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**Freedom and National Security After 9/11\***

*Recent events have rekindled the age-old conflict between security and freedom in dramatic fashion. In the following address to last month's Progress Foundation conference in Zürich, Switzerland, Dr. Konrad Hummler considers ways the civilized world might resist becoming a global police state and still vigorously prosecute the war on terrorism.*

The conflict between freedom and security is well known, and has been dealt with by almost every generation of philosophers, lawyers, sociologists and politicians. On the one hand, freedom without adequate security makes life extremely difficult for the citizen and thus robs liberty of its potential. On the other, the quest for security in itself diminishes freedom. From the perspective of political economy, a range of approaches to this dilemma seems possible. But none has produced an "optimal" solution. Consider two extremes. Anarchic freedom presumes that if persons need protection, they must provide it themselves, which requires that security be arranged contractually on an individual (and costly) basis. However, security is largely a public good with many externalities that would seem first and foremost to be a responsibility of the polity. Both options are "sub-optimal" for society as a whole: the former yields insufficient security and the other too many free-riders.

**More Security, More Control**

The contradiction inherent in security and freedom extends further, and has been most clearly manifest throughout history in the excessive measures governments have taken not only to provide the citizen with external and internal security but also protect him from his own deeds. When security becomes the public's and/or government's first priority the step to complete control is but a short one, and the ultimate "security" a government-spon-

\* This article is excerpted and edited from an address by Dr. Konrad Hummler to the Progress Foundation's Economic Conference, "Freedom and Security," in Zürich, Switzerland, April 24, 2002. Dr. Hummler is Managing Partner, Wegelin & Co. Private Bankers, St. Gall, Switzerland, and a trustee of Progress Foundation.

sored padded cell, as it were. Such security is both illusionary and totalitarian. In the light of the current extreme threats, however, it has once again become a fetching notion. This is what I would like discuss with you now.

**The New Circumstances**

In the wake of the terrorist attacks of last September 11, it would be naive and ultimately dangerous if the proponents of human freedom in think tanks, political parties and the media were simply to adhere to their customary agenda. The threat now facing modern civilization is a special one and calls for special countermeasures. But any disavowal of human freedom is the last thing we have in mind. It would be devastating if today's advocates of more and more security are allowed to pursue their expansive activity unchecked. Decades of painstaking cultivation of the valuable terrain of civil and international liberty are in jeopardy of getting lost. The physical freedom of movement, the unimpeded and inexpensive exchange of goods and services, but above all the freedom to express an opinion without government control or permission, are in danger today in new ways.

What differentiates the new threat from previous ones? Whether we like it or not, the world is involved in a lethal conflict which is by no means less grave than defeating Nazi Germany in World War II or overcoming the Soviet Empire in the Cold War. September 2001 has shown that a relatively small but superbly organized and utterly determined group is now capable of hurting the world in potentially devastating ways. The use of people as weapons platforms is a proven tool in the terrorist arsenal, and weapons of mass destruction of the Atomic, Biological or Chemical variety are the logical extension.

Initial progress in the war in Afghanistan is only the beginning of an arduous undertaking. First, there are other international terrorist groups possibly more dangerous than Osama Bin Laden's Al Qaeda network. The current focus is on Iraq and Georgia, but there is no evidence that the much more powerful Iran presents no danger. Second, the notion that the problem can be localized—in Afghanistan, Georgia, Iraq, Somalia, Sudan, Colombia, or wherever—may reflect our strategic thinking in earlier conflicts, but is a questionable way to approach the vast new world threat. The ability to contain the enemy was paramount in World War II and perhaps during the Cold War. But today's international terror is ubiquitous. The destruction of terrorist bases may be necessary, but it is not sufficient. Rather, a strategy must be developed to confront individuals or groups wherever they are in a position to seriously hurt the civilized world.

**Asymmetry**

The chances that we, *i.e.* the civilized world, will succeed in this endeavor are not very good. The problem lies in the asymmetry of power and the vulnerability of the attackers and their targets. This is the nucleus around which the strategic discussions must revolve in the period ahead. The previous major political power and war struggles, such as World Wars I and II, and essentially the Cold War, too, occurred with more or less symmetrical conditions on both sides. Both possessed a certain threat potential and a certain measure of vulnerability. The course of events was determined by the ability of the adversaries to increase their threat potential and minimize their vulnerability. World War II ended because Nazi Germany had completely exhausted its threat potential and was no longer capable of defending itself against air attacks, hence was completely vulnerable. In Japan, the first nuclear weapons demonstrated incontestable vulnerability. In the Cold War, the balance of terror kept the threat potential and vulnerability of both parties at an equilibrium. The demise of one of the combatants was the result of self-dissolution and not military but social, political

and economic factors.

