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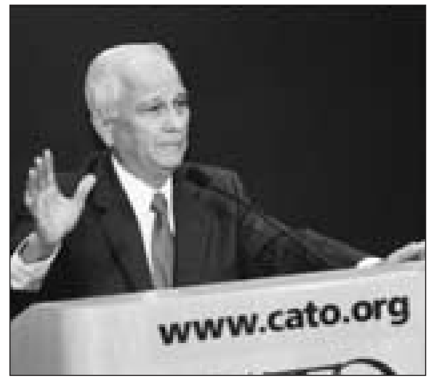
Plan Colombia: The Drug War's New Morass

by Ted Galen Carpenter

Leanne J. Abdnor, who served as Cato's vice president for external affairs from 1995 to 1998, has been named to a vacant position on the President's Commission to Strengthen Social Security. Here she talks with José Piñera at a Cato Forum on Capitol Hill in 1996.



Thomas Saving, a member of the President's Commission to Strengthen Social Security, discusses the commission's Interim Report at a Cato Policy Forum on July 25. Saving's remarks were attacked by columnist Paul Krugman in the *New York Times*, and Saving defended his analysis in a *Times* op-ed on August 12.

The United States is again flirting with deep involvement in a murky, parochial conflict—this time in South America. Under the banner of a new offensive in the international war on drugs, Washington risks becoming entangled in Colombia's multisided civil war. Although there is still time for America to draw back from the abyss, the Bush administration's policy is moving the nation straight toward it.

The vehicle for U.S. involvement is Plan Colombia. As envisioned by Colombian president Andres Pastrana, Plan Colombia is an ambitious blueprint to solve many of the country's economic problems as well as combat narcotics trafficking. The United States has been an eager participant from the beginning, although its focus is somewhat narrower than Pastrana would like. Washington agreed to provide $1.3 billion to assist Bogotá specifically in combating drug trafficking. Most of the U.S. money goes to the Colombian military to purchase hardware, provide training, and otherwise fund drug eradication efforts. About 300 Green Berets are already in the country training Colombia's quite active military in counternarcotics techniques.

Colombia's Volatile Politics

Colombia's political setting is extraordinarily complex, with the government involved in a struggle with no fewer than four factions. Arrayed against the government are two radical leftist insurgent movements, the Revolutionary Armed Forces of Colombia (FARC) and the National Liberation Army (ELN). Both have been designated as terrorist groups by the U.S. Department of State. Violently opposed to FARC and ELN are the right-wing paramilitary groups, most notably the United Self-Defense Forces of Colombia (AUC). Finally, there are various narcotrafficking organizations, most of which have no strong political allegiances. They are primarily profit maximizers, willing to form tactical alliances with whatever faction can advance their business prospects in a given region. At times they have worked closely with the rebel forces and paid "taxes" to FARC and ELN on drug crops and raw cocaine. On other occasions and in other places, they've cooperated with the AUC against the rebels.

Not surprisingly, this political witch's brew has produced chaos and violence. More than 2 million Colombians have fled their homes to avoid the fighting. Some 35,000 civilians have died in the conflict over the past decade, and according to some human rights groups, around 300,000 were made homeless in 2000 alone. The economy is a shambles with unemployment estimated at 20 percent. Capital flight is epidemic, and middle- and upper-class Colom-

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Ted Galen Carpenter is vice president for defense and foreign policy studies at the Cato Institute.

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On the False Charge of Isolationism

An article in the summer issue of the *Wilson Quarterly* describes the Cato Institute as "a headquarters of isolationist sentiment." What conceivable basis can there be for this charge? Cato scholars have long been the most principled supporters of free trade in this country. We support relaxing the controls on immigration. We support a strong national defense but have been consistently critical of unilateral sanctions as an instrument of U.S. foreign policy. And we welcome the contributions of other cultures to the rich diversity of life in the United States. The apparent basis for this charge is our lack of enthusiasm for several multinational actions and institutions in which prior U.S. administrations and other governments made a substantial investment.

More important, congressional Democrats and the leadership of some other governments have made a similar charge about the foreign policy of the Bush administration and on much the same basis. From our perspective, the record of the new Bush administration belies this charge. The administration has proposed negotiations toward a free-trade agreement in the Americas and another round of worldwide reductions of trade barriers. The administration is considering the legalization of several million undocumented Mexican immigrants and a substantial reduction of the barriers to migration across the U.S.-Mexican border. Again, the apparent basis for this charge is that the Bush administration has withdrawn from several multinational negotiations or insisted on reducing their scope as a condition for approving any treaty arising from such negotiations. On August 4, the *Washington Post* reported, "To the distress, and sometimes anger, of U.S. allies, the United States recently has stood alone when large numbers of nations concluded accords on such issues as climate change and arms control"; the *Post* also mentioned the U.S. conditions for agreeing to the OECD rules on financial disclosure by offshore banks and for participating in the September UN Conference against Racism, Xenophobia, and Related Intolerance.

On these issues, I suggest, the Bush administration is correct, despite the irritation of people who have invested in these multinational agreements. It is not yet obvious that global warming is a serious problem or that the Kyoto Protocol would significantly reduce any potential problem. The Biological Weapons Convention addresses a serious threat but probably cannot be enforced against uncooperative governments or without sacrificing constitutional rights in the United States. The UN conference is structured to blame wealthy nations for the poverty of other nations and to demand reparations for slavery and colonialism.

The administration's one major commitment to a collective decision to date—the commitment to abide by a NATO decision on the deployment of U.S. troops in the Balkans—is likely to prove to be a mistake. The irritation of promoters of multinational agreements is not sufficient reason to either suffer their moral posturing or approve agreements that do not serve U.S. interests.

The problem of defining internationalism as the approval of multinational agreements is that it makes such agreements a goal, rather than merely an instrument, of foreign policy. Many such agreements acquire a scope and momentum that do not necessarily serve U.S. interests, often providing cover for some economic advantage in the name of some greater good. We should judge multilateral agreements by whether they are likely to be effective instruments for achieving U.S. goals—that is, whether they address a serious problem that is best addressed on a multinational basis, whether the agreement can be enforced, and whether the benefits to the United States are likely to be greater than the costs. By this standard, I suggest, the Bush administration deserves high marks for recognizing that the several multinational agreements that it has addressed to date do not serve U.S. interests, not the false charge that it is pursuing an isolationist foreign policy. The U.S. government can and should pursue an internationalist foreign policy but without an overriding commitment to achieving our goals through multinational agreements.

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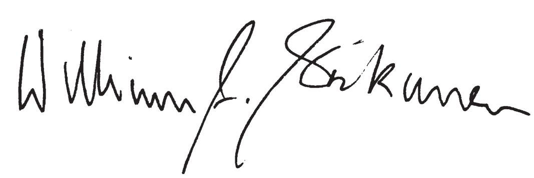

—William A. Niskanen

"A modest little bill" that grew and grew

Time to Reconsider 1996 Health Care Reform

The 1996 Health Insurance Portability and Accountability Act paved the way for medical privacy rules that "appear to have expanded bureaucrats' access to our health information without a warrant," said House Majority Leader Dick Armey (R-Tex.) at a Cato Institute conference on July 31. The conference, titled "Making a Federal Case Out of Health Care: Five Years of HIPAA," addressed the 1996 legislation that originally aimed at expanding access to health insurance but also authorized complex privacy rules that govern the use and disclosure of protected health information.

Conference organizer Tom Miller, Cato's director of health policy studies, talks with Conrad Meier of the Heartland Institute.

Armey said his vote for HIPAA was a mistake. "It started out as a modest little bill, promising to make coverage portable from job to job. It grew to become a whole package of reforms, most of them having nothing to do with portability," said Armey. "HIPAA set a dangerous precedent for the federal regulation of health insurance." Armey proposed making medical savings accounts permanent and universally available to help patients control their health care.

Others at the conference were even more critical of the law. "I think HIPAA stinks," said Conrad Meier, a senior fellow at the Heartland Institute. The law's provisions, he said, made it difficult for people to get individual insurance when between jobs, meaning people would be less likely to change jobs. "It was adopted in the name of giving low-income persons greater access to health care, yet the new law has had the effect of raising premium prices, thereby pricing still more people out of the market," said Meier.

Tom Miller, director of health policy studies at the Cato Institute and organizer of the conference, discussed five ways to head off the race to greater federal regulation of health care. Miller said that one way to bring market incentives into state-based health care regulation is to have health insurers compete across state lines. "Insurers facing market competition across state lines would have strong incentives to disclose and adhere to policies that encouraged consumers to deal with them." Miller said that firms would leave states with burdensome regulations and state lawmakers in turn would be more responsive to the needs of firms and their customers.

