

CENSORING AND DESTROYING INFORMATION IN THE INFORMATION AGE

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Almost everyone knows the importance of information and communication to economic progress. The more information we have the more productive we can be, both individually and collectively. The easier it is for us to communicate our information to others and to receive their information, the more likely we will make production and consumption choices that serve the interests of all. No wonder people are so impressed with the recent breakthroughs in information and communication technology that have moved us into what has become known as the “information age.” Who could possibly condone, much less recommend, policies that destroy and distort valuable information by censoring its communication? Far more than you might think!

Large amounts of information or knowledge,¹ which could be used to improve the lives of billions of people by improving economic decisions, are being systematically suppressed and destroyed by government censorship that is supported enthusiastically by many who claim to be outraged by government censorship of any type. One reason for this enthusiasm is that censorship can be used to concentrate benefits on politically organized groups by imposing far greater, but highly dispersed, costs on the general public. This

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¹Although information and knowledge have slightly different definitions, we will use information to refer to both.

standard public choice argument of concentrated benefits trumping dispersed costs, as useful as it is at explaining the success of many perverse policies, cannot adequately explain the pervasive censorship we discuss in this article. Much of this censorship harms not only the general public but also many well-organized interest groups. The problem is that few people recognize some of the most harmful forms of government censorship as being censorship. And since they don't recognize it for what it is, many erroneously see censorship as the most effective and least costly way for government to achieve social objectives that almost everyone claims to support, such as protecting the environment, reducing waste, ensuring an adequate food supply, reducing our dependence on foreign oil, improving education, creating better jobs, and expanding the availability of high-quality health care.

The Real Information Age Began Long Ago

People commonly think of the information from scholarly research and scientific discovery as far more important than the seemingly mundane information that each of us has on our particular situations, preferences, skills, and aspirations. But, F. A. Hayek (1945) pointed out that scholarly and scientific information alone are not enough to inform economic decision-makers on the best use of their scarce resources. No economic system can function properly without utilizing what Hayek calls the "knowledge of the particular circumstances of time and place," which is unique to each of us, constantly changing, and impossible for any group of authorities to know in its entirety. Without some means of communicating all this widely dispersed information from those who have it to those best able to use it, and communicate it in a way that motivates those receiving it to respond in the most appropriate ways, the level of prosperity largely taken for granted in market economies would be impossible. Making use of highly specialized physical and human capital, which greatly increases our productivity, would be extremely limited if we could not communicate information to others on the value of their specialized efforts to us and receive in return information on the value of our specialized efforts to them. As Hayek made clear, countless numbers of people can communicate this information simultaneously to countless others in a clear and compelling way, and immediately update it in response to constant changes in the information of time and place, through market prices which emerge from the voluntary exchange of private property.

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People can communicate much of the information most important to their well-being far more effectively through market prices than they can through cell phones, land-line phones, faxes, e-mail, text messaging, and other technological marvels associated with the “information economy.” For example, if people in Iceland desire to consume more bananas, they need the cooperation of millions of banana consumers and producers scattered all over the globe. Banana consumers outside Iceland would have to reduce their consumption of bananas immediately to allow more bananas to be made available in Iceland. The Icelanders could try to contact all these banana consumers with e-mail, or text messages, etc., but this is clearly impossible. Moreover, these messages would provide no information on how much non-Icelanders should reduce their consumption, and no motivation to do so even if the information was somehow communicated. By simply increasing their demand for bananas, however, Icelanders ask other consumers through slightly higher banana prices to reduce their banana consumption. And each of these consumers will respond appropriately to this request. While we cannot know how much any one non-Icelandic consumer will reduce banana consumption, we can be confident that aggregate consumption will decline by just enough to allow Icelanders to consume the additional bananas they desire at the higher banana price. And, the higher banana price will immediately inform and motivate responses from those in the best position to expand banana production. This response will cause prices of productive resources, including labor, to change in ways that communicate information on the desirability of shifting resources out of other employments and into banana production.

It is impossible to detail all the adjustments required to best accommodate the Icelandic banana consumers, but they will be made in response to the information communicated through market prices. No other form of communication could come remotely close to informing and motivating such a pattern of cooperative adjustments, and we are talking about the adjustments to one tiny change in the information of time and place in a small and remote country. Imagine how much more difficult it is for people all over the world to coordinate their decisions with each other in response to thousands of simultaneous changes, both large and small, in their individual conditions and desires. There is no way the information necessary to accomplish this coordination could ever be constantly updated and communicated

with any foreseeable improvements in information-age technology. Yet this communication takes place every day through market prices, and takes place so effectively and unintentionally that almost no one has the slightest awareness of, or appreciation for, what an amazing feat it is or the enormous benefits derived from it.² Without the communication that takes place through market prices we would return to a world of a few impoverished people, even if all the electronic marvels of the information age were fully available. Of course, these marvels would have never been developed without the widespread dissemination of information made possible by market communication.