*Terrorists* have a considerable threat potential, yet they are almost completely invulnerable. The opposition does have a certain threat potential, but it is also extremely vulnerable. This is the calculus of the war against terror. The terrorists' invulnerability stems from their indifference to civilized norms—indeed eagerness to perish for their cause. The civilized world's enormous vulnerability arises not only from its highly complex systems, its openness and tolerance, but also from its reluctance to sacrifice for its cause. The result is both sobering and frightening. In this arena, conventional might counts for far less than it did in earlier conflicts and the effective strength even of the United States of America, the world's undisputed superpower, is markedly reduced in the fight against terrorism. (Based on Nash's equilibrium formula, a recent study has calculated that the United States with all its vast resources nevertheless maintains statistical supremacy over the incomparably less well-equipped terrorists by a factor of only three. This does not inspire much confidence!)

#### *Half Measure Won't Work*

If this calculus is sound, the civilized world can actually win the war only if the terrorist threat potential is reduced to zero as rapidly as possible and kept there. President Bush has recognized this instinctively. The European intelligentsia described his rhetoric as "Texan" and "Cowboy," but he hit the nail on the head. Because of the relative vulnerability of the terrorists' targets, every half-measure and every inch of tolerance engender a situation that is untenable for the civilized world.

The only remaining questions are whether the civilized world is actually in a position to engage in such decisive combat, and whether civilization can itself be preserved in the face of what it may take to achieve victory. The fight against terrorism, in fact, appears to have a paradoxical component. The civilized world is civilized because it grants its citizens freedom and personal responsibility. It is civilized because it does not seek control of everything but deliberately wants to give developments a free run. Its politico-social and economic strength lies precisely in this willingness to provide elbow room for spontaneous growth and permit old and ailing things to be displaced by better and new ones. The civilized world is civilized because it knows that spontaneous development can occur only if a sufficiently open-minded private sphere protects the maverick from the establishment

and its defensive mechanisms.

#### *The New Battlegrounds*

Unfortunately, it is in this crucial private sphere where the fight against terrorism must eventually take place. Not in Afghanistan or Iraq but in Zürich, Frankfurt, London, and Washington. The need to reduce the threat potential of terrorism to zero, if possible, logically must end in complete control of the whole world. These are uncomfortable prospects. The fight against terrorism by the Free World very possibly will signal the genesis of a global police state. The Free World may very well do away with itself.

Fantasies of a proponent of freedom turned paranoid? In America, the reintroduction of torture is being discussed in all seriousness. In the United Kingdom, the centuries old rule of Habeas Corpus, which prohibits unlawful imprisonment, was thrown out in the case of suspicion of terrorism. In Afghanistan, in total disregard of international law, the surrender or destruction of the chief suspect and his followers is enforced by military means without conclusive proof. The West has forged an alliance with questionable governments. Even accepting the need for a strong defense, it should be obvious that the paradox is already running strong: One seeks to save the "rule of law" and is unable to do so without betraying its very principles. The task of protecting the Free World against further deadly terror attacks without ultimately reverting to an *unbearable police state* thus requires that *two battles be waged simultaneously*—one against terror and another in behalf of freedom. Both are absolutely essential and must occupy equal station on the current agenda.

Under the guise of combating terror, one government agency after the other already has begun to expand its own sphere of interest. These government bodies have a wide range of targets for possible intervention. The fight against pornography, the fight against the drug trade, the fight against cigarette smuggling, the fight against vitamin cartels and other monopolies, the fight against tax evasion and capital flight. All of these are certainly important problem areas. In general, though, they do *not* have the quality of a lethal threat to the system as a whole. There is a great danger that, in the course of a broad interpretation of an assignment to procure information and prosecute, far too much irrelevant data must be processed. Even worse—the more immaterial the offenses, the more the system will increasingly turn against its own citizens. Today, the Federal Republic of Germany employs police state methods to prosecute tax offend-

ers, using the facilities of the BND (Bundesnachrichtendienst), the German Intelligence Unit. At the same time, and since one can't do everything at once, the same BND missed the most important Al Qaeda cells outside the USA in Hamburg and Frankfurt.