Other speakers at the conference included Richard Epstein of the University of Chicago Law School, Mark Pauly of the University of Pennsylvania, Fred Cate of Indiana University, David Hyman of the University of Maryland, Greg Scandlen of the National Center for Policy Analysis, and Grace-Marie Turner of the Galen Institute.

The conference can be viewed with RealPlayer or listened to with RealAudio on Cato's main Web site, www.cato.org. The papers will be published in an upcoming issue of the *Cato Journal*. ■

Medical lawyer Madeleine Cosman warned conference participants about the increasing use of the criminal law in enforcing medical practice regulations.

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Reforming Cuba policy, the income tax, and broadband deployment

Social Security Report Presented at Cato

◆**June 5:** Cato's Edward H. Crane, Roger Pilon, and Darcy Ann Olsen were among the speakers at a Cato **City Seminar** in Kansas City. Alan Reynolds, who recently joined Cato as a senior fellow, gave the keynote address, "Taxes, the Fed, and the Economy."

◆**June 12:** "We should put more poetry and soul in economics to give it some beauty," said Russell Roberts at a Cato Book Forum, **"Why the State of Economic Literacy Is So Appalling (and What to Do about It)."** Roberts said that when we talk about economics we should emphasize not the sterile but the soulful. Roberts, John M. Olin Senior Fellow at the Weidenbaum Center at Washington University in St. Louis and author of *The Invisible Heart*, cited the work of Frédéric Bastiat and everyday events as examples of the importance of human possibility and the individual to economic understanding.

◆**June 20:** The controversial Libertad Act, known as Helms-Burton, "misses the target," said Mark A. Groombridge at a Cato Policy Forum, **"Cuba Policy in the Bush Administration: Future Directions and Opportunities for Change."** The measure, up for renewal in early July, permits U.S. businesses to file suit against foreign companies that took over property of those businesses that was confiscated by the Cuban government and denies U.S. visas to directors and partners of those companies. "It antagonizes our allies, further isolates ordinary Cubans from the influence of American ideas, and strengthens the hand of the very government that it intends to undermine," said Groombridge, research fellow at Cato's Center for Trade Policy Studies. Ignacio Sosa of One World Investment called Helms-Burton and economic sanctions on Cuba "a mistake." Mark Falcoff of the American Enterprise Institute predicted that relations between the United States and Cuba "will eventually tip in favor of normalization," although he said the trigger might not necessarily be Fidel Castro's death. John Kavulich of the U.S.-Cuba Trade and Economic Council said that the change in Senate leadership would make it less likely that the Bush administration will make a major change in U.S. policy on Cuba.

Adam Thierer, Cato's director of telecommunications studies, discussed libertarianism and cyberspace at one of Cato's summer lectures for interns on Capitol Hill.

◆**June 26:** Glenn Hubbard, the new chairman of the Council of Economic Advisers, discussed tax reform and the state of the U.S. and Japanese economies at a Cato Policy Forum, **"With a Tax Cut in Place, the Next Step Is Major Tax Reform."** Hubbard said that the U.S. economy is in "the midst of a growth slowdown," not in or headed for a recession. In contrast, he said, the Japanese economy is "likely in a recession." To help both countries out of their economic troubles, Hubbard advocated that the United States reduce interest rates and cut taxes and that Japanese banks dispose of bad loans.

◆**July 16:** The World Bank and the International Monetary Fund initiative to identify 41 heavily indebted poor countries (HIPCs) for debt relief was the topic of a Cato Policy Forum, **"Debt Relief for Poor Countries: Are the World Bank and IMF Doing the Right Thing?"** Ian Vásquez, director of Cato's Project on Global Economic Liberty, said he favors debt relief but not the HIPC initiative. "It is difficult to support the HIPC initiative when it is being used to bail out the World Bank and IMF with little long-term prospect of helping the highly indebted poor countries," Vásquez said. Michael Hadjimichael of the IMF explained that the lending organizations have implemented new measures that will ensure that the new funds are well spent. Adam Lerrick of Carnegie Mellon University asked why rich countries will be paying for 60 percent of the multilateral aid agencies' losses even though the agencies have plenty of resources to cover their entire share of the debt.

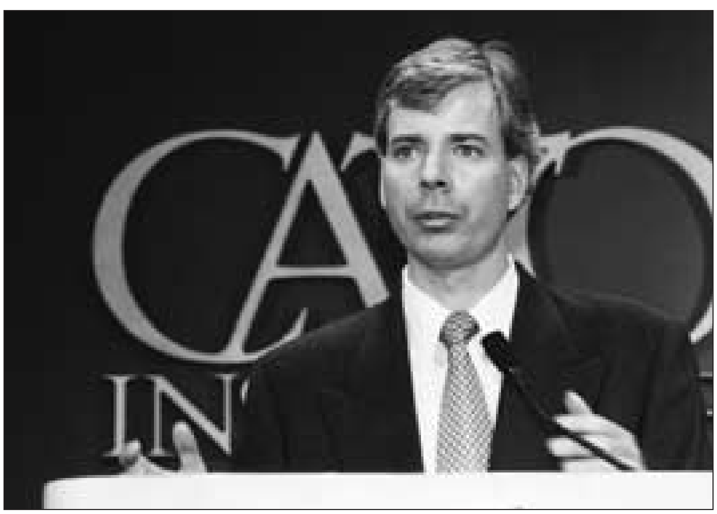
◆**July 24:** Four telecom industry analysts gathered for a Cato Policy Forum, **"Broadband and the Markets: Perspectives from the Investment Community,"** to discuss telecom industry regulation, deregulation, and broadband deployment. Precursor Group CEO Scott Cleland dismissed the Federal Communications Commission's cost model as "imaginary pricing" that offers Bells no incentive to deploy new network elements. Doug Ashton of Bear Stearns said that "regulatory uncertainty is getting to be a problem. It's hard to invest money." Blake Bath of Lehman Brothers said that "it's no surprise" that heavily deregulated cable has more than twice the market penetration of the Regional Bell Operating Companies. The Bells, Bath said, "are forced to jump through a lot of regulatory hoops." Erik Olbeter of Schwab suggested that spectrum be auctioned off to get it "in the hands of the right companies."

◆**July 25:** Thomas Saving of the President's Commission to Strengthen Social Security presented the bipartisan commission's findings at a Cato Policy Forum, **"The Interim Report of the President's Commission to Strengthen Social Security: An Evaluation."** Michael Tanner, director of Cato's Project on Social Security Privatization, said that the real crisis of Social Security is that it cheats everyone. Robert Bixby of the Concord Coalition said that paying down the debt is a temporary fix for the Social Security program. Roger Hickey of the left-liberal Campaign for America's Future said the report would energize Republicans in support of privatizing Social Security and Democrats in opposition.

◆**July 26:** The excessive complexity of the tax code was the topic of a Cato Institute

Internet analyst Erik Olbeter of Schwab told a Policy Forum on broadband deployment that auctions are "the most efficient way to put spectrum into the hands of the right companies."

At a House Government Reform Committee hearing on CIA oversight, Cato's Ivan Eland talks with Col. Dan Smith (Ret.) of the Center for Defense Information.



Chris Edwards, Cato's director of fiscal policy studies, introduces a forum on income tax complexity on July 26.

Russell Roberts of Washington University discusses "putting poetry and soul in economics" at a Book Forum for his novel, *The Invisible Heart.*

Policy Forum, **"Escalating Income Tax Complexity: Causes and Cures."** Steve Entin of the Institute for Research on the Economics of Taxation stressed that a consumption-based tax system makes economic sense and would be much simpler. Mary Schmitt of the Joint Committee on Taxation discussed the committee's new 1,300-page report documenting the complexity of the federal tax system. The report recommended that alternative taxes for individuals and corporations be eliminated. Eugene Steuerle of the Urban Institute discussed how the intricacies in the federal budget process create complex new tax provisions, such as this year's provision that makes the child tax credit "refundable."

◆**July 27:** Cato's Center for Trade Policy Studies hosted a Policy Forum on Capitol Hill, **"Threats to Trade Promotion Authority: Antidumping Laws and Labor and Environmental Sanctions."** Daniel Griswold, associate director of the center, explained that the use of sanctions is counterproductive and improves neither labor nor environmental standards. Daniel J. Ikenson, trade policy analyst, exposed the rapid spread of antidumping protectionism throughout the world and the harm it does to U.S. exports. He called for U.S. officials to work with like-minded governments to stem and reverse this tide.

