." The Institute for Justice, the Nation's

leading legal advocate against eminent domain abuse, participated in our conference. Scott Bullock, a senior attorney with the Institute for Justice who argued on behalf of the homeowners in the Supreme Court case, is a student alumnus of AIER's Summer Fellowship Program, and has returned frequently as a guest speaker to talk about his work.

Our next conference, also in 2004, was on "Prospects for Reforming the IMF and the World Bank." These multi-billion-dollar international institutions were created during the final days of World War II, in hopes of encouraging economic cooperation and development and avoiding the sort of economic problems and crises that contributed to worldwide depression, political upheaval, and war in the 1930s and 1940s. They have now been operating for over 60 years. As early as 1945, AIER questioned their creation, calling the IMF "the answer to a planner's prayer." The goal of the conference was to review the activities of these institutions and proposals for reform.

Participants included W. Lee Hoskins, Gerald O'Driscoll, and Richard Huber, all members of the Meltzer Commission, a bipartisan group appointed by Congress in 1999 to review the IMF and the World Bank; Lord Robert Skidelsky, a renowned economist; and Kenneth Rogoff, a former chief economist at the IMF. Their comments, along with many others, were subsequently collected and published in an AIER *Economic Education Bulletin*.

A conference in 2005 addressed "The Future of the Dollar." Amid evidence of growing global imbalances, a ballooning U.S. trade deficit, and the emergence of the euro as a potential challenger to the dollar as the world's major reserve currency, this conference addressed the question: what are the prospects for the dollar? Some participants took a historical perspective, others a global perspective. In the three years prior to the conference, the exchange value of the dollar had already decreased sharply. Some participants warned that a continued, serious downward adjustment was likely (and, as events turned, this is what happened over the next couple of years).

Most recently, AIER sponsored a conference on "Global Climate Change" in 2007. A distinguished group of speakers addressed the science and the economics of global warming. Is it happening? Is mankind the principal cause? If so, what can be done about it, and do the proposed solutions make sense from scientific and economic perspectives?

Participants included a roster of distinguished atmospheric scientists, including Drs. David Chapman, William Gray, Richard Lindzen, and Carl Wunsch; economists who have studied both the problem and proposed solutions, including Drs. Ross McKitrick, Robert Mendelsohn, Gilbert Metcalf, and Peter Wilcoxen; experts who spoke about the role of political institutions in shaping public policy, including Dr. David Henderson (a former chief economist for the OECD), journalist Claudia Rosett, and environmental economist Dr. Richard Stroup; and panelists, including Drs. Robert Nelson and Edward Kane, who addressed the ethical and religious aspects of the global warming debate.

Video from this conference will soon be available on our website, www.aier.org, and we will publish the proceedings in 2008.

We plan to sponsor more conferences as our resources allow. They provide a unique opportunity to learn from individuals who have closely studied a given topic and to share the results of their inquiry with the readers of Institute publications.

VI.

AIER'S CHARITABLE GIVING PROGRAMS: Help Yourself as You Help the Institute

AIER is a qualified public charity with 501(c)3 status under the IRS Code. Direct cash donations are tax-deductible for income tax purposes, while gifts of appreciated assets or other property, or planned and deferred gifts may provide additional capital gains tax benefits. This chapter explains why AIER's independence depends on the support of its individual readers and small donors, and provides information about how you may help yourself as you help AIER through our planned and deferred giving programs.

Why Is It Important to Support AIER?

In 2008, AIER will celebrate its 75th year as a widely-recognized, authoritative source of economic information, stemming from our independent, proprietary research and publications.

As we look back and reflect on this anniversary, we are also planning for the future to assure that we can continue serving our Nation and its citizens efficiently and effectively in the years ahead. Toward this end, we have recently taken several significant steps to enhance our programs, better market our products, and streamline our operations. Our goal is to maximize the fiscal and human resources applied to our core mission: independent research and education.

Our programs have reflected this renewed focus on mission. Our Summer Fellowships have recently featured an unprecedented breadth of expertise among our teachers and speakers. We continue to update many of our most popular books while adding important published works to our collection on such timely topics as immigration and globalization. In a typical year, we will produce and mail nearly six million marketing circulars, 200,000 *Economic Education Bulletin* books, and a quarter of a million *Research Reports*.

