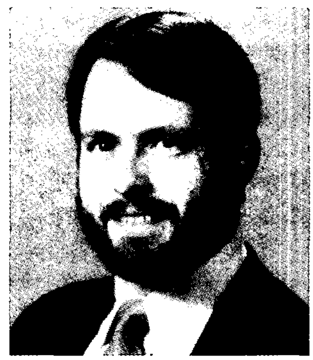
IDEAS ON LIBERTY
JUNE 2002

Current Events



The War on Charity

"Congress is going to rebuild Afghanistan for billions, and they can't take care of 3200 people," complained Kenneth Foster, husband of one of the September 11 victims, at a public hearing earlier this year. In his view, and that of many other victims' families, who vigorously applauded his remarks, the September 11 Victims' Compensation Fund was being far too stingy, even when handing out multimillion dollar awards. Some beneficiaries also whined that payments would be reduced by pensions, life insurance, and death benefits.

But Kenneth Feinberg, the Fund's "special master," also has been attacked for handing out too much money, at least for the deaths of wealthier people. Compensation for so-called economic losses, what victims might have earned, ranges from $300,000 to $3.8 million. That nearly 13-fold spread galls some families of firefighters, police officers, and restaurant workers killed in the attacks.

Economists attending the January American Economic Association meeting offered their own critique. The Fund's calculation of "life-cycle earnings," they argued, inaccurately relied on data from the public rather than the private sector, artificially depressing awards. But forensic economist Donald Frankenfeld made the opposite claim, that the Fund had overestimated likely salary growth.

Representative Peter King of New York went so far as to snarl: "It would be terrible if the families of those victims were victimized again by the regulations that are being enacted by the special master." Victimized again? Apparently receiving a few hundred thousand dollars, gratis, from the taxpayers, is equivalent to being murdered by terrorists.

In fact, the problem is not that the federal government's compensation rules are unfair one way or the other. The problem is that there are federal compensation rules at all.

The terrorist attacks of September 11 were uniquely hideous, but not unique. Americans frequently have been targeted at home and abroad with tragic results.

But until now it has never been the federal government's job to compensate the unfortunate victims, even in the Oklahoma City bombing, an attack on a public building, in which federal employees received $100,000 each and nonfederal employees collected nothing. Responsibility has rightly rested on individuals—that's why life insurance exists—as well as their charitable neighbors.

Nearly two centuries ago the French observer Alexis de Tocqueville remarked on the unique willingness of Americans to organize themselves to meet community needs. And Americans responded in a staggering variety of ways after September 11, creating special funds, hosting car washes, providing food, donating blood, and doing much more. All told, Americans gave some $1.5 billion to charity.

The private relief efforts have not been without well-publicized problems. Yet criticism and threats to cut off offending organizations, such as the Red Cross, disciplined

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the errant groups. Individual Americans actually control the philanthropic process, deciding which organizations get how much money. People have no similar influence over the federal effort.

The federal compensation plan has hopelessly politicized relief efforts. After all, fairness and need are not easily calculated, even in the best of circumstances.

For instance, the family of someone who is a high earner will suffer more economically from his or her death. And that is an appropriate standard for holding to account someone who kills, whether negligently or intentionally.

But the answer is not so obvious for a government program. Why should low-income taxpayers have to make the rich whole? Still, it hardly seems fair to tax the wealthy to compensate others if their losses are shortchanged. And should the prudent, who purchase, say, life insurance, receive less because they are prudent? The entire process inevitably degenerates into a vicious cat fight.

Crowding Out

There is another, even more pernicious impact of the government's "generosity," however. Uncle Sam's determination to dominate charity marginalizes private efforts.

Asks Andrea Neal of the *Indianapolis Star*, "If we'd known the government was going to give $1.6 million on average to the families of each Sept. 11 victim, would we Americans have donated $1.5 billion in disaster charity funds?" Not likely, she answers, "when there are programs for homeless families and drug addicts and disadvantaged youth" nearby "that could use the money more."