◆**July 31:** House Majority Leader Dick Armey (R-Tex.) delivered the keynote address at the Cato Institute conference, **"Making a Federal Case Out of Health Care."** Cato adjunct scholar Richard Epstein of the University of Chicago Law School delivered the luncheon address. Other speakers included Grace-Marie Turner of the Galen Institute; Jonathan Emord of Emord & Associates; Greg Scandlen of the National Center for Policy Analysis; Tom Miller, Cato's director of health policy studies; Madeleine Cosman, Medical Equity, Inc.; and David A. Hyman, University of Maryland School of Law.

Most Cato Forums can be viewed live or later on the Web with RealPlayer. Visit www.cato.org and select Audiovideo Archives. ■

Making a Federal Case Out of Health Care

On July 31, five years after passage of the Health Insurance Portability and Accountability Act, the Cato Institute held a conference on "Making a Federal Case Out of Health Care." House Majority Leader Dick Armey (R-Tex.) delivered the keynote address, and Cato adjunct scholar Richard A. Epstein of the University of Chicago Law School and Hoover Institution delivered the luncheon address. Among the other speakers was Tom Miller, Cato's director of health policy studies. Excerpts from their remarks follow.

Richard A. Epstein: The medical privacy provisions of the Health Insurance Portability and Accountability Act of 1996 undermine our ability to get an accurate assessment of the costs and benefits of information disclosure. HIPAA contains an ostensibly innocuous command that only relevant information can be disclosed. But it offers no definition of what information counts as relevant in cases of medical uncertainty.

Let's take a very simple case: Say somebody who has medical records on file at a hospital in Illinois is involved in an automobile accident in Ohio. Which medical records does the Illinois hospital send to Ohio? Now, if it is my body, I say send the whole file fast. I don't want anything to be left out, because I don't know what the physicians in Ohio will regard as relevant. But somebody in Illinois may say, well, he only broke his arm, so we'll send only the arm-related information. That could take an hour to figure out, and in the interim I'm dead because the Ohio hospital didn't get even that limited information in a timely fashion. Apparently we're supposed to tolerate this type of mistake in a welfare state, because we understand that the government's motives are benevolent even if the consequences of its actions are unfortunate!

Such risks are real. Suppose that I am taking a leg medicine, which means that if you give me a certain arm medicine you're going to harm or kill me. Now, how do you know that in advance? I would rather trust the physician on the spot to look at the entire medical record and figure out what potential interactions to guard against than to have somebody, no matter how able, try to decide at the point of release what information to forward. I would hate to go into the operating room and hear, well, when you were in the emergency room, we didn't think that surgery would be likely, so only this information was necessary; now we've got to request an urgent update with more information, subject, perhaps, to the same mischievous relevancy constraints. Again, time turns out not only to be money but to influence the odds of survival. My own judgment is that anyone who runs the error calculations will quickly lurch to the optimal solution: the emergency room doctor gets everything, but only for restricted uses related to my well-being; he cannot turn around and sell my records to a soap vendor the next day. That's exactly the way business was done before HIPAA. Nobody used a "minimum necessary disclosure" requirement then precisely because full information is likely to minimize errors in decisions made under conditions of uncertainty. It makes no sense to spend time and effort to shrink the flow of information.

Richard Epstein: "HIPAA continued the search for government control by the salami tactic: take control of the industry one slice at a time."

A second troubling feature of HIPAA is how it works to extend the sphere of its own influence. The original mandate under HIPAA covered some but not all provider operations. What the regulators manage to do is to stipulate that any covered entity who provides a medical record to a person or firm who is not part of the HIPAA umbrella must require, by contract, that provider to observe all the HIPAA requirements. And so mandatory contracts become the weapon of choice to expand government power, when in fact there has been no clear delegation of authority.

There is something deeply troubling about these developments because of their Orwellian use of language. The mantra behind HIPAA's privacy regulations is consent—an honorable theme for those who care about liberty. But in this instance, the rules in fact use the "consent" label to disguise coercion. The key strategy: all individuals are required to give consent, not comprehensively, but for each separate transaction. What the regulations do is create a system in which each of us is required to exercise, repeatedly and against our own will, this right to permit others to use information about us. But we cannot waive the protections of the act that require individual consent to be given by putting on the Internet a form that says, "Doc, use whatever records you want in the way that you think best, in accordance with the common practice of your institution."

Putting all the pieces together, what is going on here? The single largest and most ambitious power grab in the history of American health care was the proposed Clinton Health Security Act, which failed in 1994. Essentially, that bill was an effort to create a massive regulatory apparatus to control, either directly or indirectly, the provision of all private forms of health care. It failed, so HIPAA continued the search for government control by the salami tactic: take control of the industry one slice at a time. And here the move to disarm the opposition is to announce that government insists on the various sorts of restrictions to protect against pervasive market failures in the private sector. Once those regulations are imposed, of course, the system will not be able to respond to the challenges it faces without incurring additional costs for few, if any, benefits. The upshot is that the health system will creak even further. That further decline will in turn justify further forms of regulation, and then, by the time we are done, this hodge-podge system of market-cum-regulation will be deemed unworkable so that the only sensible solution is in fact single-payer nationalized medicine. Got it?

"The 20th-century American philosopher Jimmy Buffett once said, 'You've just got to learn from the wrong things you've done.' That is a lesson we must constantly relearn."

Dick Armey: The 20th-century American philosopher Jimmy Buffett once said, "You've just got to learn from the wrong things you've done."

That is a lesson we must constantly relearn. When you are free, you can be indifferent to government. It's only when government threatens your liberties that you have to move from indifference to vigilance. That was the case when we came to death grips with Clinton Care.

Winning the majority in 1994 gave us Republicans the chance to put our own stamp on health care. HIPAA was the test case. It started out as a modest little bill, promising to make coverage portable from job to job. It grew to become a whole package of reforms, most of them having nothing to do with portability.

It also set a dangerous precedent for the federal regulation of health insurance. It appears to have expanded bureaucrats' access to our medical records without a search warrant. Looking back at it now, it seems undeniable that the first health care law after Clinton Care was, to some extent, the first installment of Clinton Care.

The left has learned its lesson well. In the wake of that defeat, the Democrats worked step by step to obtain what they could not get all at one time. The liberals are so sure of passage of the Patients' Bill of Rights that they're already waiting in the wings with their next steps—letting parents into KidCare, putting all kids on Medicare. It doesn't take a crystal ball to see where this process is heading.

It's ironic that the Democratic Party poses as a great enemy of health maintenance organizations (HMOs). It was Senator Kennedy who wrote the first federal HMO law in 1973. It was the Democrats who tried to herd all of us into HMOs in 1994.

We conservatives need to get back on offense and work harder for free-market health reforms. Patients need more than a bill of rights. They need a declaration of independence. Patients *should* be able to sue their HMOs. But they should also be able to fire their HMOs—and take their business someplace else.

We need to expand and improve medical savings accounts (MSAs). MSAs combine peace of mind with freedom of choice, affordable insurance with tax-advantaged savings. The existing pilot project has shown MSAs to be very attractive to the uninsured. And that is why Senator Kennedy wants them stopped. He fears giving people an option because they may take it.

Once MSAs are made permanent, workable, and universally available, I'm hopeful that a real market will form, MSAs will take off, and national health insurance will become significantly harder to enact.

The government can always manage me when I'm buying something for you, but it cannot manage me when I'm buying something for myself. That's where freedom begins.

I don't necessarily want to blow up the employer-based system. We should help job-based coverage evolve to give workers more choice and control. For example, we should end the use-it-or-lose-it rule on flexible spending arrangements. If workers could accumulate flex cash for medical expenses, they would basically have job-based MSAs without the Kennedy restrictions. At the same time, we should promote a big new idea in health care: defined contribution plans. Just as 401(k) pensions have given millions of workers more choice and control, so could 401(k) health plans. It would be a shame to let a patients' rights bill become law without using the opportunity to help American workers exercise greater control over their own health care.

Dick Armey: "Patients need more than a bill of rights. Patients need a declaration of independence."

This takes us right back to Armey's axiom: Nobody spends somebody else's money as wisely as he spends his own. When we're involved in managing our own health care finances, and involved in the decisions related to them, we will do a better job. When you can hire and fire your own insurer, you are much less likely to need or want to sue your employer.

If you want freedom, you must accept responsibility. If you can figure out how to select a PC and how to make it burn a CD, you're quite capable of selecting your own health insurance and knowing before you get to the hospital the extent to which you are in fact covered. When you know that, you won't be bitterly disappointed and feel cheated because your insurance doesn't cover what you thought it did. You won't feel a compelling need to get a lawyer or to scream out that great American distress signal, "There ought to be a law!"

"You've just got to learn from the wrong things you've done." The liberals learn from their mistakes. We should learn from ours. We need to get serious about patient power and issue a declaration of health care independence for all Americans.