In the fight against terrorism, the authority of government and supra-national bodies *must be limited* to very narrowly defined priorities, for which they must be equipped with an extremely powerful mandate: namely, in a military sense to *target for destruction* the agents of terrorism. All other matters in the *public interest*, even if they involve criminally relevant issues, must absolutely be kept outside of this regime's authority.

#### *Terrorism Must Remain the Focus*

Setting priorities and very narrowly defining the mandate to fight terrorism would be critical even if the related political and economic freedoms were less important. The aforementioned U.S. statistical advantage calculated according to the Nash formula, which scarcely amounts to convincing superiority, was derived from an assessment of three key strategic components on each side, namely: (1) threat potential vis-a-vis a combatant's own vulnerability; (2) the ability to form coalitions; and (3) the will to win (*i.e.*, the willingness to make sacrifices). Under this procedure, the U.S. advantage derives almost exclusively from (2), the superior capability of the West, above all the United States, to form coalitions. Indeed, in the wake of September 11, it was possible to rally a major part of the world under the banner of combating terrorism very quickly. This constituted a brilliant foreign policy success for the Bush administration, but it required extraordinary compromises and extraordinary amounts of money. The question is whether these will, over the long run, be sufficient to maintain the resolve of supplicant nations such as Pakistan or Uzbekistan—or other "decent" governments that nevertheless are not prime targets—in the fight against terrorism. Only time will tell. But the problem lies even deeper.

As the above calculus suggests, the United States *should* play to its strengths by forming alliances with as many countries as possible—and with social groups that may know no geographical boundaries—in order to isolate terrorist factions. But if in so doing one also attempts to resolve all the other problems of the world by seeking control over all of society's phenomena, international terrorism will be dealt the winning hand. A practical strategic vision would consist of having on one's side not only Prime Minister Tony

Blair but also the Mafia boss of Sicily. This is an admittedly risky and farfetched train of thought—but then again, there is no measure of experience or established doctrine for dealing with the matter at hand.

In this respect, I strongly suggest that the fight against terrorism be separated from combating crime on an institutional level *precisely because there are presumed links between international crime and terrorism!* The use of incidental leads derived from the war on terrorism in investigations of crimes and misdemeanors must be prohibited at all costs in order to reduce as far as possible criminals' incentives for collusion with terrorism. It would seem that such barriers might be readily adapted from existing uses of the "specialty principle," an already functioning constitutional measure designed to ensure the effectiveness of state activity on the one hand, and protection of the citizen on the other. In the international battle against terrorism, these constitutional "fire walls" should be supplemented and strengthened by a complete institutional separation of authority. Again, the mandates of entities engaged in the fight against terrorism would be generously defined with few constitutional restraints. In a fight in which prevention is everything, one can not wait for proof and keep open lengthy channels of recourse.

#### *Priorities Must Be Set*

*The Wall Street Journal* recently published a report about a security check, enforced in the course of the fight against terror involving the staff of subcontractors of Eli Lilly, the pharmaceutical company. About 100 employees lost their jobs owing to their "criminal past." These were largely minor offenses committed years ago and, because of the confusion of names, some were falsely accused.

If all Americans who once in their life consumed hashish and were caught doing so were fired and unable to find employment because they pose a "security risk," the Mr. Cleans of this world might find vindication. But the fight against terrorism would be substantially impaired. It would be even more so if such practice were extended to potential allies: one would lose just those friends whom one would so urgently need in this fight. Unfortunately, the American government's efforts are currently pointing in this direction. One combats terrorism, the drug trade, pornography, capital flight and tax offenses, all at once and together. At the same time, one issues immigration visas for the dead terrorists Atta and ash-Sheih.

The danger of this course is two-fold. First, it threatens the loss of America's

most important coalition partners. Second, it exacerbates the hazards involved in prosecuting a "double standard" social policy throughout the world. The desire to ban all that is not right and indecent from this world may be a chronic proclivity of American leadership. But time and again reality has caught up—virtually always with unexpected and unwanted results. Thus, the United States is waging a bloody and devastating drug war in Latin America and elsewhere, accuses all kinds of world financial centers of dealing in stolen goods and money laundering—but by the same token is by far the world's largest consumer of drugs. According to reliable sources, the arm of the drug Mafia reaches far into the Capitol.

Nothing would be worse than for the USA, in the course of its continued fight against terrorism, to slide increasingly into the mire of a policy intent on coercing its partners into such double standard morality. Indeed, America's already patent inability to dictate order in the Middle East,

when and if combined with international contempt for American hypocrisy, sooner or later could turn into that perilous mixture against which even the mightiest superpower can do nothing. Those who can still remember the anti-Vietnam War demonstrations know what I am talking about.

