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Capitalism and Human Nature

by Will Wilkinson

In the spring of 1845 Karl Marx wrote: "The human essence is no abstraction inherent in each single individual. In its reality it is the ensemble of social relations." Marx's idea was that a change in the "ensemble of social relations" can change "the human essence."

In June 2004 the communist North Korean government issued a statement to its starving citizens recommending the consumption of pine needles. Pyongyang maintained that pine needle tea could effectively prevent and treat cancer, arteriosclerosis, diabetes, cerebral hemorrhage, and even turn gray hair black.

Tragically, human nature isn't at all as advertised, and neither is pine needle tea. According to the U.S. State Department, at least one million North Koreans have died of famine since 1995.

Marx's theory of human nature, like Kim Jong Il's theory of pine needle tea, is a biological fantasy, and we have the corpses to prove it. Which may drive us to wonder: if communism is deadly because it is contrary to human nature, does that imply that capitalism, which is contrary to communism, is distinctively *compatible* with human nature?

A growing scientific discipline called evolutionary psychology specializes in uncovering the truth about human nature, and it is already illuminating what we know about the possibilities of human social organization. How natural is capitalism?

Evolutionary Psychology 101

Evolutionary psychology seeks to understand the unique nature of the human mind by applying the logic and methods of contemporary evolutionary biology and cognitive psychology.

Will Wilkinson is a policy analyst at the Cato Institute.

Cato Institute senior fellow Randy Barnett, author of *Restoring the Lost Constitution,* talks to journalists outside the Supreme Court after arguing the case of *Raich v. Ashcroft* on November 29. Barnett told the Court that allowing the federal government to override state law on medical marijuana would vastly expand federal power justified on the grounds of "interstate commerce." See p. 11.

The main working assumption of evolutionary psychology is that the mind is a variegated toolkit of specialized functions (think of a Swiss Army knife) that has evolved through natural selection to solve specific problems faced by our forebears. Distinct mental functions (e.g., perception, reading other people's intentions, responding emotionally to potential mates) are underwritten by different neurological "circuits" or "modules," which can each be conceived as a mini computer program selected under environmental pressure to solve specific problems of survival and reproduction typical in the original setting of human evolution, the Environment of Evolutionary Adaptedness, or EEA. Strictly speaking, the EEA is a statistical composite of environmental pressures that account for the evolutionary selection of our distinctively human traits. Loosely, the EEA was the Pleistocene, during which humans lived as hunter-gatherers from about 1.6 million years ago up until the invention of agriculture about 10,000 years ago.

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Election 2004 and Limited Government

What do the election results tell us about American voters and the issues of liberty and limited government?

Incumbents did OK. For the fourth election in a row, incumbents in the House of Representatives won more than 98 percent of their races. And not only are they winning consistently, but they're doing so by wider margins; John Samples and Patrick Basham report that incumbency now adds about 11 percent to the vote share of the average officeholder. The past three elections constituted the least competitive elections (with one exception) since 1946. Incumbents bask in taxpayer-funded offices, websites, mailings, television studios, and press secretaries, while campaign finance regulations ensure that few challengers will have adequate money.

Why didn't Bush win by more? Election analysis usually begins with the question of why President Bush won, and most of the analysis is partisan, red team/blue team stuff. But perhaps the more interesting question is why his victory was so narrow. Yale economist Ray C. Fair, who has been much celebrated in the media for the accuracy of his economic model in predicting presidential election results, predicted that Bush would win 57.5 percent of the two-party vote. Instead, he won only 51.3 percent of the two-party vote (50.8 percent of the total vote for president). Why did he run six points behind what the economic model predicted?

The best explanation would seem to be the Iraq war. By the time of the election, 52 percent of the voters thought the war was going badly, and that may have cost Bush a few points.

Did gay marriage boost Bush? Some analysts jumped to the conclusion that the 11 state initiatives to ban gay marriage helped Bush win by drawing more Christian conservatives to the polls. It's true that states with such initiatives voted for Bush at higher rates than other states, but that's mostly because the bans were proposed in conservative states. In fact, Bush's share of the vote rose just slightly less in the marriage-ban states than in the other states. Note also that 60 percent of respondents in the exit poll said that they supported either gay marriage or civil unions. And the youngest voters—the future electorate—supported marriage much more strongly than older voters.

Was it a "moral values" election? A broader claim grew out of the exit polls showing that more voters chose "moral values" than anything else as their most important issue. But that claim also fails careful analysis. Yes, 22 percent of exit-poll respondents chose "moral values" as their top concern, compared with "economy/jobs" at 20 percent, terrorism at 19 percent, Iraq at 15 percent, health care at 8 percent, and taxes at 5 percent. But "moral values" was in first place because of the poll design. If Iraq and terrorism were combined, they would have had 34 percent. A single item for "economy, jobs, and taxes" would have had 25 percent. In addition, of course, it's not clear what "moral values" means. The *Los Angeles Times* exit poll, which asks the question a different way, found that 40 percent of voters surveyed selected "moral/ethical values" as one of their two most important issues in 2004—the same percentage as in 1996, when they reelected Bill Clinton.

It's terrorism, stupid. The most important number in the exit polls was this: 60 percent of respondents said they trusted Bush to handle terrorism, while only 40 percent trusted Kerry. You can't win a post-9/11 election if only 40 percent of voters trust you to protect them against terrorists; people may not be happy with the war in Iraq, but they thought terrorism was the bigger issue.