Tom Miller: We've seen growing signs of direct federal regulation of health insurance. Even a mixed system of federal and state regulation will not only inevitably drift toward higher and higher federal floor mandates but also encourage a state race to the bureaucratic top. HIPAA is a resort to another layer of incremental regulatory patch jobs applied to problems caused by previous public policy distortions.

Step one in a successful regulatory bypass operation is diagnosis of the underlying condition: consumers are not in control of their health care decisions, primarily because public policy discourages them from retaining control of their health care dollars and hinders the availability of empowering options in the marketplace.

Step two: Move out of the box of conventional palliative therapy and address fundamentals. Neutralize the distorting effects of the income tax exclusion that favors employer-financed group insurance. Any tax subsidy for health care spending should be at least proportionately equalized for all consumers and flow directly to

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How your tax dollars fought the Bush tax cut

"Perfect Storm," Price Controls Caused Crisis

Neither environmentalism nor deregulation is to blame for California's energy woes, according to a new Cato Institute study. Instead, say Cato scholars Jerry Taylor and Peter VanDoren in "California's Energy Crisis: What's Going On, Who's to Blame, and What to Do" (Policy Analysis no. 406), the real cause of the price spike is a "perfect storm" of high regional natural gas prices, a large drop in hydroelectric power generation due to dry weather conditions, and a demand shock due to the unseasonably warm summer of 2000. Those factors were then exacerbated by air pollution regulations and retail price controls. Taylor and VanDoren find that "the 1996 restructuring law has little to do with the run-up in wholesale power prices," although its retail price caps caused the blackouts by preventing utilities from passing on fuel costs to consumers, thereby keeping demand high. "Virtually all the increase in wholesale prices can be explained by increases in production costs and overall scarcity," they write. "Although market manipulation may be present, it is not the fundamental cause of the crisis." Environmentalists aren't responsible either. "Environmentalists were a relative nonfactor in generator investment decisions in the early to mid-1990s, and they scarcely played any role in blocking new capacity in the months leading up to the crisis," Taylor and VanDoren argue. They call for the elimination of retail price caps to promote consumer price responsiveness and voluntary conservation. "Given the inelasticity of both the supply and the demand side of the electricity market, even moderate reductions in demand, as a result of freeing prices, would have a major effect on wholesale prices."

◆Antidumping Laws Hurt U.S. Exports

In "Coming Home to Roost: Proliferating Antidumping Laws and the Growing Threat to U.S. Exports" (Trade Policy Analysis no. 14), Cato's Daniel J. Ikenson and Brink Lindsey look at how the international spread of protectionist antidumping laws is beginning to hurt U.S. business. Lindsey, director of Cato's Center for Trade Policy Studies, and Ikenson, trade policy analyst at the center, document the explosion of antidumping measures. They point out that during the 1990s use of antidumping measures increased by 50 percent relative to the 1980s. The number of jurisdictions imposing antidumping measures jumped from 12 to 28 between 1993 and 1999. A total of 62 jurisdictions now have antidumping laws on their books. Between 1995 and 2000 the United States was the third most popular target of antidumping measures worldwide—trailing only China and Japan. U.S. companies have become leading targets of the antidumping barrage. "The rapid spread of antidumping protectionism throughout the world threatens to undo many of the liberalizing gains made through the elimination of quotas and import licenses and the slashing of tariff rates. On the global level, the integrity of the world trading system is being undermined by the increasing frequency and virulence of antidumping activity." Lindsey and Ikenson conclude that "international negotiations to address the antidumping problem are emphatically in the U.S. national interest."

◆Is All "Spam" Bad?

Several bills now before Congress aim to regulate unsolicited commercial e-mail, known as "spam." But in "Why Canning 'Spam' Is a Bad Idea" (Policy Analysis no. 408), Clyde Wayne Crews Jr. finds that a congressional spam ban may create more problems than it solves. Crews, director of technology studies at the Cato Institute, writes that spam is so prevalent because it's as easy to send a million unsolicited e-mails as it is to send one. "The real issue in dealing with spam is finding a way to shift the costs back to the spammer," he argues. "The question is whether the best way to accomplish that is through the government or the marketplace." Crews finds that the market offers many ways to deal with spam. Government would likely employ one-size-fits-all solutions that are bound to hinder the open nature of the Internet and create perverse incentives. "It is important to remember that not every unsolicited message is evil," Crews says. "The ideal amount of unsolicited e-mail is not equal to 'none' for everyone. Sometimes, commercial e-mail is welcome or otherwise considered 'friendly,' even if unsolicited."

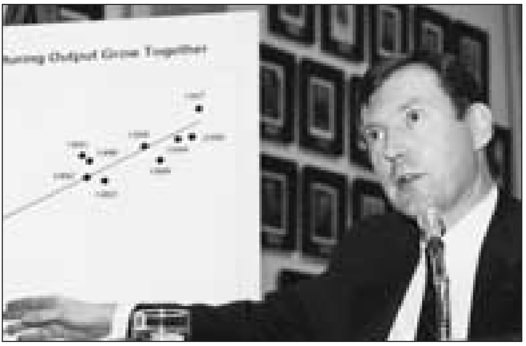
Wayne Crews

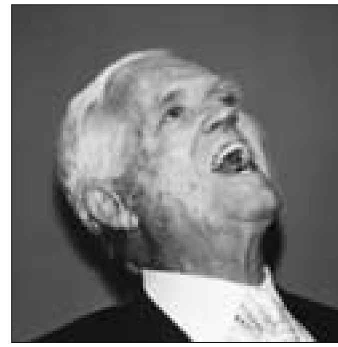
◆Taxpayers Subsidizing Anti–Tax Cut Advocacy

A new study from the Cato Institute reveals that taxpayers have been unwittingly supporting groups that are against tax cuts. Member groups of the Fair Taxes for All Coalition, one of the leading critics of President Bush's tax cut proposal, have received $618 million in taxpayer money in recent years. In "More Government for All: How Taxpayers Subsidize Anti–Tax Cut Advocacy" (Policy Analysis no. 407), Cato scholar John Samples and Capital Research Center researchers Christopher Yablonski and Ivan G. Osorio say that "Fair Taxes for All Coalition members have every right to express themselves politically. The question is whether every taxpayer should be forced to subsidize their doing so." The authors answer no, because "subsidies for political advocacy distort democracy by weighting some demands more heavily than others" and "force individuals to contribute to political causes they do not support."

◆"Anti-Competitive" Practices Benefit Consumers

On the same day the U.S. Court of Appeals for the District of Columbia overturned an order to split Microsoft in two but left intact a lower court ruling that the software giant broke antitrust laws, the Cato Institute published a study analyzing the merits and demerits of antitrust law generally. In "The Antitrust Terrible 10: Why the Most Reviled 'Anti-Competitive' Business Practices Can Benefit Consumers in the New Economy" (Policy Analysis no. 405), Clyde Wayne Crews Jr. challenges the almost universally accepted notion that antitrust law is in the public interest and benefits consumers, arguing instead that antitrust is anti-consumer. Crews, director of technology studies at the Cato Institute, finds that what some people consider the most nefarious of business practices may actually benefit consumers. "Antitrust is vulnerable to exploitation," Crews argues, "both by firms hoping to hobble competition and by a public



Dan Griswold, associate director of Cato's Center for Trade Policy Studies, testified in June at a Senate Commerce Committee hearing on imports and U.S. manufacturing. When Sen. Byron Dorgan (D-N.D.) asked him to comment on the fact that Americans last year bought 450,000 cars made in South Korea, while Koreans bought only about 1,200 cars made in the United States, Griswold reminded the senators that the cars we imported from South Korea meant greater competition and consumer satisfaction in the United States. In fact, he said, "I think of 450,000 happy American families" that can buy the car of their choice. Committee chair Fritz Hollings (D-S.C.), a seven-term incumbent, was apparently stunned at the very idea that anyone would consider the consumer benefits of imports. Coincidentally, not long after Griswold's testimony, Cato issued another study on the benefits of term limits.

and private legal infrastructure that lives comfortably off the industry created by the enforcement of antitrust laws." And, he says, consumers pick up the tab. Crews goes through the gamut of allegedly harmful business practices—from mergers and collusion to predatory pricing, price discrimination, and exclusive dealing—and shows how they can in fact benefit consumers.

◆Property Rights on the Rise

The web of regulatory restrictions that limit what owners can do with their property has led to the birth of the property rights movement. In "The Birth of the Property Rights Movement" (Policy Analysis no. 404), Steven J. Eagle notes that the rise of the regulatory state during the Progressive Era undermined constitutional protections for private property. In response to burdens on property owners, at least 23 states have enacted laws to protect private property rights. Eagle, a professor at the George Mason University School of Law and the author of *Regulatory Takings*, argues that, if the property rights movement is to build on its successes, it must reunite America with its common law and constitutional heritage. That would affirm that individuals have rights in their property and property in their rights.