We do not intend to belittle the benefits from the technological improvements that have supposedly moved us into the information age. But once we understand the enormous amount of vital information being communicated through markets, which can be communicated effectively in no other way, it becomes clear that the information age is as old as economies that have relied largely on private property, voluntary exchange, and market prices to coordinate economic activity.³ Indeed, much of the value from the recent improvements in communication technology comes from increasing the speed and convenience with which we can access the information contained in market prices.⁴

²This case for market prices does not depend on price information being perfect. It depends only on the fact that without markets the amount of information effectively communicated would be far inferior in both quantity and accuracy. The information communicated by markets is often imperfect because of externalities, and it is theoretically possible for government to improve market communication by internalizing those externalities. But externalities often result from the lack of market exchanges that would take place without the type of government censorship discussed in this article. Also, government attempts to correct market externalities invariably create their own externalities, and are indeed motivated by those externalities, as organized groups see political opportunities to secure benefits paid for by others. And these *political* externalities are commonly worse than the uncorrected market externalities. For example, eastern coal interests have used environmental regulation of coal-fired electricity plants (supposed to reduce environmentally harmful externalities) to reduce competition from western coal that was being used to reduce sulfur emissions. The result was worse air pollution and higher electricity costs (Navarro 1980).

³See Lee (2001) for an elaboration on the market as the crucial factor in the “information age.”

⁴For example, see *The Economist* (2007: 86) for a discussion of how cell phones have allowed fishermen in southern India to compare current prices for their catch in the local markets available to them. Better access to this price information has benefited both fishermen and consumers by increasing efficiency in the distribution of fish.

How Government Censorship Distorts and Destroys Information

Governments can facilitate the coordination made possible by the communication of the information of time and place through market prices by protecting our liberty, enforcing property rights, establishing an impartial judiciary, and maintaining a currency of stable value. Some would argue that the wealthy democracies are wealthy because their governments do a good job carrying out these basic functions. Unfortunately, even those governments that are most exemplary at pursuing policies consistent with a productive market order are not very exemplary in this regard. Even the best governments could improve the quantity and quality of the information made available by doing far less than they do now because so much of what they do now distorts, or outlaws altogether, market communication. A host of government policies restrict market exchanges, and by doing so render useless, important information that is “out there” and which would, without those policies, be transmitted to those best able to utilize it to improve our lives. In addition, much of the information critical to making better economic decisions is not “out there”—it simply does not exist without voluntary exchanges and is being systematically destroyed by government restrictions on those exchanges.⁵ But whether government policies that hamper market exchanges destroy vital information or just suppress and distort it, they are a destructive form of censorship that reduces communication, restricts liberty, wastes resources, undermines social coordination, and makes hypocrites of politicians who claim credit for promoting the “information age.”

We now consider a few examples of government censorship from a large menu of possibilities.

Government-Financed and -Operated Schools

Virtually everyone is in favor of good schools, which means schools communicating important information to students. But few people

⁵As Buchanan (1999: 245) states, “Individuals do not act so as to maximize utilities described in *independently existing functions*. They confront genuine choices, and the sequence of decisions taken may be conceptualized, *ex post* (after the choices), in terms of ‘as if’ functions that are maximized. But these ‘as if’ functions are, themselves, generated in the choosing process, not separately from such process. If viewed in this perspective, there is no means by which even the most idealized omniscient designer could duplicate the results of voluntary exchange. The potential participants *do not know until they enter the process* what their own choices will be. From this it follows that it is *logically impossible* for an omniscient designer to know, unless, of course, we are to preclude individual freedom of will.”

seem to recognize that communicating information to parents and students about schools, and about parents and students to schools, is critical to having good schools. This lack of recognition, along with the political influence of the public school lobby, explains why government policy is undermining the education of our children by censoring the communication of information between public schools and their “customers.”

