



*Photos from the 2004 General Meeting of the Mont Pèlerin Society in Salt Lake City are still available for purchase online.*

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*The Wall Street Journal editorial page's Daniel Henninger and Paul Gigot*



*After-dinner entertainment at the Utah Olympic Park*

## Board Profile: John McCormack

By John Baden

John McCormack has been associated with FREE since 1989. He was born in South Africa and educated in Belgium and Germany and at Kent School in the U.S. He earned his BA from the University of Pennsylvania and an MBA from the Harvard Graduate School of Business.

John is currently an Executive Director on the Global Valuation and Taxation team at Morgan Stanley in New York. Previously, he headed the Energy and Utility practice at consulting firm Stern Stewart & Co., where he led the development of real option models in conjunction with selected teams of leading academics. Immediately prior to joining Stern Stewart, John was a vice president in the commodity risk management group of the Union Bank of Switzerland. He started one of the first energy derivatives trading desks in 1986 at O'Connor & Associates, a private partnership since acquired by the Swiss Bank Corporation.



John has a voracious appetite for knowledge and is more widely read than any professor I know. He has addressed numerous business and academic conferences on corporate valuation and economic modeling issues, has been published in several industry and academic journals, provided commentary for business periodicals and television programs, and lectured to students at several graduate business schools.

In 2004, John was elected to the Mont Pèlerin Society, an international organization of classical liberal scholars, business leaders, high governmental officials, and journalists. MPS promotes responsible liberty, and fosters open governments and the rule of law. It defends individual rights and alerts us to the arbitrary and predatory abuses of governments and other powers. Members meet to discuss and analyze institutions that foster freedom and prosperity. Seven Nobel laureates have been members: Friedrich Hayek, Milton Friedman, George Stigler, James Buchanan, Ronald Coase, Gary Becker, and Vernon Smith.

I am proud and honored to count John not only among our board members, but as a good friend.



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## *Growth, Open Space, and Tradeoffs*

By John Downen



Rapidly growing small towns like Bozeman face choices with long-term consequences for their communities. Gallatin County residents recently passed a second \$10 million open space bond issue. While I tend to favor preserving open space, I also recognize there are tradeoffs. Alas, not all cherished values are free. To get some things we must give up others.

Open space provides habitat for animals and recreational opportunities for humans, and adds to the attractiveness of a locale. But it also imposes costs.

Growing communities face many “needs” but have limited resources to address them: e.g., new or larger schools, libraries, and jails; expanded emergency services; and the preservation of historic landmarks. Money spent on one, e.g. buying conservation easements on agricultural land, won’t be available for other important projects.

Preserving open space also has less direct costs. Here are a few.

One, since a developer must recoup the cost of any mandatory undeveloped land in a new neighborhood, land he can’t sell to builders, the price of building lots will be higher. This is passed on to homebuyers in the form of higher prices in the development.

Second, city-mandated and otherwise preserved open space means less land available for housing or other development. This increases property prices not just in town, but also in the surrounding area as people look further afield for affordable homes and land. Current owners benefit from the increase in property values of course, but newcomers and less affluent renters find it harder to afford their own piece of the American Dream.

Third, preserving open space and reigning in sprawl don’t necessarily go hand in hand. To the extent that open space is preserved in or near currently developed or developing areas, it creates less dense development, i.e., sprawl.

And keep in mind that open space is a matter of scale. Whereas some large cities may have only a few small parks, only about 5 percent of the land in the U.S. overall is developed.

Balancing the demands of a growing community is not easy. Responsible adults realize we can’t have everything. Understanding that all choices require tradeoffs can help us make better decisions.

## FREE's 2005 Seminars



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## Understanding Economics

By Pete Geddes



Economics is often viewed as a discipline dedicated to material progress. A modern critique comes from environmental philosopher and mountaineer Jack Turner, who wrote, “The word economics makes me hiss like Tolkein’s Gollum: I hates it, I hates it, I hates it forever. For I do believe that classical economic theory ... has indeed stolen the magic ring of life.”

But I take a different view. In addition to being an engine of prosperity, free markets have two fundamentally profound and positive qualities.

Only free markets spontaneously organize the daily, voluntary interactions of millions of self-interested individuals. Nobel laureate Milton Friedman nailed it when he wrote, “Fundamentally, there are only two ways of coordinating the economic activities of millions. One is central direction ... [with] coercion—the technique of the army and of the modern totalitarian state. The other is voluntary cooperation of individuals—the technique of the marketplace.”

Here’s a second point. Better outcomes result from superior incentives, not superior people. Institutions generate incentives and information that motivate people in predictable ways. Consider this well-known example of how improving incentives rather than people achieved a noble outcome.

In the late 18th century, prisoners were shipped from England to Australia. Captains were paid a specified amount for each prisoner who boarded their ships in England. The death rate on these voyages averaged 12 percent, and an appalling 37 percent on one trip. Pleas for ship captains to provide humane treatment to the prisoners had no noticeable effect. Finally, someone suggested paying captains on the basis of how many prisoners walked off their boats in Australia. The improvement was dramatic. Three ships carrying a total of 422 prisoners made the trip from England to Australia in 1793, and only one prisoner died en route. None of the captains became better people, but in response to better incentives they acted as if they had.

My friend Dwight Lee, an economist at the University of Georgia, sums it up nicely: “Properly understood, economics is not just a useful discipline, it is a noble one. It is concerned with promoting the highest aspirations of mankind—harmony, cooperation, tolerance, freedom, material prosperity, and human flourishing.”

## Independence Eve



**Sunday, July 3, 2005**  
**Independence Eve**

**FREE Celebrates its**  
**20th Anniversary**

*Please contact the FREE office  
if you're interested in  
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## *A Program for State Judges and Officials*

This Independence Eve, FREE celebrates its 20th anniversary. As we move forward, we're launching a new program for state appellate and supreme court judges, and a few senior state officials. This program will be modeled after FREE's highly successful seminar series for Article III federal judges and law professors.

One problem underlying effective and efficient environmental policy involves communication. There exists a great deal of sound policy work on environmental issues, but this information is rarely transmitted effectively, especially at the state level.

FREE works with an unusual set of analysts: those interested in ecology as well as economics, liberty, and prosperity. They have powerful analytic tools *and* the sensitivity to use them wisely and constructively. This program will bring their insights to important state decision makers and opinion leaders. We'll examine in detail

- why ecological values are not the only important values, how tradeoffs among competing values are inescapable, and why it is ethically and materially irresponsible to pretend that these choices can be avoided;
- how incentives and voluntary cooperation can be used to protect and enhance environmental values while fostering economic prosperity;
- how the application of economics and science to public policy provides insights that advance the public interest;
- the importance of secure property rights and economic freedom to the efficient and sensitive use of environmental resources;
- the dangers of legislating "risk-free" laws; and
- the linkages among science, risk analysis, and economics.

We'd be grateful for your help in identifying and introducing us to leaders in your state who would either benefit from exposure to our approach or would be interested in supporting this project.