◆Capital Controls "Turn Back the Clock"

Capital controls perpetuate inefficiencies and doom economies to second-tier status, according to a new Cato Institute study. In "The Case against Capital Controls: Financial Flows, Crises, and the Flip Side of the Free-Trade Argument" (Policy Analysis no. 403), Christopher A. Hartwell stresses the importance of emerging economies' keeping capital markets open even when faced with a financial crisis. Developing countries that might be tempted to "turn back the clock" and impose capital controls when a financial crisis hits must realize that such controls are ineffective and tend to mask the true causes of financial crises, which are domestic in nature and have very little to do with external capital flows. Hartwell, senior analyst with EMP Financial Advisors, contends that capital inflows of any kind are beneficial to a country's economy and that emerging economies will be better prepared to compete in and benefit from global capital markets if they establish independent central banks; have a fully fixed or freely floating, not pegged, exchange rate; and sever the links between business and government.

◆Growth of Government Fuels Campaign Spending

Contrary to the claims of advocates of campaign finance reform, the real engine driving campaign spending is the growth of government itself, not the amount that Americans spend on campaigns and elections, according to a new Cato Institute study. The only way to reduce the amount of money in politics is to restrain government power, concludes Cato senior fellow Patrick Basham in "It's the Spending, Stupid! Understanding Campaign Finance in the Big-Government Era" (Cato Briefing Paper no. 64). Basham writes, "As government does and spends more, individuals try to influence it, both to advance their causes and to protect themselves from abuse." He examines the historical record and finds that increases in government power provide private groups with greater incentives to influence it. "If the incentive to spend on political activity is not reduced, campaign spending that is removed by legislative fiat from one area simply materializes in another," Basham says. Therefore, "efforts to restrict or ban campaign spending will be futile," but "lower government spending will lead to lower levels of campaign contributions; in turn, that will result in lower levels of campaign spending." Basham concludes that "the only sure way to lower campaign spending is to restrict government to its constitutional powers."

◆Helms-Burton Still Off-Target

A month before President Bush decided to waive implementation of Title III of the Helms-Burton Act, a Cato Institute study concluded that the provision should be waived and, more broadly, that the entire Helms-Burton Act should be scuttled. In "Missing the Target: The Failure of the

Continued on page 10

“Competitive federalism could facilitate diversity and experimentation in regulatory approaches and slow down the second-guessing of market decisions.”

POLICY FORUM *Continued from page 7*

them—regardless of where they work or how they choose to purchase health care.

Tax equity would provide consumers with real choices about their health care arrangements and decentralize decisionmaking. Consumers would be less likely to turn over key decisions regarding the scope and terms of their health insurance coverage to third parties without first insisting on what mattered most to them. Current tax subsidies often operate as tax penalties on consumers seeking other types of coverage, whether it’s individual insurance, high-deductible policies coupled with personal saving vehicles, or simply different coverage than one’s employer offers. Let’s make any tax benefits for health coverage portable at the individual level.

Tom Miller: “Tax equity would provide consumers with real choices about their health care and decentralize decisionmaking.”

Step Three: Develop better vehicles to pool health risks outside the workplace and provide longer-term protection against the redefinition of health risks over time. Nongovernmental purchasing pools could offer experience-rated, multiperiod contracts to willing buyers, if pool sponsors could establish the necessary ground rules.

Those rules allow competing health plans to set their own premiums; experience rate new entrants to the pool at the outset, if necessary; facilitate entry of new insurers to compete for pool business; and provide annual open enrollment periods.

Those purchasing pools would differ from the early versions of association health plan and health mart proposals. Prespecified contractual restrictions would provide incentives to remain in the pool. Exit disincentives would provide long-term protections and minimize adverse selection. Actuarially fair prices still would be required at the outset.

Step Four: Recognize the diverse preferences, characteristics, and needs of individual consumers. Respect the decisions they make. Enforce private contracts as they are written. Don’t prohibit risk-based pricing. Rely instead on targeted and transparent subsidies if modification of market-based results becomes necessary.

The Patients’ Bill of Rights legislation is poised to outlaw or override what remains of the already paltry and unimaginative contractual options available in today’s private health insurance market. Regulatory mandates, along with “judge-made insurance” coverage rulings, already discourage most efforts by insurers to stray very far from the medical community’s consensus view of what insurers should finance (“medical necessity”) and instead more explicitly offer consumers a range of coverage options that vary in quality, access, and pricing.

Accurate risk assessment often conflicts with political imperatives to enhance the role of insurance in risk distribution. But the problems of potential insurance customers with inadequate income or medically uninsurable risks could and should be addressed as social problems. Other more targeted means to handle them include safety net subsidies, private charity, community-based clinics, and high-risk pools that don’t alter the relative prices of health insurance and medical care services.

Instead of applying a regulatory eraser to the competitive operation of private insurance markets, it’s better to use a subsidy pen to write a more transparent check that redistributes necessary care to the needy.

If public policy incorporated the four steps that I have mentioned, we would head off the race to greater federal regulation aimed at patching the gaping holes in an unstable structure of already overregulated and oversubsidized employer-based group health insurance. Further drift toward greater federal control would tend to lock in a single regulatory framework resistant to competitive pressure. It would be prone to deliver just one answer, of comprehensive scope, likely to be the wrong one but difficult to reverse.

Which brings us to step five in finding a regulatory bypass. We need revitalized state regulatory competition that can reach across geographic boundaries. Competitive federalism could facilitate diversity and experimentation in regulatory approaches. It would slow down the second-guessing of market decisions, discipline the tendency of insurance regulation to promote inefficient wealth transfers, and promote individual choice over collective decisions driven by interest group politics.

Insurers facing market competition across state lines would have strong incentives to disclose and adhere to policies that encouraged consumers to deal with them. Firms would migrate to state regulatory regimes that didn’t impose unwanted mandates but instead fit the needs of their customers. State lawmakers would become more sensitive to the potential for insurer exit.

What about the “race to the bottom” warnings? We’ve already run a different race to the bottom with overregulation. The losers end up uninsured--because they can’t afford coverage or refuse to overpay for it. The race to the market top needs a full field of state regulators running in each other’s markets. ■

STUDIES *Continued from page 9*

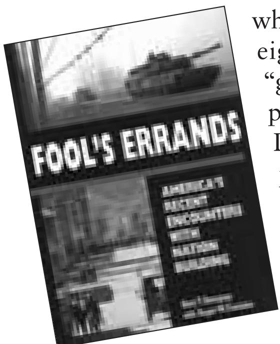
Helms-Burton Act” (Trade Briefing Paper no. 12), Mark A. Groombridge, research fellow at Cato’s Center for Trade Policy Studies, finds that Helms-Burton, which punishes foreign-owned companies that engage in supposed “wrongful trafficking in property confiscated by the Castro regime,” has backfired for several reasons. First, European officials say that U.S. intransigence undermines support for valued international institutions, notably the World Trade Organization. Second, Helms-Burton has failed to promote democracy in Cuba and has strengthened the hand of the Castro regime by providing a scapegoat for its own failed economic system. Third, the act will make it more difficult to settle property claims by dramatically raising their value from the current total of about $6 billion to as much as $100 billion. ■

Somalia, Haiti, Bosnia, Kosovo

Book: Nation Building Is a "Fool's Errand"

During a tour of a refugee camp in Macedonia in June 1999 after NATO's 78-day bombing campaign against Yugoslavia, U.S. Secretary of State Madeleine K. Albright claimed, "This is what America is good at: helping people."

A new Cato Institute book, *Fool's Errands: America's Recent Encounters with Nation Building*, by Gary T. Dempsey with Roger W. Fontaine, questions whether American foreign policy has been "good" at helping people in troubled places. Dempsey, a foreign policy analyst at the Cato Institute, and Fontaine, a former Reagan administration official, find in case studies of Somalia, Haiti, Bosnia, and Kosovo that American nation building has repeatedly come up short.



America's first post–Cold War attempt at nation building was in Somalia. Although the Clinton administration denied that the Somalia adventure was nation building, Dempsey and Fontaine note that "the U.S. government had spent $2.3 billion doing much more than just delivering food aid to starving Somalis, and more than 200 American soldiers were wounded or killed in the process."

Somalia was just the start of expanded interventionism. "Indeed," Dempsey and Fontaine write, "Washington said it would bring order to Somalia, but left chaos; it went to Haiti to restore democracy, but produced tyranny; it intervened in Bosnia to reverse the effects of a civil war, but now oversees a peace that is not self-sustaining; and it occupied Kosovo to build a multiethnic democracy, but has instead observed widespread ethnic cleansing."