> **"Bush said during the campaign, 'My opponent seems to be against every idea that gives Americans more choices and more control over their own lives.'"**

And freedom. In three national elections now, the old claim that Social Security is the "third rail of American politics" has been disproved. George W. Bush ran in 2000 on the need for private accounts, Vice President Gore sharply attacked him for his position, and Bush won a narrow victory. In 2002 House Minority Leader Dick Gephardt proclaimed, "This election is a referendum on Social Security"—meaning that Democrats would use the "privatization" issue to defeat congressional Republicans. Instead, Social Security reform played a role in the election of several new senators. In 2004 President Bush consistently talked about Social Security reform in his campaign for reelection, and Senators Jim DeMint, Tom Coburn, Mel Martinez, and John Thune supported individual accounts, were attacked by their opponents, and won. And that's no surprise, as numerous public opinion polls have shown support for private retirement accounts at anywhere from 56 to 70 percent.

Bush said during the campaign, "My opponent is against personal retirement accounts, against giving patients more control over their medical decisions through health savings accounts, against providing parents more choices over education for their children, against tax relief for all Americans. He seems to be against every idea that gives Americans more authority and more choices and more control over their own lives." The voters chose Bush's approach to those issues, and that's an excellent agenda for the second term.

—David Boaz

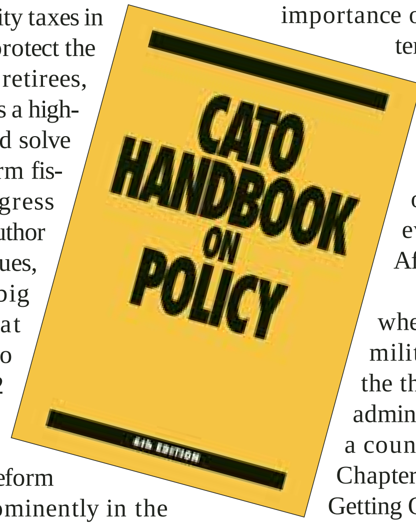
Cato Handbook on Policy

Cato Offers Congress 69 Chapters of Advice

Ten years ago, a populist backlash against Bill Clinton's big-government schemes swept a Republican Congress into power with a mandate to slash federal spending and implement free-market reforms. The Cato Institute welcomed the new Congress by publishing the first edition of the *Cato Handbook for Congress*, which the *Washington Post* called a "soup-to-nuts agenda to reduce spending, kill programs, terminate whole agencies and dramatically restrict the power of the federal government."

Now another Republican Congress has been swept into power, this time led by a Republican president who has promised major reforms of the tax code and the Social Security system. Cato is proud to publish a new edition of the *Handbook*, which has been retitled *Cato Handbook on Policy* to reflect its broader focus on the courts and executive branch policymakers as well as state legislatures. The president's reelection—with a friendly Congress—gives him a rare opportunity to leave a lasting legacy, and the newly updated sixth edition of the *Handbook* provides him with a detailed blueprint for reform.

President Bush has said that reforming Social Security tops his agenda for the 109th Congress, and the subject is also the first policy recommendation found in the *Handbook*. In Chapter 4, policymakers can learn how allowing workers to invest their share of Social Security taxes in private equities can protect the benefits of current retirees, give younger workers a higher rate of return, and solve the system's long-term fiscal shortfall. Congress should think boldly, author Michael Tanner argues, and enact a "big accounts" plan that allows workers to divert their full 6.2 percent payroll tax to the accounts.



Tax and budget reform is also featured prominently in the *Handbook*. In his first term, President Bush did little to rein in Congress's appetite for spending, but with his reelection secured, he should have a freer hand to tame a federal government that is growing out of control. The tax code is also ripe for reform. Chapter 11 recommends that the Bush tax cuts be made permanent; that Congress repeal social-engineering loopholes, the alternative minimum tax, and the estate tax; and that the income tax be replaced with a consumption-based tax that is "flat, neutral, and simple."

Of course, an increased focus on domestic economic reforms should not diminish the importance of continuing the fight against terrorists who threaten American security. Cato's respected foreign policy scholars urge the United States to redouble its efforts to hunt down Al Qaeda operatives, many of whom have evaded American troops in Afghanistan and Pakistan.

Unfortunately, at a time when the full resources of the U.S. military are needed to deal with the threat from Al Qaeda, the Bush administration has chosen to focus on a counterproductive war in Iraq. In Chapter 57, "Iraq and the Persian Gulf: Getting Out, Staying Engaged," Christopher Preble urges the Bush administration to set a firm timeline for the withdrawal of American troops from Iraq.

As the newly elected Congress returns to Washington to begin its work in January, Cato will hold events on Capitol Hill to present copies of the *Handbook* to each member of the House and Senate. Copies are also available to the public in bookstores and online. The full text is available online at www.cato.org, and paperbound copies are available for $24.95 from the www.catostore.org or by calling 800-767-1241. ■

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Conferences on Trade, Money, Defense

◆**October 7:** Trade was a hot-button issue in political campaigns across the country in 2004. White-collar workers in America have begun to feel competitive pressures that were previously limited to their blue-collar compatriots, creating a populist backlash against "outsourcing." At a Cato conference, **"Trade and the Future of American Workers"** cosponsored with *The Economist*, journalists, politicians, and trade policy experts emphasized that outsourcing—like all forms of free trade—creates wealth and improves living standards for citizens of trading countries. Sen. Chuck Hagel (R-NE) said that technological progress is more to blame for job dislocations than is trade and noted that trade and progress have been causing labor dislocations for centuries. Brink Lindsey, Cato's vice president for research, agreed and pointed out that similar controversies have cropped up repeatedly since the Great Depression. Economists from both parties—Gregory Mankiw, chairman of President Bush's Council of Economic Advisers, and Martin Baily, who held that post under President Clinton—emphasized that it is ultimately American consumers who reap the lion's share of benefits from the lower prices made possible by outsourcing.


Robert Guest of *The Economist,* winner of the 2004 Bastiat Prize for Journalism, discusses his new book, *The Shackled Continent,* at a November 17 Book Forum.