Parents pay for their children’s public school education through taxes rather than by direct payment to the school of their choice. As a result, they do not receive information from the public schools on the costs of educating their children in the form of a price, or tuition payment. Their taxes pay for a host of public services (and disservices), with no breakdown informing them how much they are paying for each. And even if parents did know how much they are paying for the public schools educating their children, they still would not know the social costs, since taxpayers with no children in the public schools are paying much of those costs. Furthermore, parents are limited in their ability to respond to information on the cost of public schools, since in most cases they either have to send their children to the school assigned to them by the public school authorities, or pay for their children to attend a private school while still paying for the public education their children are no longer receiving. So governments prevent parents from communicating their dissatisfaction with their assigned public school by refusing to pay the price charged and taking their business elsewhere.

Thus, parents receive little information on how much public schools cost and have little motivation to acquire information on how well their children’s public schools are performing relative to other schools, since they cannot easily act on that information. And public schools receive little information from parents on how well they are doing, and even less motivation to respond appropriately to the information (typically in the form of complaints) they do receive. By making it extremely costly for parents to pay for education directly or to send their children to the public school of their choice, policymakers prevent, and effectively censor, the communication between parents and public schools of much of the information necessary to provide good education. Not surprisingly, decisions on such important things as class size, curriculum, teaching methods, and the connection between teacher pay and performance will be influenced more by

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the latest education fashion, what is currently politically correct, one-size-fits-all mandates imposed by remote authorities, and the convenience of teachers and administrators, than by information on the value received and the cost of providing education.

It is true that parents can get a better public education for their children by moving to more affluent neighborhoods where the public schools are typically superior to those in poor neighborhoods.⁶ The demand for better education results in higher prices for houses in areas with superior public schools, and these higher prices do communicate some information. But higher house prices reflect a host of desirable features of a particular neighborhood, and thus give schools much less information on how to respond appropriately to the educational preferences in the community than would prices and revenues received directly from parents, and much less motivation to do so.

As long as government finances schools, the best way to improve education is by using the information from parents and schools that is being censored by having schools operated by government. Governments could provide parents with vouchers that they could spend on the schools that they believe do the best job educating their children. Those schools doing the best job, as determined by parents, would receive the most vouchers and expand by competing away resources from those schools doing a poor job. Schools would get direct information in the form of revenue on the educational options parents prefer, and parents would get direct information on the costs of those options. And instead of the tendency toward a one-size-fits-all approach, there would be more educational variety in response to the diversity in educational preferences.

Those children whose parents, or guardians, are least able to move to districts with better schools, or to pay for private schooling, would benefit the most from the educational information that would be communicated through the market for vouchers. It is not surprising that African Americans and Hispanics favor educational vouchers by large majorities (see Brooke 1997, "Joint Center Poll" 2000).

⁶One reason, maybe the most important reason, public schools in affluent neighborhoods are generally superior to those in poor neighborhoods is that more parents can and will move or enroll their children in private schools rather than let them remain in a poor public school. This subjects public schools in wealthy neighborhoods to more competition than is faced by public schools in poor neighborhoods.

Public school officials talk frequently about how they are making every effort to keep their schools supplied with the latest information technology and doing all they can to overcome the so-called “digital divide” so that children in poor neighborhoods benefit just as much from access to information as those in wealthy schools. But they do so while actively opposing educational vouchers that would eliminate the censorship of information that is far more vital to improving the education of all students, particularly those in the poorest neighborhoods, than all of the digital doodads the public schools are obsessing over.⁷

Agricultural Programs

The federal government distorts and destroys information by trying to transfer wealth from consumers to American farmers through a variety of programs, such as guaranteeing farmers higher prices for certain crops, subsidizing water for agricultural use, and limiting the acreage that farmers can legally cultivate. These policies all waste resources by censoring the communication of information.

Consider cotton farming. Because of federal water subsidies and price supports, thousands of acres of land in the deserts of Arizona and California are being used to grow cotton. This clearly would not be happening if farm programs were not censoring the communication of valuable information through market prices. The water subsidies communicate to cotton farmers that the water they are using to grow cotton has little value in alternative uses. This erroneous information would be quickly corrected and cotton farms in the desert would disappear if farmers were allowed to sell their subsidized water to domestic and industrial users, but such sales are either outlawed or severely restricted. Even if the water subsidies were significantly reduced, government price support for cotton would censor communication to consumers that cotton can be grown more cheaply in places like the Mississippi Delta and other parts of the South, than in the desert. Without this censorship cotton production would be shifted out of the desert and to those areas where production costs are lowest.

Because of the distorted information caused by agricultural policies, those policies do far less to transfer wealth to farmers than

⁷We should acknowledge that the opposition to competition by the public school establishment, and its political influence, would remain a threat to the effective communication of the information needed to improve education information even with the enactment of vouchers. See Lee (1986) for a discussion of this threat.