Despite the grand failures, advocates of nation building remain unfazed. Nation builders "seem to have chronic trouble distinguishing between what they aspire to attain through their policies and the real world," Dempsey and Fontaine write.

Dempsey and Fontaine conclude: "There are serious limits to when and where nation building will succeed. If the new Bush administration understands that point from the outset, the effective result will be a long overdue moratorium on the sort of ill-conceived nation-building adventures witnessed during the Clinton years."

Fool's Errands: America's Recent Encounters with Nation Building is available ($19.95 cloth, $10.95 paper) through Cato Institute Books at 1-800-767-1241 or via the online Cato Bookstore, www.cato.org. ■

Cato Calendar

Perspectives on Policy: Taming Leviathan 2001
Chicago • Westin Michigan Avenue
October 2, 2001
Speakers include P. J. O'Rourke and Ed Crane.

Perspectives on Policy: Taming Leviathan 2001
Austin • Four Seasons Hotel
October 16, 2001
Speakers include P. J. O'Rourke and Ed Crane.

Perspectives on Policy: Taming Leviathan 2001
Dallas • Four Seasons Las Colinas
October 17, 2001
Speakers include P. J. O'Rourke, Leo Linbeck, and Ed Crane.

Perspectives on Policy: Taming Leviathan 2001
Los Angeles • Reagan Library
October 19, 2001
Speakers include P. J. O'Rourke.

Perspectives on Policy: Taming Leviathan 2001
San Francisco • Argent Hotel
October 22, 2001
Speakers include P. J. O'Rourke and David Boaz.

Perspectives on Policy: Taming Leviathan 2001
Denver • Westin Tabor Center
October 24, 2001
Speakers include P. J. O'Rourke, John Malone, and David Boaz.

Money and Markets in the Americas 19th Annual Monetary Conference
Cosponsored with The Economist, *UBS, and TV Azteca*
Mexico City • Four Seasons Hotel
October 24, 2001
Speakers include Francisco Gil-Díaz, Robert Mundell, Judy Shelton, Robert McTeer Jr., Allan Meltzer, and Guillermo Ortiz.

Cato University: A World of Trade, Peace, and Freedom
Montreal • Omni Mont-Royal
October 25–28, 2001
Speakers include Douglas Irwin, Emily Chamlee-Wright, Tom G. Palmer, Brink Lindsey, George Ayittey, and David Boaz.

Perspectives on Policy: Taming Leviathan 2001
Houston • Four Seasons Hotel
October 26, 2001
Speakers include P. J. O'Rourke and Ed Crane.

China's Pension System: Crisis and Challenge
Cosponsored with China Center for Economic Research
Beijing • The Great Wall Sheraton Hotel • November 8, 2001
Speakers include Sun Jian Yong, Justin Yifu Lin, John Greenwood, José Piñera, Mao Yushi, and Liu Mingkang.

The Future of Intellectual Property in the Information Age
Fifth Annual Technology and Society Conference
Cosponsored with Forbes ASAP
Washington • Cato Institute
November 14, 2001
Speakers include John Perry Barlow, Mitch Glazier, Mike Godwin, Paul Misener, and Tom W. Bell.

Policy Perspectives 2001
New York • Waldorf=Astoria
November 16, 2001

14th Annual Benefactor Summit
Phoenix • Royal Palms Hotel
February 20–24, 2002

25th Anniversary Gala
Washington • Hilton • May 9, 2002

Updated information on Cato events, including Policy Forums and Book Forums not shown here, can be found at www.cato.org/events/calendar.html

"Whatever the initial intent, Plan Colombia draws the United States into Colombia's civil war."

COLOMBIA *Continued from page 1*

bians are beginning to leave the country in large numbers. In the past five years more than a million Colombians—of a population of 40 million—have emigrated.

The strength of the guerrilla forces has surged in recent years. In 1985 FARC had 3,000 fighters and was active in 25 isolated sectors. Today it has at least 20,000 better-armed fighters—the largest insurgent force in Latin America—and launches strikes all over Colombia. In the south it controls a swath of territory nearly the size of Switzerland. The ELN is considerably smaller, but its forces dominate the territory in the northeast through which runs Colombia's economically crucial oil pipeline.

Meaningless Distinctions

Into this snake pit now wanders the United States. The lack of realism underlying U.S. involvement in Plan Colombia was illustrated by the Clinton administration's original assurance that the funds would be used only to fight drug trafficking, not support the government's struggle against FARC and ELN. Critics point out the obvious: military hardware purchased can and will be used for both purposes. Indeed, most of the military operations ostensibly directed against narcotraffickers take place in areas that have a large guerrilla presence. In many cases, narcotrafficking organizations are allied with one or both of the guerrilla groups. Any action against the former will be considered by the latter as a blow against their cause.

The impossibility of distinguishing between the fight against narcotrafficking and the fight against insurgents was conceded early on by some officials in the Bush administration. Robert Zoellick, a top foreign policy adviser to Bush during the 2000 presidential campaign and now U.S. Trade Representative, scoffed at the tactics of the Clinton administration. "We cannot continue to make a false distinction," Zoellick stated. "The narcotraffickers and guerrillas compose one dangerous network." Candidate Bush himself took a similar line, vowing that U.S. assistance "will help the Colombian government protect its people, fight the drug trade, [and] *halt the momentum of the guerrillas.*" Actions in the field may already be blurring the line between counternarcotics and counterinsurgency assistance. In April 2001 Counter-Narcotics Battalion 1, an elite Colombian army unit that had been specifically trained by the United States to conduct anti-drug operations, clashed with FARC guerrillas in southern Colombia. Nine rebels and one government soldier were killed.

Whatever the initial intent, Plan Colombia draws the United States into Colombia's civil war. Pastrana clearly wants Washington to play a role in ending the insurgency as well as fund anti-drug efforts. During a visit to Washington in late February 2001, he urged the Bush administration to participate in peace negotiations between his government and the two rebel organizations. Initially, President Bush and other administration leaders firmly rebuffed that initiative. Within days, however, U.S. policymakers seemed to have second thoughts. Trial balloons appeared in the news media suggesting that, perhaps, the United States could play a constructive, albeit supporting, role in the negotiations.

Colombia probably would be a violent and turbulent place even without the drug factor, but the lucrative illegal drug trade makes an already bad situation even worse. Both rebel organizations (and to a lesser extent the AUC) derive much of their revenues from the drug trade. The bulk of the money appears to come from "tax levies" the groups impose on drug-crop farmers and drug traffickers. But there is also strong evidence that FARC and ELN are directly involved in trafficking. One estimate places the revenue flow from drug-related sources to FARC at more than $600 million a year, which would make that group the best-funded insurgency in the world today.

The flow of drug money to insurgents should be embarrassing to drug warriors in the United States and Colombia. After all, when the Cali and Medellin drug cartels were broken in the 1990s, victories were loudly proclaimed. In reality, the traffickers merely adapted to the new environment and adopted a more decentralized form of organization. Today roughly 300 loosely connected families control the drug trade, and Colombia still accounts for approximately 80 percent of all the cocaine produced in the world and two-thirds of the heroin consumed in the United States.

Human Rights

Human rights advocates in the United States and elsewhere have grave reservations about Plan Colombia. They worry that Washington is crawling into bed with some of the worst abusers of human rights in the Western Hemisphere, especially given the ties between portions of the Colombian military and the AUC. Congress sought to deflect such criticism by attaching a number of conditions to the aid package, including one requiring the executive branch to closely monitor the behavior of Colombia's military and police forces.

However, as is often the case with congressionally imposed standards, those "requirements" have turned out to be little more than political window-dressing. Indeed, Congress gave the executive branch a spacious legal escape hatch, allowing a presidential waiver on national security grounds—a depressingly familiar shell game. Sure enough, the first time executive branch certification of an improvement in Colombia's human rights record came due, in August 2000, the requirements were waived by President Clinton.

Even President Pastrana is alarmed at the growing strength of the right-wing paramilitary organizations. He has blasted the paramilitaries as a "veritable cancer spreading in our body politic" and accuses the AUC of being "responsible for 70 percent of the massacres."

The AUC fighters are hardly the only parties guilty of committing atrocities, though. In May 2001 FARC troops massacred more than two dozen farmers in northern Colombia; many of the victims were hacked to death with machetes. The rebel forces had invaded an area where a new crop of coca was being grown to generate income for the AUC. The massacre was also part of a larger FARC campaign to open a transportation corridor to the Caribbean and Panama to facilitate the flow of drugs and arms. Achieving that goal

“One of the great dangers of Plan Colombia is that it will cause Colombia’s troubles to spill over its borders into neighboring countries.”

meant eliminating a stronghold that the AUC had seized more than five years earlier.