We do all of this with a small, professional staff and are dedicated to keeping costs to our readers down. While we are continually working to increase readership, more than two-thirds of our operating budget is met by charitable contributions. Because our independence is our most valuable

asset, we do not accept gifts from private foundations, commercial interests, or the government. We depend, instead, solely on continued support from individual readers and friends, who understand the importance of the independent economic perspective we offer. Donor support has allowed us to keep our products affordable to everyone, even while expanding our programs and absorbing years of creeping inflationary pressure.

What Do Donors Gain?

As a qualified public charity with 501(c)3 status under the IRS Code, AIER can accept charitable donations in different forms that can offer donors many benefits, including but not limited to:

- Qualifying for federal or state income tax deductions;
- Receiving annual income for life or a designated term;
- Saving capital gain taxes on a gift of appreciated assets;
- Enjoying reduced probate costs and estate taxes;
- Benefiting from expert asset management; and
- Providing generous support of AIER's ongoing work and mission.

As they grow older, charitable donors often shift from income-based giving to asset-based giving. Income-based giving typically involves using cash from the donor's salary or other income. Asset-based giving can be more complicated, as it may involve transfer of property other than cash, such as artwork, real estate, or appreciated stock. Donating such assets typically requires sophisticated financial or tax analysis, and it has more arcane rules with regard to tax deductions.

Donors often make a transition from income-based giving to asset-based giving as they plan for or enter their retirement years. Maintaining cash flows is a major concern in retirement, as living needs are increasingly met within fixed resources, and asset-based gifts can provide significant income and tax benefits for donors, their estates, and their heirs. Donations of this type are often referred to as "deferred gifts" or "planned gifts."

Planned or Deferred Giving with AIER

The simplest way for donors to make deferred gifts is by including AIER in their wills, through bequests, or by making AIER a beneficiary in their life insurance policies. We respectfully ask donors who make these types of

commitments to inform us of their intentions for our own financial planning and donor acknowledgment purposes.

Perhaps most attractive to those who have appreciated assets are the Institute's planned giving programs that provide substantial benefits to donors at the same time that they help to assure AIER's financial support in the decades to come. Because of AIER's prudent fund management, we have provided a steady stream of income to the beneficiaries for many years, while achieving many of the tax-saving objectives noted above. AIER currently offers three institutional planned giving programs:

Reserved Life Income Funds: A Reserved Life Income Fund (RLI) is a pooled income fund. When a donor makes an irrevocable gift of cash or securities to the RLI, it is invested together with the gifts of all other fund donors. Each quarter, the donor's proportional share of the fund's income is distributed to the beneficiaries the donor has named. The income distribution varies with the fund's investment performance. When the last income beneficiary dies, the principal attributable to the gift is removed from the RLI fund and given to AIER, to be used for its charitable purposes. Donors may add funds to their RLI at any time.

Charitable Remainder Unitrusts: A Charitable Remainder Unitrust (CRU) is an income fund where donations are not pooled with other donations. Donors stipulate a fixed percentage (not less than five percent) of the value of the fund to be distributed annually to the income beneficiaries. Income may continue for the lifetimes of the beneficiaries named, a fixed term of not more than 20 years, or a combination of the two. Payments are made out of trust income, or trust principal if income is not adequate. When the CRU term ends, the principal passes to AIER for its charitable programs. Donors may add funds to their CRU at any time.

Charitable Gift Annuity: A Charitable Gift Annuity (CGA) is a contract (not a trust) under which AIER, in return for a transfer of cash, marketable securities, or other assets, agrees to pay a fixed amount of money to one or two individuals for their lifetime, not a fixed term of years. Annuity payments are fixed and unchanged for the term of the contract. The contributed property, given irrevocably, becomes a part of the charity's assets, and the payments are a general obligation of the charity, meaning that the annuity is backed by the charity's entire assets, not just by the property contributed. The donor must be first annuitant, but can also name a second annuitant. CGA's may offer immediate or deferred payouts.

Additional Resources

AIER provides a gift calculator on our website (www.aier.org) to help you assess and compare the costs and benefits of RLIs, CRUs, or CGAs, either with AIER or with other public charities offering similar programs. (At the website, click "Planned Giving" under the "Support AIER" header; the calculator is at the bottom of the page). We also offer three books that may be of particular interest to prospective donors contemplating gifts to AIER or any other charitable organization: *How to Give Wisely*, by Marla Brill; *How to Invest Wisely*, by Lawrence S. Pratt; and *The Estate Plan Book, with Estate Planning after the Economic Growth and Tax Relief Reconciliation Act of 2001,* by William S. Moore.