Former secretary of defense Robert S. McNamara (left) talks with climatologist Patrick J. Michaels after a November 18 Book Forum for Michaels's book *Meltdown.*

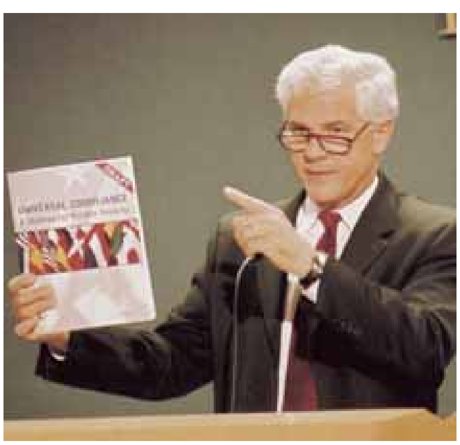
◆**October 14:** Some bad ideas never go away. At a Cato Hill Briefing, **"LOST at Sea: Arguments against the Law of the Sea Treaty,"** Cato's Doug Bandow offered a historical perspective on a treaty that was put to sleep but never killed. The treaty was negotiated by the Carter administration, rejected by President Reagan, and—supporters say—fixed by the Clinton administration to remove its most glaring defects. Yet, so far, Congress has declined to ratify it. That's a good thing, said Bandow, who worked on the treaty as an aide to President Reagan. The treaty would do little to enhance the security of American shipping—which is already protected by America's overwhelming naval power—but it would create meddlesome international bureaucracies to manage ocean resources at the expense of American taxpayers. Fred Smith, president of the Competitive Enterprise Institute, argued that property rights, not overweening global bureaucracies, are the best way to manage ocean resources. Frank Gaffney of the Center for Security Policy warned that, even after the Clinton-era "fixes," the treaty has glaring faults.

◆**October 14:** Nations face a "trilemma" in choosing their monetary policy. They can attain any two of the three goals of free capital markets, fixed exchange rates, and an independent monetary policy, but they cannot achieve all three. Most advanced countries today have opted for free capital markets and a floating exchange rate, leaving themselves the flexibility to manage the domestic macroeconomic environment. In the keynote address to Cato's 22nd Annual Monetary Conference—cosponsored with *The Economist* and titled **"International Monetary Reform and Capital Freedom"**—Federal Reserve Governor Ben Bernanke asserted that most developing countries, especially China, would benefit from free capital markets and a floating exchange rate. Four panels of speakers discussed sovereign debt crises, exchange rate regimes, "exchange rate protectionism" in the form of improperly pegged currencies, and the pros and cons of dollarization. Kristin Forbes of the Council of Economic Advisers argued that capital controls amount to "mud in the wheels of market efficiency." In his closing address, Leszek Balcerowicz, president of the National Bank of Poland, opined that, on balance, the adoption of the euro has been a net benefit for Poland and other EU nations.

◆**October 19:** Venerable British institutions such as property rights and the rule of law, along with the good fortune of being founded at the start of the industrial revolution, enabled the United States to achieve two centuries of robust economic growth and become the world's lone economic superpower. In his new book, *An Empire of Wealth: The Epic History of American Economic Power,* John Steele Gordon discusses those and other sources of America's stunning economic success. At a Cato Roundtable Luncheon, he argued that Alexander Hamilton, not Thomas Jefferson, was the man most responsible for America's prosperous commercial society and that wars helped spur American ingenuity. Those provocative claims generated vigorous debate among the journalists and scholars in attendance.

◆**October 20:** The latest skirmish in the esoteric battle over digital technology and copyright law concerns the Induce Act, which would sanction anyone who "intentionally aids, abets, induces, or procures" another to infringe copyrights. At a Policy Forum, **"The Next Big Thing in Copyright? The Induce Act and Contributory Liability,"** David Green of the Motion Picture Association of America argued that the act is necessary to combat the rampant music piracy found on the Internet. Mitch Glazier of the Recording Industry Association of America concurred and added that the Induce Act is part of a larger effort to rid the Internet of evils such as child pornography. Gigi Sohn of Public Knowledge said that the Induce Act is overly broad and that its real purpose is to strengthen the content industry's stranglehold on the future evolution of distribution technologies. Markham Erickson of NetCoalition warned that the approach of the Induce Act is doomed to failure because the Internet's fundamental architecture facilitates free copying of data. The overly broad language of the act could expose every Internet service provider to liability for the illicit copying activities of its users, he said.

◆**October 22:** It is unlikely that there will ever be unanimity on the war in Iraq—among libertarians or among Americans more broadly—but at a Cato conference, **“Lessons from the Iraq War: Reconciling Liberty and Security,”** leading libertarians and others debated the wisdom, propriety, and consequences of the occupation. Columnist Deroy Murdock kicked off the argument for the pro-war side by cataloging Saddam Hussein’s terrorist ties, most of which, his critics pointed out, occurred years before September 11, 2001, or were with groups that had non-American targets. Shibley Telhami of the Brookings Institution argued that the war has failed in its stated objectives and has instead brought chaos to Iraq, thereby making the country more hospitable to terrorists. Indeed, Cato’s Patrick Basham warned, Iraq’s political culture is probably too primitive to support democracy in the near future. Ronald Bailey of *Reason* magazine called for the revival of the Reagan doctrine, under which the United States supported armed insurgents in an effort to topple despotic regimes. Cato’s Chris Preble countered that the United States should focus on protecting Americans on American soil and should not drag American soldiers and American taxpayers into distant wars with little relevance to American national security. Ted Galen Carpenter, Cato’s vice president for defense and foreign policy studies, emphasized that war and big government go hand in hand. A commitment to limited government at home, he concluded, must be coupled with a restrained foreign policy abroad.



Joseph Cirincione discusses a new report on nuclear nonproliferation at an October 28 Cato Policy Forum on dealing with Iran’s nuclear program.