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politicians claim. Because of the artificially high prices farmers receive for their crops, the price of farm land is bid up as farmers make investment decisions in land that would make no sense if accurate information on the value of alternative uses for that land were being communicated. Farmers who buy land after the farm programs are established pay prices that result in them making no more than a normal return on their investments. But even though farm programs do not increase the wealth of these farmers, eliminating the programs would reduce it by causing the price of their land to fall below what they paid for it. And the more these programs have censored and distorted price information, the greater the wealth loss farmers would suffer if the programs were eliminated. Therefore, increasing the accuracy of the information being communicated by agricultural prices and reducing the waste in agricultural production by eliminating farm programs would face strong political opposition. The greater the improvement in the information communicated and the more waste reduced by eliminating these programs, the more intense the political opposition would be.

Corporate Average Fuel Economy Standards

Corporate Average Fuel Economy (CAFE) standards are politically imposed mandates on the average gas mileage that different categories of vehicles sold in the United States have to meet. In December 2007, Congress passed and President Bush signed legislation with the comforting title, the Energy Independence and Security Act of 2007, which increased CAFE standards to 35 mpg for cars and light trucks by 2020 from the previous requirement of 27.5 mpg for cars and 22.2 mpg for light trucks. The stated justification for CAFE standards is that they are necessary to force consumers to drive vehicles that reduce our dependence on foreign petroleum by getting better gas mileage. Unfortunately, these standards suppress information essential to making sensible transportation decisions. Market prices and profit margins have until recently been higher on SUVs and trucks than on smaller vehicles because CAFE prevented car companies from increasing the supply of the larger vehicles. This hampered the ability of consumers to communicate information on how much they valued the tradeoffs between safety, comfort, convenience, and better gas mileage and the ability of automobile suppliers to communicate information on the cost of responding to

consumer preferences with different types of vehicles. The result is that resources have been used to produce products that were less valuable than the larger vehicles that could have been produced, and no one knows how large this waste of resources has been.

CAFE standards have further distorted the two-way communication of information between consumers and automobile manufacturers with special-interest legislation that has nothing to do with saving petroleum. For example, the American Jobs Creation Act of 2004 created a large tax break on SUVs if they were used in small business (see Power 2003). This break was then eliminated in 2007 with the passage of the Energy Independence and Security Act, but we can expect Congress to come up with creative new ways to soften the effects of CAFE standards on selected special interests as the new standards make exemptions and loopholes even more valuable.

Consumer choice and producer innovation informed and motivated by higher gas prices will do more than arbitrary CAFE standards to reduce gas consumption in the most appropriate ways. In response to higher gas prices and information from automobile suppliers unrestricted by CAFE standards, people can use information on their individual circumstances to reduce gasoline consumption at far less cost than can be achieved with orders issued by politicians making decisions in an almost complete informational vacuum. Yet politicians are far more likely to increase censorship by restricting increases in gas prices with price controls, or threats against the petroleum industry, than they are to eliminate CAFE standards.

Health Care Insurance

Politicians have complained for decades that privately provided health care in America is excessively costly with too many people unable to afford health care insurance, and they have promised to do something about this problem. Yet the political approach to reforming the private provision of health care has consistently distorted and suppressed the communication of information needed to inform and motivate better health care at lower cost and to make health insurance available at reasonable cost.

First, by not taxing the value of employer-provided health insurance, but generally requiring direct payments for medical care to be paid with after-tax income, the federal tax code informs employees

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that low-deductible, low-co-pay health insurance is cheaper than it really is.⁸ And by distorting the information consumers need to make sensible decisions on health insurance—information on relative costs of health insurance with different deductibles and co-payments—we also distort decisions on the use of health care. Second, state governments have responded to the political influence of various providers of medical care by requiring that employer-provided health insurance cover a large number of services that many employees do not want or need (see Cogan, Hubbard, and Kessler 2005: 41–46). This excess coverage increases the price of health insurance, telling consumers that it is more costly than it needs to be, which results in fewer people buying health insurance.

When people have low deductible-low co-pay health insurance, the direct prices paid for medical care communicate to consumers that the cost of that care, once they pay the deductible, is only a fraction of the real cost. This distorted information results in consumers demanding care well beyond the point where its marginal value equals its marginal social cost. The result is waste of the resources used to supply medical care that would create more value in alternative uses. As this underpricing drives up the social cost of medical care, the private, but indirect, cost of medical care soon escalates as well through higher insurance premiums. The information necessary to reduce the waste of medical resources is further suppressed by the public financing of medical care through Medicare and Medicaid, which increases the amount people pay for medical care indirectly (in this case through taxes) instead of directly. This mispricing also increases the amount of health care demanded and drives up other indirect costs, with yet higher insurance payments, higher taxes, additional paperwork, and other nonprice rationing of health care. Instead of these problems being seen as an argument for restoring the information provided through market prices, they motivate a public demand for government to further suppress market information with more controls over our medical decisions in the attempt to disguise the rising real cost of medical care.