Failure of Eradication Efforts

Human rights organizations are not the only critics of Plan Colombia. Governors of the coca-producing provinces, although strongly opposed to the Marxist guerrillas, condemn aspects of the plan. They reserve their harshest rhetorical fire for the aerial spraying campaign that Washington pushes with such enthusiasm. The governors warned in January 2001 that the operation would imperil the livelihood of thousands of poor peasants. Their worst fears were soon confirmed as the herbicide used in the spraying program killed acre upon acre of legal crops along with the coca plants.

Predictably, both Colombian and U.S. officials touted the “spectacular” early success of the aerial spraying campaign. Just as predictably, details soon emerged to cast doubt on those claims. *Washington Post* correspondent Scott Wilson, traveling in Colombia just weeks after the most intensive phase of the spraying offensive in December 2000 and January 2001, noted Bogotá’s claims that some 40,000 acres of coca had been destroyed in one province, Putumayo, alone. Yet “in interviews around this village [El Tigre]...farmers said many drug plantations remained untouched, protected from spray planes in hard-to-reach valleys by jungle cover and guerrilla troops. Valleys full of coca were evident from the main east-west highway. And on almost every farm hit by the herbicide since December, small tents protected young coca plants for future cultivation.”

Evidence emerged in May 2001 that cast even more doubt on the effectiveness of the crop eradication strategy. A source within the Colombian government leaked information about a study that contained revised estimates of the country’s cocaine production. According to those revised estimates, Colombia is producing 800 to 900 tons of cocaine annually, not the 580 tons estimated by the U.S. State Department and the U.S. Drug Enforcement Administration. If accurate, the new estimates mean that Colombia is producing more cocaine than the earlier U.S. estimate of total world production (780 tons). Furthermore, if the Colombian government study is correct, the actual acreage under cultivation in Colombia is considerably greater than previously thought—perhaps as much as 50 percent greater. In short, even if one accepts the notion that the spraying completely eradicated the coca plants in the 75,000 acres hit so far, the reality is that the amount of acreage under cultivation today is greater than the total estimated acreage when the campaign began. As the Colombian source put it, Plan Colombia has “not made a dent” in the country’s output of cocaine.

Increasing Risks

As if the reports leaking out of Colombia were not enough to cast doubt on the effectiveness of Plan Colombia, Donnie Marshall, head of the U.S. Drug Enforcement Administration, conceded barely a week later that cocaine prices in the United States were not rising despite the eradication efforts in Colombia. If those efforts were having an effect, they should have produced at least a modest supply shortage in the United States. That, in turn, should have created upward pressure on street prices for the drug. Yet Marshall admitted that prices had remained steady since December 2000, when eradication efforts under Plan Colombia began.

The risk exposure to the Americans waging the drug war in Colombia is also on the rise. Planes conducting spraying have been fired on. In February 2001 an armed search and rescue team including several Americans, and working under contract with the State Department, was also fired upon as it recovered the crew of a Colombian police helicopter that had been disabled in a firefight with guerrillas trying to protect a coca crop.

One of the great dangers of Plan Colombia is that it will cause Colombia’s troubles to spill over its borders into neighboring countries. As soon as it became evident that the United States was financially backing Plan Colombia’s military, anti-drug component, officials in other countries began to express concern and objections.

True, some of the professed reluctance

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News Notes

Leyland, Kiely Join Cato

Jackie Leyland has joined the Cato Institute as director of development. She will oversee the Institute’s direct mail program and meet with Sponsors and potential Sponsors. Leyland earned her master’s degree in computer science from Duke University and worked as a fellow in nuclear weapons safety at Sandia National Laboratories before spending four years in business marketing at Capital One Financial Corporation. She can be reached at jleyland@cato.org.


Jackie Leyland

Jefferson Kiely has joined Cato as director of marketing; he will oversee all aspects of marketing and advertising for Cato publications and events. Kiely most recently founded and served as president of the Kiely Agency of Ft. Lauderdale, Florida. At other communications firms, he supervised a number of corporate accounts, including an advertising campaign for McDonald’s of South Florida. He also developed cross-promotional efforts with many Florida enterprises, including the Miami Heat, the Miami Dolphins, Coke and Minute Maid, Busch Gardens, Sea World, and Disney. He has been a libertarian all his life; his parents named him for Thomas Jefferson. He can be reached at jkiely@cato.org.


Jefferson Kiely

“If Plan Colombia fails to achieve its objective, pressure will mount on the United States to escalate its commitment.”

COLOMBIA *Continued from page 13*

to endorse Plan Colombia appears to be part of a cynical strategy on the part of various governments to extract more money from the United States. Ecuador’s foreign minister Heinz Moeller was not subtle when he warned that it would be impossible to prevent Colombia’s war from spreading to Ecuador (and other neighboring countries)—unless the United States came up with additional financial assistance. He thought another $400 million to $500 million over five years ought to cover it.

Indeed, the lure of U.S. aid dollars eventually caused most Latin American leaders to embrace Plan Colombia, however reluctantly. By April 2001 even Venezuela’s eccentric leftist president, Hugo Chavez, was on board—despite remarks a few months earlier warning of the “Vietnamization” of the Amazon basin. Coincidentally, his conversion took place barely two weeks after the Bush administration proposed doubling the aid package for Colombia’s neighbors.

But some influential Latin Americans have refused to mute their objections despite the draw of U.S. dollars. One hundred prominent Latin Americans, including Argentine Nobel laureate Adolfo Pérez Esquivel, sent President Bush a letter calling U.S. military aid and forced coca eradication in Colombia “misguided and harmful” and warning that the policy “will [adversely] affect the entire Andean region.” Ecuadorean congressman Henry Llanes, a prominent critic of his government’s decision to allow the United States to run its anti-drug surveillance flights out of an air base at Manta, cites as one reason for his opposition the fear of a dangerous entanglement. “We are compromising our neutrality in the Colombian conflict with the Manta base,” Llanes warns, “dragging ourselves into a war between the Americans and their enemies in Colombia.”

His fears are not unfounded. A few days earlier Ecuadorean troops killed six men at an illegal drug lab near the border with Colombia. Evidence at the scene indicated that they were members of FARC. That marked the first armed clash between the Ecuadorean military and the Colombian rebels. Other incidents soon followed. In early February more than 500 Ecuadoreans fled their Amazon jungle homes after armed Colombian groups threatened their border hamlets—seemingly a direct response to the earlier destruction of the lab. In early June an Ecuadorean army unit clashed with ELN guerrillas some 13 miles inside the border.

Fighting in Colombia has also created a flow of refugees into neighboring countries. In one such incident in early February 2001, more than 400 people from four villages sought refuge in Venezuela after paramilitary forces pillaged their homes. Other victims have fled to neighboring countries to avoid harassment by the rebels. More than 100 refugees crossed the border into Panama after FARC guerrillas killed the mayor of their Pacific coast village and terrorized them.

In addition to the spillover of violence from Colombia’s civil war, there has been a spillover of the drug trade. Even as U.S. support for Plan Colombia got under way in 2000, U.S. officials were reporting a marked increase of drug trafficking in the upper Amazon River region in Brazil as well as in Panama. By late 2000 U.S. officials promised that additional funding would be forthcoming to deal with the problem. Under Secretary of State Thomas Pickering was surprisingly candid, explaining, “As we increase our efforts in Colombia, there will be a tendency [for the drug organizations] to find new areas, either in Colombia or outside Colombia, in which to move the cultivation and production of cocaine and heroin.” One would be hard-pressed to come up with a more concise description of the “push down, pop up” (or “balloon”) effect and the inherent futility of the drug eradication component of the hemispheric war on drugs. But Pickering did not draw the obvious conclusion.

In March 2001 the Bush administration proposed a significant increase in funding for Colombia’s neighbors in the 2002 budget. As part of a $731 million Andean Initiative (the name is cribbed from a similar initiative of Bush the elder), the administration earmarked $332 million for anti-drug efforts. The new Andean Initiative request included an additional $399 million for Colombia, $156 million for Peru, $101 million for Bolivia, and about $75 million for Colombia’s four other neighbors—Brazil, Ecuador, Panama, and Venezuela.

Trouble Ahead

For all the claimed successes, Plan Colombia is already showing signs of trouble. Barely months after the program went into effect, Pastrana was calling for substantially more money. In an interview shortly before his summit meeting with President Bush in February 2001, Pastrana asserted that perhaps as much as another $500 million a year was needed. Those funds, he argued, should be spent on economic development in the provinces where the aerial spraying programs were taking their greatest toll. He added ominously, “This is a long-term plan, maybe 15 to 20 years.”