IOL columnist Russell Roberts, an economist at Washington University's Weidenbaum Center, has documented how private charitable donations fell as government relief expenditures rose. In recent years government has been steadily supplanting private voluntarism by giving grants to private groups and paying for "volunteers" for those same organizations through AmeriCorps. Now it is taking over the quintessential private act of donating to help in an emergency. Giving away money has always been surprisingly hard work—at least giving it away to deserving people in a way that keeps them independent.

As the *New York Times* recently documented, the National Association of Home Builders wanted to donate $10 million. It first planned to work through groups like the Red Cross, but then decided that it could do better handing out the money directly. The result, reported David Barstow, was "a story of grit and perseverance, and in the end they brought a modest measure of financial relief to hundreds of families."

Such a process might be frustrating, but forcing givers to exhibit such grit and perseverance is actually another benefit of private charity. Real compassion requires personal sacrifice and effort, as donors assess the need, compare the worthiness of charities, and commit their time and emotions to help. The sinews of community are strengthened as the disadvantaged are aided.

Uncle Sam's reaching into people's pockets provides none of these ancillary benefits. As economist David Henderson observes, the federal fund is "certainly not generosity," either on the part of the taxpayers, who had no choice, or "on the part of the politicians who voted for the program, because it wasn't their money."

September 11 was a tragedy, unique not so much in terms of how many people died—more Americans are murdered every year, and far more people die in an endless number of natural disasters and civil disorders around the globe. September 11 was unique in that the deaths occurred in front of all of us. Americans responded with the generosity for which they have long been renowned. But if legislators want that generosity to continue in the future, they must stop acting as if political pork-barreling is a substitute for genuine compassion. □

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Lunch with a Free-Market "Subversive"

by Bill Steigerwald

CHOSICA, Peru—As the old steam locomotive pulls a single passenger car slowly up a steep grade in the foothills of the Andes, the Latin American revolutionary is inside having lunch with several men.

He doesn't look dangerous. He carries no guns and leads no left-wing guerrilla army. He wears a suit and a necktie and is armed only with ideas.

But in a poor country like this, where many of the bogus theories and broken promises of socialism are still frozen into law, businessman Juan Olaechea is definitely an enemy of the Peruvian state.

Olaechea, 45, is much more than the CEO of the Ferrocarril Central Andino, a small, recently privatized freight railroad that hauls mostly horrible industrial things like acid and zinc and lead concentrates between Lima and the mountains. He's also a fire-and-brimstone free-market capitalist who speaks out boldly—some say rudely—in Lima's newspapers and in Peru's Congress against the evils of protectionism, socialism, and laws designed by politicians to benefit certain industries, including his own.

Olaechea is taking a special luncheon train ride with his friend, business partner and fellow revolutionary, Henry Posner III, a global railroad entrepreneur from Pittsburgh. Posner is president of Railroad Development Corp., a tiny international railroad investment and management company that owns one-sixth of the Ferrocarril Central Andino and operates it under a 30-year concession granted by Peru's government in 1999.

Posner, the son of a well-known Pittsburgh businessman and philanthropist, makes his living running privatized railroads in Third World countries like Peru, Guatemala, and Malawi. Last fall he was in Peru to inspect and joy ride on the Ferrocarril Central Andino, one of the most spectacularly engineered railroads on earth. It's also the highest, climbing from the seacoast to more than 15,600 feet into the Andes.

Posner, Olaechea, and their consortium of British and Japanese investors are risking what once was thought impossible—trying to create a profitable business in an economy still hamstrung by regulation and crippled by a paternalistic government elite prone to play dirty and to play favorites.

It's not easy. But Olaechea doesn't take guff from anyone—which has put his railway in peril. When he debated a congressman on TV and made the official look bad, the congressman began an investigation of his railroad. Nothing came of it. It was just the age-old way for the politician to show the businessman who's boss, Olaechea says. His message to Peru's government is simple: "Stay away. Don't do anything for us. If we fail, we fail."

Meanwhile, he and Posner are working to

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