Please note, however, that while these books are useful tools, it is most important that all prospective donors consult with their trusted legal and financial advisors before committing to deferred gifts, to ensure that their intended contributions are consonant parts of a sound financial portfolio or estate plan. As a nonprofit research organization, we can offer information and simulations that can help you make these decisions, but we may not provide specific financial advice related to your assets and estate.

Please contact AIER Director of Operations and Development J. Eric Smith at 413-528-1216 ext. 3154 or jesmith@aier.org if you would like more information about these planned giving opportunities or other ways to support our programs.

APPENDIX A

THE BYLAWS OF THE

AMERICAN INSTITUTE FOR ECONOMIC RESEARCH

With Revisions Adopted November 22, 1985

PREAMBLE

Since 1934 the American Institute for Economic Research, Incorporated, has demonstrated the value of its scientific, educational, and charitable activities. In view of the changing laws, conditions, and circumstances under which its operations are conducted, from time to time the Bylaws are amended, but always in a manner to ensure that the Institute shall operate as a nonprofit exempt organization within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1954, as amended, and as an organization that is not a private foundation within the meaning of Section 509(a)(1) of the Internal Revenue Code.

PART I: GENERAL PROVISIONS

1. In order to avoid any possibility of bias resulting from an attempt to satisfy a few wealthy donors, the Institute shall seek to derive its support primarily from contributions by the general public and from the distribution of publications presenting the results of scientific research it has undertaken.

2. The Institute may not accept gifts of money or other property that carry with them or include any restrictions on scientific procedures of research or that would involve activities inconsistent with its purposes. A large endowment fund per se shall not be sought; all funds received by the Institute, other than required reserves, shall be expended for Institute purposes within

a reasonable time after their receipt.

3. There shall be no shareholders or individuals having a personal or private interest in the resources of the Institute. None of the income or property of the Institute may be divided among or distributed to any individuals except for reimbursement for services rendered as herein specified.

4. The Institute shall be completely nonpolitical; no Institute funds shall be contributed to any political party or candidate, nor shall any of the Institute's personnel be permitted to carry on political activities of any kind during the regular hours of duty. Such political activities shall constitute grounds for immediate removal for cause.

5. The Institute shall not offer any securities, life insurance contracts, or investments, or counseling with respect to securities, life insurance contracts, or investments.

6. All employees of the Institute engaged in research or inquiry are required to make available first to the Institute the fruit of such research or inquiry in whatever form it may be, including statistical analysis, writing, or inventions, if any substantial portion of the work involved was done during the usual working hours or was done at Institute expense or involved the use of Institute resources.

7. The names of those who purchase the publications or services of the Institute or of any wholly owned subsidiary of the Institute, or inquire about their activities, or who make contributions to the Institute, shall not be rented, sold, or given to any outside agency or individual.

8. The only publications issued by the Institute shall be those presenting the results of inquiries undertaken by members of the Institute Staff or Institute Fellows; the Institute may not engage in a general publishing business; and no advertising by outside interests shall appear in Institute publications.

9. The results of the Institute's scientific research shall be available to the general public as well as to any educational institution. Institute publi-

cations may be quoted, without charge, but with credit to the Institute, by other noncommercial researchers or organizations.

10. All meetings of the Members of the Corporation, of the Board of Trustees, and of any committees of either, shall be governed by Robert's Rules of Order, Revised, except as may be otherwise indicated herein.

11. In the event of the termination of the Institute's activities, all remaining assets shall be transferred at the direction of the Board of Trustees to one or more similar nonprofit, educational, and scientific organizations, which at the time of such transfer shall qualify as organizations described in Sections 501(c)(3) and 509(a)(1) of the Internal Revenue Code or any similar or successor provisions.

PART II:
MEMBERS OF THE CORPORATION

1. The Members of the Corporation are those who originally associated to incorporate plus additional Members elected under the provisions of these Bylaws.

2. The Members of the Corporation may, by a majority vote, elect additional Members, who shall serve for six (6) years and shall be eligible for reelection for successive six (6) year terms; however, the term of any Member who is an employee of the Institute shall expire on the date such Member's status as an employee of the Institute is terminated for cause.

3. Trustees who are not Members of the Corporation, but who are reelected for a second term as Trustee, shall automatically thereby become Members of the Corporation and shall retain that status while serving as Trustees.

4. A Member may vote by proxy. Each proxy must be executed in writing and shall not be valid after the expiration of three (3) months from the date of its execution.