◆**October 26:** Pending legislation in Congress to standardize state drivers’ licenses will create a de facto national ID card, charged former representative Bob Barr (R-GA) at a Cato Hill Briefing, **“Would a National ID Make Us Safer or Just Less Free?”** Not only would standardized licenses be a serious threat to privacy, Barr argued, but they are completely unnecessary to fighting terrorism. The weak link in stopping terrorists is the visa process, he contended, not flaws in domestic identification systems. Cato’s Jim Harper pointed out that, because terrorists blow themselves up only once, risk assessment techniques are unlikely to be an effective way to catch or deter terrorists. Moreover, he said that a “checkpoint society” would require extensive government data collection to have any hope of identifying terrorists. Such a massive government database of innocent American citizens would be un-American and unconstitutional, he charged.

◆**October 26:** Voter ignorance poses serious challenges for democratic governance, argued Ilya Somin of George Mason University, author of a recent Cato study on the topic. At a Cato Policy Forum, **“What’s Wrong with the Voters?”** Somin pointed out that, because one person’s vote will almost never determine the outcome of an election, there is little incentive for voters to become well informed about the issues. As a result, most voters are “rationally ignorant” of even basic information about the political process. That, in turn, makes voters susceptible to political manipulation and makes it easier for special interests to take advantage of the political process for personal gain. Because the electorate has so little direct control over the behavior of governments, Somin advocated federalism and limited government as means of limiting the damage that poorly monitored governments can do. Cato’s John Samples critiqued the conventional wisdom that voter turnout is being depressed by large campaign contributions and negative advertising. To the contrary, he argued, campaign spending often includes get-out-the-vote efforts, and negative advertising can give voters information critical of incumbents, thereby increasing electoral competitiveness.

Cato vice president Ted Galen Carpenter talks to a journalist about nuclear proliferation after Cato’s October 28 Forum.

◆**October 28:** At a Cato Policy Forum, “**Iran's Nuclear Program: Isolation, Engagement, or Acceptance?”** experts debated the emerging threat of a nuclear-armed Iran. Joseph Cirincione of the Carnegie Endowment for International Peace argued that, if Iran became a nuclear power, neighboring states would feel an increased pressure to follow suit. That, he said, would undermine the moral force of the world’s nonproliferation regime. He urged the White House to deal directly with the Iranian government and to offer carrots as well as sticks in exchange for Iranian cooperation. Peter Brookes of the Heritage Foundation warned that a nuclear Iran could spark a nuclear arms race, with Saudi Arabia, Syria, and other Middle Eastern powers acquiring nuclear capabilities. Cato’s Ted Galen Carpenter cautioned that there might be no realistic way to deter Iran from acquiring nuclear weapons. The war in Iraq has demonstrated the folly of preventive warfare, he argued, and less aggressive means are unlikely to be effective deterrents. The United States should prepare for the possibility that Iran will become a nuclear power and focus its energies on ensuring that Iran doesn’t give a nuclear weapon to terrorists.

◆**October 28–31:** At the fall Cato Univer-

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EVENTS *Continued from page 5*

sity seminar in Quebec City, **"The Art of Persuasion: Skills for Everyone,"** participants learned how to use persuasive skills to win converts rather than simply win arguments. Dan Griswold, director of Cato's Center for Trade Policy Studies, discussed how libertarians could most effectively communicate the ideas of liberty to people of faith. Policy analyst Will Wilkinson pointed out that people are more often persuaded by the perception of common values than by rational argument. Cato senior editor Gene Healy offered tips on effective writing for an op-ed or a letter to the editor. Other speakers included columnist Deroy Murdock; Canadian MP Monte Solberg; and Donald Boudreaux, chairman of the Economics Department at George Mason University.

◆**October 29:** Raising labor productivity is the key to lifting poor countries out of poverty, argued author William Lewis, former director of the McKinsey Global Institute, at a Cato Book Forum for *The Power of Productivity: Wealth, Poverty, and the Threat to Global Stability.* Legal and cultural hurdles that prevent the efficient allocation of labor and capital are most to blame for the plight of poor countries, he contended. A crucial factor is the ability of efficient firms to expand and drive inefficient firms out of business. Also important, he argued, is a tax system that doesn't drive entrepreneurs into the black market with high taxes and red tape. Robust economic growth requires reductions in government spending to avoid strangling the fragile private sector, he said. Simon Johnson of MIT's Sloan School of Management argued that deregulation is key to spurring economic growth in developing countries. He agreed with Lewis that many poor countries impose unsustainable tax burdens to fund their generous welfare states.

◆**November 5:** Recent months have seen an explosion of "spyware," software that covertly installs itself on PCs in order to deliver ads or collect personal information. As the problem has grown, Congress and federal regulators have become increasingly interested. But at a Cato Hill Briefing, **"Here We Go Again: Congress Attempts to Outlaw Spyware,"** Federal Trade Commissioner Orson Swindle argued that legislation would be premature. Congress and legislatures should give the private sector an opportunity to deal with the problem, he said. Jim Harper, director of information policy studies at the Cato Institute, asserted that current laws against fraud and trespass give regulators plenty of authority to prosecute the worst offenders. Moreover, he warned, a poorly crafted law could stifle innovation for years to come.

Former senator Malcolm Wallop argues at a November 9 Policy Forum that the Pentagon should buy a new Marine One helicopter from the most efficient supplier, even if that company is not American.