Changes in sentiment are not linear processes. Moods tend to topple. The current euphemistic rhetoric should not obscure the fact that the war against terrorism has not been won and the prospect for success is not as clear as one would wish. After September 11, the world depends on renewed confidence. The way things look today suggests that we are not only far away from this goal but may be moving in the wrong direction. If Friedrich von Hayek were still alive, he would have to add to his chapter "The Mirage of Social Justice" (in his three-volume work *Law, Legislation and Liberty*) another entitled "On the Illusion of Total Control." Today, it is this illusion that is the pavement on the "Road to Serfdom." □

## BUSINESS-CYCLE CONDITIONS

*Despite some decreases among the leaders this month, the overall prospects for economic growth continue to be favorable.*

Five of the 12 leading indicators of business-cycle changes are now appraised as clearly expanding, including the *ratio of manufacturing and trade sales to inventories*, the 3-month *percent change in sensitive materials prices*, *vendor performance*, and *M1 money supply* and *M2 money supply* (all dollar-denominated series are reported in constant dollars).

Three series are appraised as probably expanding. *New housing permits* was unchanged in April at a seasonally adjusted annual rate of 1,615,000 after plunging 10.0 percent in March. The *average workweek in manufacturing*, at 41.0 hours, was also unchanged. Manufacturing overtime, however, increased 0.1. Since their November lows, the factory workweek has risen by 0.7 hour while overtime has increased by 0.6 hour. *Initial claims for unemployment insurance* increased to 436,500 per week in April. The series, plotted on an inverted basis, has declined for a second consecutive month, owing in part to workers signing up for the 13-week extension in unemployment benefits.

The *index of 500 common stock prices* fell 4.5 percent in April, offsetting last month's 4.3 percent gain. Although the series two-month moving average has again reversed direction, the series has not yet weakened enough to downgrade the series from probably contracting.

The final three series are indeterminate. *New orders for consumer goods* in-

creased 0.6 percent while *new orders for nondefense capital goods* decreased 3.0 percent. The three-month *percent change in consumer debt* increased for the first time in five months. All three series are relatively heavily smoothed and require sustained changes in one direction to develop an identifiable trend.

Overall, 89 percent (eight out of nine) of the leading indicators with an apparent cyclical trend are expanding, unchanged from last month. The cyclical score, which is based on a separate, purely mathematical assessment of the leaders, was also unchanged from last month's revised score of 54. Both of AIER's leading diffusion indexes indicate that expansion is more probable over the next several months than contraction.

Among the roughly coincident indicators, *Gross Domestic Product (GDP)* increased at an annual rate of 5.8 percent in the first quarter of 2002. The series remains appraised as clearly expanding. Business inventories, consumer spending, Government purchases, residential construction and exports all contributed to the increase in GDP. Business investment in both structures and equipment continued to decrease. *Manufacturing and trade sales*, which reached a high last month, also remains appraised as clearly expanding.

*Industrial production* rose 0.4 percent in April for its fourth consecutive monthly

increase. The improvement was enough to remove doubt that the series is increasing. Another favorable sign is that the diffusion index of industrial production, which measures the percent of industries that are expanding their output (over six month spans), increased to 54.3 percent. Although capacity utilization increased to 75.5 percent, it remains more than six percentage points below its 1967-2001 average.

*Nonagricultural employment* increased by a scant 43,000 to 131.2 million. As was the case for February, the modest number of new jobs reported by the Labor Department for March was revised to a slight decline. Thus, the series remains indeterminate. Weak job growth combined with an increase in the labor force of more than half a million people increased the number of unemployed persons by 483,000 to 8.6 million and pushed the unemployment rate up from 5.7 percent to 6.0 percent. Despite the jump in unemployment, the surging labor force numbers may suggest that potential workers perceive *increased opportunities* in the job market.

The *ratio of employment to population* decreased to 62.8 percent in April and has fallen almost two percentage points since reaching its high in April 2000. Based on the latest data, the series was downgraded to clearly contracting. *Personal income in the manufacturing sector*, which in February decreased 0.2 percent to a new low, is also clearly contracting.

Overall, 60 percent (three out of five) of the leaders for which a trend is apparent are appraised as expanding, unchanged from last month.