5. The Members of the Corporation shall meet annually. Special meet-

ings of the Members may be called on ten (10) days' notice in writing to each Member thereof, and may be called by the President or at the written request of fifteen (15) percent of the total Membership.

6. Reports on organizational affairs and on the financial status of the Institute as determined by an independent auditor shall be rendered at least once a year to the Members of the Corporation, either by mail or at a meeting; provided that if the reports are presented at a meeting of the Members, copies of the written reports shall be mailed to all Members who were absent.

7. The Members reserve to themselves the following powers:

a. To amend the Bylaws of the Corporation;

b. To elect the Trustees;

c. To elect the Secretary of the Corporation and to fill vacancies in that position;

d. To elect the Standing Committee of the Members of the Corporation.

8. The Standing Committee shall be elected at each Annual Meeting, and shall consist of nine (9) persons, all of whom shall be Members of the Corporation, no more than three (3) of whom shall be Trustees, and none of whom shall be paid employees of the Institute or of any subsidiary. An Alternate may be elected to serve in the absence of a regularly elected Committee member.

a. The Standing Committee may exercise all powers of the Members of the Corporation between meetings of the Members, except that the Standing Committee shall have no power to amend the Bylaws of the Corporation.

b. The Standing Committee shall elect its own Chairman and its Secretary shall be the Secretary of the Corporation.

c. Meetings of the Standing Committee may be called by the Chairman of the Committee, the Secretary, or by any three (3) Committee members, on ten (10) days notice to each member thereof.

PART III:
BOARD OF TRUSTEES

1. The Board of Trustees shall consist of no more than thirteen (13) persons. No one shall be eligible for election as a Trustee while serving as a paid employee of the Institute or of any wholly owned subsidiary of the Institute.

2. Trustees shall be elected by the Members of the Corporation. Each new Trustee shall be elected for a term of three (3) years to expire at the third Annual Meeting of the Corporation following the meeting at which such Trustee was elected, and a Trustee shall be eligible for reelection for successive three (3) year terms, provided that the initial term of a Trustee elected to succeed a Trustee whose term of office has not expired shall be only for the remainder of the term of the Trustee being succeeded. The Members of the Corporation may elect an Alternate Trustee who shall serve as a Trustee if a mid-term vacancy develops on the Board of Trustees or if any Trustee is temporarily disabled or disqualified.

3. Trustees shall receive no compensation, but only reimbursement of expenses, in connection with Institute business.

4. A quorum for Board meetings shall consist of a majority of the Trustees then in office. Voting by proxy is not permitted. Decisions of the Board require a majority vote of those in attendance when the vote is taken. Special meetings of the Board of Trustees may be called by the Chairman of the Board, by the President, or at the written request of any three (3) Trustees, on ten (10) days' notice to the members of the Board.

5. The Chairman of the Board shall be elected by the Board for a period of one (1) year or until a successor is elected.

6. The Board of Trustees shall, on behalf of the Institute, have the power

to collect, sue for, receive, and receipt for all sums of money at any time coming due to the Institute; to buy and sell property, both real and personal; to employ counsel; to borrow money and issue notes to evidence such debts; to mortgage the corporate property; to buy, sell, lease, mortgage, and otherwise acquire stocks, bonds, or other securities; to make all necessary contracts, orders, and obligations; and to take any other action required for accomplishing the purposes of the Institute.

7. No sale, mortgage, or alienation by the Institute of its property other than sales in the ordinary course of business shall be made except upon adoption of a resolution by the Board of Trustees authorizing same, which shall be duly recorded in the Minutes of the Board of Trustees' meetings.

8. The Board of Trustees shall have the power to appoint such agents and servants as it deems necessary in the carrying out of its duties, and to fix the compensation of such agents.

9. The Board of Trustees shall have the power to remove from office the President, the Director of Research and Education, and the Comptroller, with or without cause; to fill vacancies in those positions; and to determine the compensation of those officers.

10. If any Trustee shall at any time and for any reason be held to personal liability as a Trustee, not due to any act of such Trustee in bad faith, such Trustee shall be held harmless and be indemnified by the Institute.