◆**November 9:** Choosing a helicopter fleet for the president ought not be a political process. In practice, the competition to build the new Marine One has proven to be highly controversial. Two coalitions of defense contractors, each with substantial American contingents, have placed bids for the contract. Each has sought to portray the other as less American. At a Cato Policy Forum, **"Marine One: Buy the Best or Just Buy American?"** defense experts debated the merits of the two proposals and the broader implications of the decision. Dan Griswold, director of Cato's Center for Trade Policy Studies, said that American manufacturing is in no need of coddling and urged the administration to make the decision strictly on the basis of merit. Marine One, he claimed, is so important that we should acquire the best helicopter money can buy. Former senator Malcolm Wallop agreed. He noted that everyone working on a presidential helicopter will need a high level of security clearance, meaning that foreigners won't be eligible to do most of the work regardless of which bidder wins the contract. William Hawkins of the U.S. Business and Industry Council countered that maintaining a healthy defense industry is vital to national security and that procurement from foreign contractors would undermine American research and development and effectively subsidize the militaries of foreign countries.

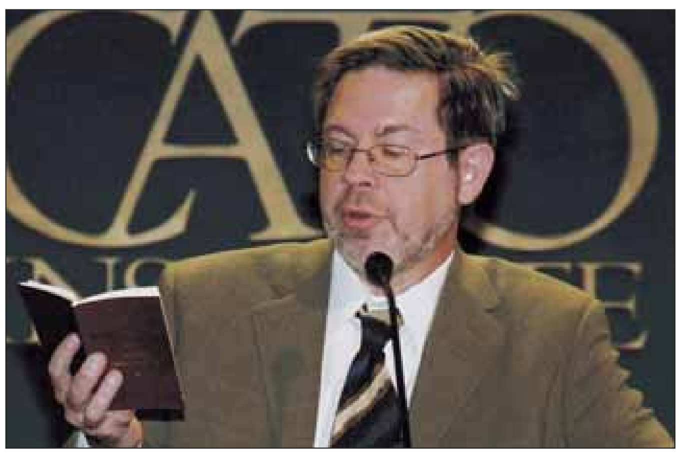
◆**November 10:** Cato senior fellow Robert A. Levy takes on abuse of the legal system in *Shakedown: How Corporations, Government, and Trial Lawyers Abuse the Judicial Process.* At a Cato Book Forum, he focused on two of the most egregious examples: antitrust law and extortion through the tort system. Antitrust law, he argued, has become a system of corporate welfare for market losers, allowing companies that fail in the marketplace to impede and extort money from their more successful competitors. It relies on a static view of the market, he said, and is applied haphazardly and often retroactively. As a result, companies have no way to predict what conduct may be deemed anti-competitive after the fact and therefore no choice but to become involved in the political process in self-defense. Levy also blasted the treatment of unpopular industries—especially cigarette and gun manufacturers—by avaricious attorneys general and their trial lawyer hired guns. They have adopted a strategy of legal harassment, he argued, using the deep pockets of the states to finance a campaign designed to force companies to settle. However, Levy cautioned, respect for the principle of federalism counsels against federal preemption of state tort law. Walter Olson of the Manhattan Institute agreed with Levy's criticism of the out-of-control legal system but argued that the Constitution gives Congress ample authority to enact comprehensive tort reform.

◆**November 17:** It is depressing to note, as *The Economist*'s Robert Guest did in a Cato Book Forum, that Africa is the only continent that has gotten poorer over the last quarter century. In *The Shackled Continent: Power, Corruption, and African Lives,* he describes how the kleptocracies of that suffering continent managed to make a poor population even poorer by systematically stifling citizens' productive activities. On a single day's travel across the continent, he said, he encountered 47 roadblocks run by police officers seeking bribes. In Zimbabwe, President Robert Mugabe wins his own national lottery. In other African nations, farmers are forced to walk miles to fortified cities each night to avoid being raped, beaten, and robbed by roving gangs. Things are improving, Guest said, but at a painfully slow rate. Cato's Marian Tupy emphasized that the development of property rights and the rule of law is crucial to lifting the continent out of poverty.

◆**November 17:** At a Roundtable Luncheon for journalists and think tank scholars, David Henderson of Westminster Business School discussed his new book, *The Role of Business in the Modern World*. He argued that the demand for "corporate social responsibility" is the latest attempt to replace the free market with political direction of business and that it threatens the widespread prosperity that globalization is bringing to more and more of the world.

◆**November 18:** The mainstream media regularly predict the end of the world. Rising temperatures, we read and hear, will lead to rising sea levels, hurricanes, tornadoes, droughts, species extinctions, and—just possibly—a new ice age. But as Cato senior fellow Pat Michaels argued at a Cato Book Forum for his new book, *Meltdown: The Predictable Distortion of Global Warming by Scientists, Politicians, and the Media*, news of the world's demise is greatly exaggerated. The reality is more mundane, he said: the temperature will rise about a degree over the next century, and that may require human beings to make modest adjustments. He charged that journalists looking for a dramatic story have consistently overhyped the threat. He described how the *New York Times*, reporting on open water at the North Pole, incorrectly claimed that it was the first occurrence in 50 million years, when in fact it is a relatively common occurrence. The increase in tornadoes, he explained, is due to better detection equipment, which has allowed meteorologists to detect smaller tornadoes than was possible in past decades. Harvard astrophysicist Sallie Baliunas praised Michaels's book, as did the Competitive Enterprise Institute's Marlo Lewis, who argued that government funding is corrupting the objectivity of scientific research.

Cato senior fellow Robert A. Levy (right) argues that tort law is being abused by corporations, trial lawyers, and governments but that the Constitution gives the federal government no authority to regulate state tort law. Commenting on Levy's book *Shakedown* at a November 10 Book Forum, Manhattan Institute senior fellow Walter Olson finds ample evidence in Cato's pocket Constitution that the federal government does have such authority.