Little has changed among the primary lagging indicators. Four series are clearly contracting. The inverted series, *average duration of unemployment*, decreased in April and is now 16 months from its most recent peak. The number of those unemployed 27 weeks and over has increased by 27 percent and the average duration of unemployment now is 16.6 weeks—three weeks more than a year ago and its highest level since July 1997.

*Commercial and industrial loans* reached a new low, as did *manufacturing and trade inventories*. Last month we reported that inventories increased 0.3 percent and upgraded the series from clearly contracting to indeterminate. Revised data, however, indicate that the base data for the series decreased. Given the revision and this month's 0.1 percent drop, the series is again appraised as clearly contracting. The 2.5 percent decrease in commercial lending has added to what some analysts are now calling a credit crunch, owing to complaints from small- and me-

dium-sized businesses that banks have reduced credit lines and tightened lending standards. The 12-month *percent change in labor cost per unit of manufacturers' output* also reached a new low. Unit labor costs have been decelerating sharply since October and are now falling (*i.e.*, the change in labor costs is below zero).

Neither of the remaining two lagging indicators have an identifiable cyclical trend. The *ratio of consumer debt to personal income* is now four months from its cyclical peak, but the series has not weakened sufficiently to develop a clear downturn. After increasing for two consecutive months, the *composite of short-term interest rates* fell to 1.74 percent. At its May 7 meeting, the Federal Reserve's Federal Open Market Committee kept its target for the Federal funds rate unchanged at 1.75 percent. The Committee noted that

the economy had received "considerable upward impetus from a marked swing in inventory adjustment," but that the "degree of the strengthening in final demand...is still uncertain." Historically, the Fed has not moved to increase interest rates following a recession until some time after the unemployment rate begins to fall. The next scheduled meeting is June 25-26.

Overall, zero percent (zero out of four) of the lagging indicators are appraised as expanding, unchanged from last month. While the laggards show no signs of recovery-thwarting bottlenecks developing, their continued weakness may be a sign that the recovery lacks momentum. An eventual upturn among the laggards will be necessary to rule out the possibility of a "double-dip," *i.e.*, another economic downturn before any period of vigorous expansion has occurred. □

### Statistical Indicators of Business-Cycle Changes

Change in Base Data				Primary Leading Indicators	Cyclical Status		
Jan.	Feb.	Mar.	Apr.		Mar.	Apr.	May
+	+	-		M1 money supply	+	+	+
+	+	-		M2 money supply	+	+	+
+	+	+	+	Change in sensitive materials prices	?	+	+
+	-	+		New orders for consumer goods	?	?	?
-	+	-		New orders for nondefense capital goods	?	?	?
-	+	-	+	New housing permits	+?	+?	+?
+	-			Ratio of manufacturing and trade sales to inventories	+	+	+
+	+	+	+	Vendor performance	+?	+	+
-	-	+	-	Index of common stock prices (constant purchasing power)	-?	-?	-?
nc	+	+	nc	Average workweek in manufacturing	?	+?	+?
+	+	-	-	Initial claims for unemployment insurance (inverted)	+?	+?	+?
-	-	+		Change in consumer debt	?	?	?
<i>Percentage expanding cyclically</i>					86	89	89
<b>Primary Roughly Coincident Indicators</b>							
-	-	-	+	Nonagricultural employment	?	?	?
+	+	+	+	Index of industrial production	?	+?	+
-	-	-		Personal income in manufacturing	-	-	-
+	-			Manufacturing and trade sales	-?	+	+
-	+	-	-	Civilian employment to population ratio	-?	-?	-
+	+	+		Gross domestic product (quarterly)	+	+	+
<i>Percentage expanding cyclically</i>					25	60	60
<b>Primary Lagging Indicators</b>							
-	-	-	-	Average duration of unemployment (inverted)	-	-	-
-	-			Manufacturing and trade inventories	-	?	-
-	-	-		Commercial and industrial loans	-	-	-
-	-	-		Ratio of consumer debt to personal income	+	?	?
-	-	-	-	Change in labor cost per unit of output, manufacturing	-	-	-
-	+	+	-	Composite of short-term interest rates	-?	?	?
<i>Percentage expanding cyclically</i>					17	0	0

Under "Change in Base Data," plus and minus signs indicate increases and decreases from the previous month or quarter and blank spaces indicate data not yet available. Under "Cyclical Status," plus and minus signs indicate expansions or contractions of each series as currently appraised; question marks indicate doubtful status when shown with another sign and indeterminate status when standing alone.

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