A common argument for maintaining and, indeed, expanding our current system of third-party payment for financing medical care is

⁸The federal tax code has been adjusted to increase, at least marginally, the ability to pay some medical expenses directly with before-tax income (Cogan, Hubbard and, Kessler 2005: 31–32).

that it is a justifiable form of insurance needed to guarantee that this care is adequately available to all. When the problems discussed above are acknowledged, the response is that such problems are the necessary consequence of the moral hazard associated with insurance.⁹ But real insurance covers the cost (or much of the cost) of highly unlikely catastrophic events like your house burning down, or a serious illness requiring expensive medical attention. The moral hazard associated with this insurance has to be considered, but is not nearly as great as that associated with what now passes for medical insurance. Most medical insurance today, because of its low-deductibility, is primarily prepayment for routine medical services, analogous to hunger insurance. Once the premiums or taxes are paid, the dominant response (consider the benefit and largely ignore the cost) reflects a serious moral hazard, one that is far greater than would exist if government policies did not censor and distort information on the cost of health care and health insurance.

Politicians and the press routinely discuss the importance of funding scientific research to discover better ways to treat diseases and improve health care. Few people would deny the importance of the information such research can provide. Yet few people seem to recognize that improving the communication of the information of time and place by eliminating a host of politically imposed restrictions on health care markets would result in far better use of the medical knowledge that already exists, and increase the information and motivation to expand that knowledge.¹⁰

Conclusion

Discussions of the harmful effects of much government policy explain the harm in terms of such things as unemployment caused by increasing the costs of hiring workers; penalizing success from greater productivity with high taxation; rewarding unproductive activities with transfers; distorting investment decisions with tax

⁹Moral hazard refers, in this case, to the overconsumption of health care due to third-party payment, which means that individuals take more risks because the price of medical care is less than the marginal social cost.

¹⁰The tendency to elevate the importance of scientific knowledge while ignoring the equally important, but seemingly mundane, information that individuals have of their particular situations was clearly recognized by Hayek (1945: 521) when he observed, "Today it is almost heresy to suggest that scientific knowledge is not the sum of all knowledge."

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loopholes and subsidies; protecting producers against competition with regulations; providing goods and services through government that would be provided better and more cheaply by private firms; and imposing one-size-fits-all mandates when diverse conditions call for a variety of approaches. All of these explanations are accurate, but they fail to highlight the fundamental problem common to all harmful government policies—they censor the most effective way of communicating information that is essential for people to coordinate their decisions in ways that make the best use of their talents and resources for serving the interests of themselves and others.

Unfortunately, very few see market prices that result from private property and voluntary exchange as the source of the most impressive communication network in the history of mankind—a communication network that predates the information age by centuries and is more essential to human prosperity than all the modern technological marvels of communication that have given rise to the term information age. With essentially no public understanding of the importance of the market as a communication network, politicians and their special-interest supplicants routinely capture wealth at the expense of the public by censoring the communication of information that would reduce waste and increase general prosperity. Any government attempt to censor written or verbal communication of information on how to reduce resource waste and better serve others, or on almost anything else, would rightly be seen as an intolerable outrage by those who routinely advocate and applaud government censorship of market communication.

In this article, we have explained how government policies on the financing and provision of public schools, agricultural subsidies, fuel economy standards, and health care insurance are hampering the achievement of important objectives by outlawing and distorting the communication of vital information through markets. Unfortunately, our examples of government censorship make up a very small tip of a very large iceberg of harmful government censorship of market information. Other examples that we could have discussed include restrictions on international trade, antitrust policy, legislative support of labor unions, occupational licensing, regulations on business, inflationary monetary policy, pork-barrel politics, the command-and-control approach to environmental protection, takings of private property, and restrictions on the sale of bodily organs.

Our purpose, however, has not been to consider an exhaustive list of how governments distort and destroy critical information that can be communicated only through market prices. Rather, by emphasizing the essential role of market prices in communicating information, we hope to contribute to a public understanding that government censorship is far more common and destructive than most people recognize. If only government censorship of price communication provoked the same sense of outrage that censorship of written and verbal communication does, we would live in a freer, better-informed, more cooperative, and prosperous world.

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