◆**November 29:** When Cato held a Policy Forum, **"Is the Baseball Deal a Strikeout for D.C.?"** to debate the merits of government subsidies for a proposed baseball stadium in the District of Columbia, none of the invited supporters of the idea showed up. A panel of scholars from across the political spectrum, however, roundly denounced the plan, which would line the pockets of Major League Baseball's owners to the tune of half a billion dollars. D.C. Council member David Catania, a Republican turned Independent, predicted that the stadium would be much more expensive than the official estimate of $440 million and said that the District couldn't afford to take on hundreds of millions of dollars more in debt. Ed Lazere, executive director of the left-leaning D.C. Fiscal Policy Institute, argued that the stadium deal gives baseball virtually all the benefits from the new stadium, while the D.C. government assumes most of the costs and all of the risks. It's hard to imagine a worse deal for D.C. taxpayers, he said. Scott Wallsten of the American Enterprise Institute agreed, characterizing it as a "sweetheart" deal for Major League Baseball. Brad Humphreys, a professor at the University of Illinois and coauthor of a Cato study on the stadium deal, debunked the mayor's claim that the deal would have economic benefits. The stadium, Humphreys argued, would at best redirect economic activity away from other parts of the city toward businesses near the stadium. The net economic effect would be neutral, if not negative, he concluded.

Trade and the Future of American Workers

On October 7, the Cato Institute and The Economist *held a conference, "Trade and the Future of American Workers," in Cato's F. A. Hayek Auditorium. Speakers included Sen. Chuck Hagel (R-NE); Harris Miller of the Information Technology Association of America; Brink Lindsey, former director of Cato's Center for Trade Policy Studies and now vice president for research; and Roger W. Ferguson Jr., vice chairman of the Federal Reserve Board. Excerpts from their remarks follow.*

Chuck Hagel: One of the great successes of America since World War II has been our leaders' realization that we have common interests with the rest of the world. Hence, the development of coalitions of common interest: the General Agreement on Tariffs and Trade, which is now the World Trade Organization; NATO; the United Nations; the World Bank; the International Monetary Fund; and dozens of multilateral institutions.

Leadership in the global economy is absolutely critical for America's survival. America's economic security and prosperity cannot be separated from global economic leadership. Free trade promotes stability and democracy everywhere by encouraging business and investment practices that contribute to more open societies across the globe.

Countries that trade with each other usually don't send armies across each other's borders. America's leadership in free trade, our leadership in helping countries develop, reduces America's security commitments abroad. Very simply put, it means we have to put fewer military divisions in other nations and therefore less money in our security budget.

Why? Because it's a fostering of development; which brings security; which brings stability; which brings responsible, open, transparent governance. Which brings market economies.

Meeting the demands of a global economy requires maintaining America's leadership in free trade, expanding programs to retrain workers who lose their jobs, and educating the next generation of Americans about what it will take to compete in a more competitive global economy.

Let's talk about productivity. Long ago, somebody came up with a stone wheel. Now, that was a very stupid idea, because the wheel displaced workers. It took jobs away from people. It would probably end whatever civilization there was at that time.

Well, it didn't. And from that stone wheel things progressed and developed to where we are today. And what's the lesson here? The lesson is that, as you develop productivity in technology and new ideas, you enhance economies, you enhance job prospects, and you enhance the ability to create better jobs.

I see a very dangerous protectionist streak developing in the Congress, in both parties, in the country. You can't have it both ways. You can't espouse free, fair, open trade and then say, well, I'm not sure about my oranges, or my beef, or my sugar beets; that's different. You can't say, we want the Europeans' and the Asians, jobs here, we want Toyota and Honda and Airbus, but we don't want to outsource jobs to India.

Sen. Chuck Hagel: "This is not the time to retreat from our commitment to free trade and market economies. This is a time to engage."

Take any trade treaty—take all the trade treaties of the last 55 years: America has prospered more than any other nation in the world as a result of those trade regimes. Have there been problems? Of course. Trade is not a guarantee. Trade is an opportunity. But if we undo the trade regimes that we worked so hard to build over the last 55 years, that will make for a far more dangerous world than we have today.

The world now is presented with some pretty stark choices, far starker than I think most of our policymakers understand. Free trade, fair trade, does not guarantee peace or stability, but it is one of the few verifiable, accountable paths to stability and security.

This is not the time to retreat from our commitment to free trade and market economies. This is a time to engage more than we have ever engaged with the rest of the world.

Harris Miller: The Information Technology Association of America was very pleased to publish in 2004 a major study that we did in conjunction with an organization called Global Insight. Prof. Lawrence Klein, a Nobel Prize–winning macroeconomics professor, led the study, along with Nariman Behravesh, also a well-known global macroeconomics expert. We asked Global Insight to try to answer the questions: What is the impact of offshoring on U.S. jobs? Is it true that this is leading to a decline in the U.S. workforce?

In fact, what the study showed is that, in 2003, because of the global sourcing of IT work, approximately 90,000 more jobs were created in the United States, and the study projects that by 2008 more than 300,000 new jobs will be created in the United States because we are using a global sourcing model for IT.

With regard to the second issue, maybe more jobs are being created—but they are lower-paying jobs, right? That's what we keep hearing. Again, the study shows that that is a myth. Workers, real wages have actually increased as a result of the global sourcing model and will continue to do so. Real wages were .13 percent higher in 2003 and are expected to be .44 percent higher in 2008 than they would have been without outsourcing. Not a huge pay raise, but, nevertheless, it shows that the idea that somehow global competition has an overall deleterious effect on U.S. workers' wages is just flat-out wrong.

Brink Lindsey: I would like to make a few points to try to put the offshoring issue in the broader context of anxiety about job losses.

Number one, job churn is a fact of life in a dynamic market economy. Every time you hear Lou Dobbs say that company X has shut down a factory or has relocated a factory overseas or that it has moved some operations to India, that tells you nothing about

“Workers’ real wages have actually increased as a result of the global sourcing model and will continue to do so.”

the overall state of the U.S. economy. Those anecdotes don’t demonstrate any kind of problem with American economic health. They demonstrate business as usual in a constantly changing American economy.