And Plan Colombia already shows signs of creating a nasty anti-U.S. backlash among portions of the Colombian population. When Pastrana visited Putumayo province in May 2001 to sell the “softer” (economic development) side of Plan Colombia, he was repeatedly confronted by groups of protesters. Many of them waved signs showing a Colombian flag subsumed by the Stars and Stripes, with the caption “Plan Colombia’s achievements.” Other demonstrators greeted the president with chants of “Pastrana subservient to the gringos.” “The United States thinks they’re the boss here,” one angry resident told a reporter. “We don’t want fumigation, and we don’t want money from Uncle Sam.”

There is, of course, another troubling possibility in connection with Plan Colombia. If the effort fails to achieve its objective, pressure will mount on the United States to escalate its commitment. Even during these relatively early stages of the campaign, one can already hear arguments that America’s credibility is on the line.

As we have seen in regions as diverse as Southeast Asia, the Persian Gulf, and the Balkans, once America’s “credibility” is invoked, it is very difficult to blunt the drive toward a major military commitment. In Colombia another quagmire is beckoning. ■

Moving Ahead on Tax Reform

Glenn Hubbard, chairman of the President's Council of Economic Advisers, discussed the future of tax reform at a Cato Policy Forum on June 26.

I see five trends that make me optimistic about the direction the discussion of tax reform will take over the next few years.

Development number one: A majority of American households now own stock. Ten years ago when I was at the U.S. Treasury, we published a study on corporate tax integration. One of the things the Treasury proposed was eliminating taxes on dividends and providing for adjustment relief in the taxation of capital gains. At the time this was narrowly viewed as being about "rich people" who get dividends and capital gains and not about most people.

Of course, that is a serious error in thinking, because we all know that as an economy we suffer if the taxation of corporate capital is too high. But I submit to you that the discussion of tax policy toward corporate capital is different in a world where a majority of us now see ourselves as having a direct stake.

So, step one that I think will be important is the realization that there is no more "us versus them," and that capital taxation is important.

Step two: The president has appointed a Social Security Commission. Now, what does this have to do with tax reform?

Quite a bit. It would be hard to believe that we would have a very serious discussion of Social Security modernization without thinking about how we treat retirement saving generally in the United States, how that might be reformed, and how it might be made more generous.

So, one could easily see a discussion of an expansion of certain kinds of saving incentives as a part of a broader discussion of retirement saving policy; and a move toward exempting capital from tax is, of course, an important part of what most economists would view as fundamental tax reform. So, the second trend is that discussion about retirement saving policy will lead us to think about what the "right level of tax" on saving ought to be.

A third concern emerges from the current cyclical condition of the economy. I think it is fair to say that the economy is right now two economies--a consumer economy and an investment economy--faring quite differently. The concern over investment and capital accumulation has led many observers to suggest the need for a shift toward a more generous treatment of capital investment. I would call it not more generous but rather a more neutral treatment of capital investment; that is, shifts toward expensing (as a limit) or depreciation reform and reduction of the alternative minimum tax.

The fourth trend is the perennial desire for simplification of the tax code, in particular, simplification of the tax treatment of business-generated income. Here again I think we will see a natural discussion of at least two items. One is capital gains, the treatment of which is quite complex under current law. Movements toward reduced capital gains taxation would be a part of any income tax reform that would push us toward integration or a consumption tax reform that would push us toward relieving capital taxes. Similarly moves toward expensing create a substantially simpler system. So, the desire for simplification could be easily connected to what we would all think of as moves toward fundamental tax reform.

The fifth item that I think will stimulate discussion of, or thinking about, fundamental tax reform is any decision about the foreign sales corporation provisions currently in the tax law. Any reform of those provisions should lead to a rethinking of how we treat multinational corporations for tax purposes. That opportunity is on the table and easily connected to fundamental tax reform.

I think that the condition of the current economy and a strong leadership interest on the part of the president point toward tax reform. I think this is the beginning of a discussion that will be very, very fruitful. ■

Friedman Prize Committee Named

A distinguished international committee has been named to select the winner of the first biennial Milton Friedman Prize for the Advancement of Liberty. The Friedman Prize will be a cash award of $500,000 presented to one individual for significant achievement in the advancement of liberty. The first prize will be presented at the Cato Institute's 25th anniversary banquet on May 9, 2002.

Margaret Thatcher

Václav Klaus

The members of the selection committee are former British prime minister Margaret Thatcher, former Czech prime minister Václav Klaus, Italian defense minister Antonio Martino, Hong Kong/Taiwan entrepreneur Jimmy Lai, Peruvian author Hernando de Soto, John Blundell of the Institute of Economic Affairs in London, Cato president Edward H. Crane, and economist Rose D. Friedman, wife of Milton Friedman and coauthor of *Free to Choose*.

The Friedman Prize has been established with the support of California businessman John Pasquesi. The winner need meet only one criterion: to have done the most to advance human freedom in the opinion of those making nominations and the prize committee. Nominees may be from any and all walks of life.

Nominations for the prize may be e-mailed to FriedmanPrize@cato.org or sent to Friedman Prize, Cato Institute, 1000 Massachusetts Avenue, N.W., Washington, D.C. 20001. Nominations will be reviewed by the prize committee. Officers, directors, and employees of the Cato Institute are not eligible.

"To Be Governed..."

◆Government man

The only paychecks Tom Daschle has ever cashed have been drawn on the United States Treasury—in the Air Force, or in Congress.

—*Washington Post,* June 6, 2001

◆Taxes go sky-high

Los Angeles County officials, realizing that there is no tax collector in outer space, hope to fill the void.

Reaching 22,300 miles above the equator, boldly going where no tax collector has gone before, Los Angeles County Assessor Rick Auerbach is angling to impose property taxes on several satellites.

Though never done before in California, the move is legal, say state and county tax attorneys. That's because, they say, nobody else is taxing the satellites....

Attorneys for the state Board of Equalization, consulted by Auerbach, came down on the county assessor's side.

"While the satellites are in Earth orbit," wrote the Board of Equalization attorneys in a background paper, "they nonetheless have a situs for tax purposes in Los Angeles County, California."

—*Los Angeles Times,* July 10, 2001

◆Fighting deregulation

Brazil has a bureaucracy only Kafka could love, but luckily for foreigners, the red tape has given rise to a special breed of fixers, known as "despechantes." For a price, despachantes navigate the bureaucracy for their clients, from customs regulations to licensing a new car.... Brazil has a love-hate relationship with despachantes, the go-betweens who tackle rules and regulations, while occupying a gray area of the law themselves. And despachantes rarely seek publicity. Sergio Raposo, who heads Brazil's American Chamber of Commerce, says their shyness isn't surprising, because their existence points out the unworkable bureaucracy....

Many such "fixers" work in agencies of up to 30 people, and specialize in certain government agencies or types of paperwork. On a weekday morning, one despachante lingers outside the U.S. consulate, eager to assist those in line for U.S. visas in case they've forgotten any necessary paperwork. He refrains from criticizing the bureaucracy—U.S. or Brazilian—but instead says despachantes provide services to clients who are busy and short on time....

But despachantes aren't always the citizen's best friend. In the Brazilian capital, despachantes have their own lobbying group, which opposes any government efforts to simplify the regulations that, after all, make up their bread and butter.

—Marketplace Radio, June 11, 2001

◆New frontiers in law

Elizabeth Randolph Roach could not stop shopping, her lawyer told a judge. She shopped for things she did not need, things she did not want, designer clothes and jewelry she never even wore.

A shopping addiction, her lawyer said, compelled Ms. Roach to buy a $7,000 belt buckle at Neiman Marcus, amass 70 pairs of shoes at one time and become so enthralled with shopping in London that she racked up a $30,000 bill and missed her plane back home.

And it was the shopping, argued her lawyer, Jeffrey Steinback, that propelled her to steal nearly a quarter of a million dollars from the consulting company she worked for by padding her expense accounts.

On Wednesday, a federal judge agreed. Judge Matthew F. Kennelly of Federal District Court [in Chicago] spared Ms. Roach from going to prison, reducing what could have been an 18-month jail sentence because he said she was using her shopping addiction to "self-medicate" her chronic depression.

—*New York Times,* May 25, 2001

◆Refugees have suffered enough

Refugees can languish in camps for decades....When American film producer Caroline Baron worked in Kosovo and Macedonia, she was struck by the boredom of the displaced, who had nothing to distract them from their traumas.

Baron dreamed up a project she thought would bring "hopeful entertainment and laughter" to children and exiles [by sending] projectors and films into the camps for Kosovo refugees in April 1999. Now her project, FilmAid International, is taking wing....

FilmAid's library has expanded from Charlie Chaplin movies, cartoons and "Titanic" to include education material on...sexual and gender-based violence and conflict resolution.

—*Washington Post,* June 6, 2001

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