PART IV:
OFFICERS AND FACULTY

1. The principal management officers of the Corporation shall be designated as the President, the Director of Research and Education, and the Comptroller. All of said officers shall serve at the pleasure of the Board of Trustees.

a. The President shall serve as, and with the powers of, the principal executive and administrative officer of the Corporation, including the administration of those funds for which the Corporation may be

designated as Trustee, and shall represent the Institute as shareholder with respect to any corporation in which the Institute holds stock. The President shall be responsible in all matters to the Board of Trustees, and shall supervise the work of the Director of Research and Education and of the Comptroller.

b. The Director of Research and Education shall be responsible for the research and educational activities of the Institute, including publications; shall report periodically to the Board on such activities; shall chair the Faculty; and, unless the Board directs otherwise, shall carry out the duties of the President during any temporary absence or incapacity of the President.

c. The Comptroller shall be responsible for the Institute's financial records, for implementing Institute financial policy, and for providing timely reports to the President and the Board of Trustees. The Comptroller shall have the power to sign checks and other financial documents essential to the routine operations of the Institute; provided that all funds in excess of those required for payment of routine monthly bills shall be placed promptly in accounts or investments requiring two (2) signatures for withdrawals or sales.

2. The Secretary of the Corporation shall serve at the will of the Members of the Corporation and may be removed from office, without cause or notice, by a vote of the Members of the Corporation.

a. The Secretary may appoint one or more Assistant Secretaries who shall serve at the pleasure of the Secretary and shall have the powers and duties of the Secretary in the absence of the Secretary.

b. The Secretary, or an Assistant Secretary, of the Corporation shall make, keep, preserve, and authenticate accurate, fair, and concise records of all proceedings of the meetings of the Members of the Corporation, the Board of Trustees, and any committees thereof. The records of the proceedings of such meetings as certified by the Secretary, which records shall be kept at the Institute's home office, shall be the official records of such proceedings. The Secre-

tary shall give the required notices of all meetings of the Members of the Corporation, the Board of Trustees, and of any committees thereof, and shall attend all such meetings. The Secretary shall have no right to participate in the discussion or to vote at any meeting unless the Secretary is a duly elected voting member of the group involved.

3. The Institute's research and educational methods shall be supervised by the Faculty in order to ensure that the research activities of the Institute conform with modern scientific procedures and that neither those activities nor the Institute's educational work are dictated by persons having interests that conflict with the nonpolitical, noncommercial, scientific, and educational character of the Institute. In the event that the majority of the Faculty concludes that there is a threat to the scientific integrity of the Institute, the Director of Research and Education shall communicate that majority view to the Board of Trustees.

a. Appointments to the Faculty are made by the Director of Research and Education subject to the approval of the President and of the Board of Trustees.

b. The internal procedures governing Faculty deliberations and the specific terms and conditions of Faculty and professional research staff appointments, all of which shall be consistent with these Bylaws, are described in the Faculty Handbook.

PART V:
AMENDMENTS TO THE BYLAWS

1. Amendments to the Bylaws of the Corporation, unless otherwise specified in any such amendment, shall be effective upon adoption. Each future amendment to the Bylaws shall contain a parenthetical notation indicating the date on which the same was adopted.

2. Amendments to the Bylaws require a two-thirds vote of the entire Membership for adoption. Amendments may be adopted at the Annual Meeting, at any Special Meeting if notice of the complete substance of the

proposed amendment was included in the call for the meeting, or by a mail vote provided that the Members have thirty (30) days to return their ballots from the date the ballots were mailed to the Members by the Institute.

APPENDIX B

"COTSWOLD" AT AIER

In the Cotswold Hills north of Bath, England, large manor houses are made from the local oolitic limestone. "Cotswold" at AIER was intended to be a copy of that style. Only a few parts of "Cotswold" are imported English limestone, however. The stone used in the thick walls was quarried from Mt. Hunger in Monterey, Massachusetts.

In 1926 Mr. and Mrs. Prentice L. Coonley of Lake Forest, Ill., purchased the 500-acre heart of a 13,000-acre estate created at about the turn of the century by Dr. Frederick Stark Pearson, a world-famous industrial engineer. Dr. Pearson, attending a 1902 conference of the American Institute of Electrical Engineers in Great Barrington, had fallen in love with the former Tuller Farm on Seekonk Crossroad (now Division Street), from where he created Edgewood, his third and final home. Shortly after completing his estate here, he and Mrs. Pearson went down with the Lusitania off Ireland in 1915, when it was sunk by a German submarine during the first World War.

After razing the Pearsons' wooden Victorian-style home, the Coonleys began building their 31-room stone "Cotswold" over the original foundation

and amid Pearson's neglected formal gardens. The Coonleys named their smaller estate Folly Farm. A Chicago businessman and speculator, Mr. Coonley had to abandon construction of "Cotswold" and Folly Farm after he lost most of his money in the Great Depression.