Between 1993 and 2002, total U.S. employment went up by about 18 million jobs. During the same decade, we created 328 million jobs and eliminated 310 million. So during the boom time of the 1990s, roughly 30 million jobs a year were destroyed. About half of those were seasonal jobs that had actually been created that year. So when you’re looking at layoffs, it’s about 15 million layoffs a year, even in good times.

Where does outsourcing fit in that picture? Outsourcing is a red herring when you’re looking at major sources of job churn in the U.S. economy. The Bureau of Labor Statistics recently did a survey of mass layoffs and found that 2.5 percent or so were attributable to moving jobs overseas. So if you completely eliminate outsourcing, you’ve still left 97.5 percent of layoffs unaddressed.

Number two, we have a double standard when it comes to job losses. Consider a hypothetical company that is looking at ways to cut costs in some back office function, say managing payroll. It has two basic options. Option one is to ship the job off to India, to outsource it to some firm that manages payroll and transmits the data back electronically for 50 percent cost savings on net.

Option two is to computerize the job—bring in some new hardware and bring in a few computer technicians, at a net 50 percent cost savings. So if the company chooses option two and computerizes it, everybody says, Yay! That’s progress in action. The information revolution marches on. We’ve gotten leaner and meaner. We’re increasing productivity. That’s the basis for higher living standards in the long run. Yes, some people just lost their jobs, but that’s the price you have to pay. We all know that technological progress causes some jobs to become obsolete. But in the long run, technological progress produces more opportunities than it eliminates.

But if the company chose the first option—well, that company would end up on Lou Dobbs Tonight as a Benedict Arnold company that’s “exporting America.” And yet, in both cases the company would be doing precisely the same thing. It would be figuring out some way to do its business at a lower cost. In other words, to improve its productivity. And that would generate benefits that ripple throughout the economy. But at the same time some people would lose their jobs.

We need to confront the fact that automation and technological innovation generally dwarf outsourcing as a source of job churn. Go back as far as you want and you can see a seemingly endless stream of jobs eliminated by technological innovation: longshoremen put out of work by containerized shipping, telephone operators put out of work by computerized switching, factory workers put out of work by robots, bank tellers put out of work by automatic teller machines, receptionists put out of work by voicemail.

Brink Lindsey: “Every time we have a temporary job shortage, smart people concoct theories for why it’s the dawn of a grim new era.”

Now, the Europeans don’t have this double standard. They understand that competition of any variety poses a threat to existing employment. And they have grasped that nettle and enacted a whole gamut of policies designed to make it very difficult to get rid of existing workers. So they put their money where their mouth is. And as a result, they have double-digit unemployment and virtually stagnant private-sector job creation.

Point number three, concerns about running out of jobs are nothing new. Every time we have a recession we have a temporary job shortage. There is a growing gap between the number of people who want jobs and the number of jobs available. And virtually every time we have a temporary job shortage, smart people concoct theories for why the temporary job shortage isn’t temporary: It’s actually the dawn of a grim new era of permanent job shortages.

In the 1930s, “secular stagnation.” In the 1960s, the automation crisis. Computers would do everything and we wouldn’t have anything to do. In 1981, de-industrialization, the hollowing out of the manufacturing sector, the decline of the middle class, the undermining of the American manufacturing base. In 1991, the giant sucking sound and the downsizing of America. These policy bubbles emerge, predictably, with each economic downturn, but they have a long lag time. It takes quite a while for the bubble to burst. You might not remember that the *New York Times* made a big splash with a seven-part series on the downsizing of America in 1996, right in the middle of the rollicking Clinton-era boom.

And once again, now, we’ve had an economic downturn and we are once again gnashing our teeth about the possibility that we have run out of good jobs in this country.

Notwithstanding my last point, things are different this time. History doesn’t repeat itself. To some extent, we are in unprecedented circumstances. We have deep-seated structural differences, so that the pace of job churn may be increasing. A political scientist at Yale, Jacob Hacker, has found a big increase in income volatility today compared with three decades ago. We certainly have ongoing structural change in the nature of what makes our economy go and the structure of the job market in this country.

Frank Levy of MIT has drawn a distinction between rules-based jobs and face-to-face jobs. Rules-based jobs are ones that can be reduced to a set of preestablished procedures; you can write down on paper what that job consists of. Face-to-face jobs are either ones that require a physical presence or are so complex that you can’t specify in advance exactly what the job entails.

All rules-based jobs have a bull’s eye on them these days in the American economy. If you can specify exactly what the job entails, then the odds are that, before too long, either you will be able to find an Indian or a Chinese to do it more cheaply or you’ll figure out a way to get computers to do it more cheaply. And so we are definitely shift-

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“Trade actions, while sometimes protecting some American workers in import-competing industries, often invite the threat of foreign retaliation.”

POLICY FORUM *Continued from page 9*

ing away from certain types of employment and toward new types of employment. And that entails all kinds of challenges for various aspects of economic and social policy.

These are serious issues, and they need serious attention and creative policy responses. But blaming everything on outsourcing and pretending that the churn and challenges of a dynamic and changing market economy would just go away if we went back to some mythical Fortress America are a distraction from the real challenges we face. And that really is the final burden of such demagoguery. Not only does demagoguery lead us and tempt us to do the wrong thing, but, maybe even worse, it takes our eye off the ball so that we aren't paying attention to doing the right thing.

Roger Ferguson: As you know, finding overwhelming agreement among economists on issues is difficult, but free trade is an exception. So what accounts for the apparent deterioration in public support for free trade over the past five years? The widening of the U.S. trade deficit may have exacerbated concerns about the country's international competitiveness. More important, some observers have blamed overseas competition for the job losses associated with the economic slowdown earlier in this decade.

Without solid public support for free trade, achieving continued progress in reducing protectionist barriers, both at home and abroad, may become more difficult.