Coonley reused only some butternut panels from the wooden Pearson house for his study. His intention to reinstall the Pearsons' 50-stop Aeolian organ in his specially designed music room—the largest room in his planned home for himself, his wife, and two daughters—faded with his wealth.

The building nonetheless shows something of Coonley's tastes. In his wife's bath he installed matching pink marble toilet, basin, and bathtub purchased from the Crane showcase of their exhibit at the Chicago 1895 Exposition. In his own bath and dressing room, he settled for Venetian marble and gold-plated fixtures. In the servants' quarters, he installed hot and cold water basins in each bedroom. The cook, butler, and house keeper were given private baths. Building stopped, however, before all of the interior trim and some of the wooden floors were installed. "Cotswold" never has been a private home.

From the Pearson deaths until the mid 1940s the grounds suffered from neglect. Among frost-tumbled marble fountains, a frost-cracked goldfish pond, and marble benches under rusting grape arbors, the Pearson's formal gardens had become brushy fields. The nearby mountain riding trails returned to laurel and saplings, and the imported exotic game fed local hunters. Mounds of excavated dirt and building debris surrounded the nearly finished stone house. Twenty-foot-tall trees stood in the wide courtyard and blocked the gravel roads. However, the big stone house was dry inside and intact, if a bit dusty and Spartan. By opening a few water valves and closing electric mains, occupants quickly could make the building livable.

At the end of the second World War, Col. E. C. and Helen Harwood investigated the potential of several white elephants in Berkshire County as a new home for their growing nonprofit, scientific, and educational economic research organization, which they had founded in 1933 in Cambridge near Harvard, Massachusetts. After successful negotiations with the Barbieris for the main house, outbuildings, and 103 acres, they sold the Cambridge property and moved operations to Great Barrington. The staff and they began clearing away debris, painting walls and woodwork, and finishing floors. Within several months the American Institute for Economic Research was

operating at its new base with plenty of room for future expansion.

And expand it did. By 1956 subscription and booklet sales had outgrown its allotted production space. In 1957 the mailing and printing were transferred to the annex, which was built with an underground connecting passageway to the stone house. In 1958 a warehouse was added to the annex to accommodate increasing volumes of paper, envelopes, and mail.

To accommodate an expansion of research staff, students, and educators, in 1962 a research library was added on the hillside below the annex. Named in 1975 the E. C. Harwood Library, this 20,000-square-foot building contains AIER's principal offices.

Additional staff and student housing were added in 1968 along the curve of the hill to the east of the E. C. Harwood Library.

"Cotswold" now houses staff, students, and AIER functions ranging from organizational meetings to international symposia on various economic matters. The public often are invited to attend.

APPENDIX C

HARWOOD COIN

The 1979 Harwood one-ounce gold coin was the first commemorative gold coin issued in a series by a Kansas City gold dealer and a Rhode Island mint honoring classical economists such as Adam Smith and Friedrich Hayek, as well as Russian dissident Andre Sakharov. Mint proof versions of the Harwood coin were minted in 1979 (5,094 coins) and in 1980 (725 coins). Many more bullion-grade Harwood coins were struck over several years and mostly subscribed to by AIER's many long-term friends and supporters. At the time of minting, Col. Harwood and Queen Elizabeth of Britain were the only living persons whose likenesses were on gold coins. The mint-proof coin was double-struck for a mirror finish and frosted likeness. All coins were minted from standard gold coin alloy of 95 percent fine gold (one ounce), plus three percent copper, and two percent silver. The coin was presented to Harwood at a gold conference held in New Orleans.

E. C. Harwood was chosen for the first coin because of his lifelong efforts to return to U.S. citizens the right to own gold after that right was taken away in 1933. Congress returned that right December 1974, not long after the breakdown of the Bretton Woods Agreement and international convertibility of paper dollars on August 15, 1971, when President Nixon closed the gold window in the face of precipitous redemption of dollars and demand for gold by foreign nations.

APPENDIX D

SEAL

The Institute's seal, designed in the 1930s by its founders E. C. and Helen F. Harwood, incorporates the family as the basic American social unit. The sun, book, cornucopia, and quill and ink symbolize the advance of knowledge and the immense economic yield available to succeeding generations of Americans from the combination of modern scientific inquiry and individual effort, as shown in the words "economic welfare."

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Allendale, NJ

Mr. Howard Kent
Delray Beach, FL

Mr. Gerald LaMarsh
Penfield, NY

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