The public likely has a reasonably good grasp of the benefits of free trade. It is the perceived drawbacks to international trade that probably account for the ambivalence indicated in opinion surveys. Some of those fears may be overstated—for example, the claim that imports lower aggregate employment. But other concerns cannot be dismissed out of hand—especially the claim that trade leads to disruptions for some workers. Balancing the pain for a few against the lasting gains for the economy as a whole, economists generally view the latter as outweighing the former, but it is admittedly difficult for many individuals in American society to share that assessment.

Rather than arguing the merits of international trade in the abstract, advocates of free trade might gain more traction by arguing against concrete examples of protectionism. Consider several related and highly egregious consequences of protectionist actions:

First, by raising the cost of goods that are inputs for other producers, import barriers may destroy more jobs in so-called downstream sectors than they save in protected sectors. According to one study, the 2002 steel safeguard program contributed to higher steel prices that eliminated about 200,000 jobs in steel-using industries, whereas only 187,500 workers were employed by U.S. steel producers in December 2002.

Second, trade protection may lead to very large payouts to a small number of producers and hence is often inequitable. Any time a product receives import protection, of course, a relatively small number of domestic producers receive benefits—through higher prices—at the cost of all domestic consumers. On top of that, a disproportionately small number of sectors, and often a disproportionately small number of firms within a sector, tend to enjoy the gains from protection. For example, more than one-half of the antidumping and countervailing duty orders in place as of August 2004 were on iron- and steel-related products alone; by contrast, iron and steel producers account for less than one-half of 1 percent of total private nonfarm employment. As another example, according to a 1993 General Accounting Office study, 42 percent of the benefits to growers from sugar protection went to just 1 percent of growers. Although Americans favor policies designed to help the small farmer, much larger enterprises are also benefiting from agricultural trade protection.

Roger Ferguson: “Rather than arguing the merits of international trade in the abstract, advocates of free trade might gain more traction by arguing against concrete examples of protectionism.”

The disturbingly inequitable distribution of the benefits of protectionism is exacerbated under current law by provisions allowing antidumping and countervailing duties to be disbursed to the companies that petitioned for the duties. Those provisions, which have been ruled illegal by the WTO, lead to protected producers being rewarded twice: once through the higher prices stemming from the trade protection and again through the disbursal of the higher duties paid by importers. The distribution of those payouts has been extremely skewed: In fiscal year 2003, a single firm received more than one-fourth of the $190 million in countervailing and antidumping duties that were distributed to U.S. firms.

Import quotas (as opposed to tariffs) raise a third concern about trade protection. By restricting the supply of certain types of imports into the United States, quotas may benefit those foreign producers who retain the right to sell to U.S. markets by raising the prices of their goods. For example, one study found that, of the $8.6 billion in net welfare costs induced by the Multi-Fiber Agreement, which restricts textile and apparel imports, about $6 billion accrued to those foreign producers who were allotted shares of the import quotas. Surely, many Americans would cease to support certain types of import protections if they knew that such actions were propping up the profits of foreign producers.

Finally, we must not forget that trade actions, while sometimes protecting some American workers in import-competing industries, often invite the threat of foreign retaliation that would hurt American workers in export industries. For example, after the imposition of steel safeguard duties in March 2002, eight of our trading partners initiated safeguard investigations of their own on steel imports. Given the impor-

Medical marijuana case could limit or expand federal power

Barnett Urges Court to Uphold Federalism

Cato senior fellow Randy Barnett argued the case of *Raich v. Ashcroft* before the Supreme Court on November 29. The case involves the right of California residents to use marijuana for medical purposes under California law and whether the federal government can prosecute such patients under federal law.

Barnett, a law professor at Boston University and author of *Restoring the Lost Constitution: The Presumption of Liberty,* began by telling the Court: "The first point is that the activity involved here is wholly intrastate and noneconomic in nature. The second point is that regulation of this activity is not essential to a broader regulatory scheme."

The Cato Institute was involved in the case in a second way. It submitted an amicus curiae brief by Douglas Kmiec, a leading conservative legal scholar who served as assistant attorney general of the United States during the administrations of Presidents Ronald Reagan and George Bush. Kmiec argues that deciding for the plaintiffs Angel Raich and Diane Monson would be squarely within the precedents set by the landmark 1942 case of *Wickard v. Filburn*—which substantially broadened Congress's power under the Commerce Clause but nevertheless limited it to economic activity—and the more recent *Lopez* and *Morrison* cases, in which the Rehnquist Court limited Congress's power under the Commerce Clause for the first time since the New Deal. Upholding the prosecution of home-grown medical marijuana cultivation, Kmiec argued, would go beyond those precedents and grant Congress effectively unlimited power over all aspects of American society, since virtually any activity has some tenuous connection with commerce.

Randy Barnett and plaintiff Diane Monson meet the press after the Supreme Court argument on medical marijuana and federalism.

Cato scholars have weighed in on federalism and medical marijuana before. In 1997 Roger Pilon testified before Congress that the Clinton administration's attempt to override state initiatives was "a blatant effort by the federal government to impose a national policy on the people in the states in question, people who have already elected a contrary policy. Federal officials do not agree with the policy the people have elected; they mean to override it, local rule notwithstanding." Two years later David Boaz told a House committee that "Congress and the administration should respect the decisions of the voters in Arizona and California; and in Alaska, Nevada, Oregon, and Washington, where voters passed medical marijuana initiatives in 1998."

In 1996, 56 percent of California voters approved the Compassionate Use Act, which permitted seriously ill patients, under the supervision of a doctor, to use marijuana for medical purposes. Proponents of medical cannabis cheered, but their jubilation was short-lived, as federal officials made it clear that, regardless of state law, they would prosecute medical marijuana users under federal law.

California residents Angel Raich, who suffers from a brain tumor, and Diane Monson, who has a degenerative spine disease, struggled for years with conventional medicine to control the pain, but prescription medications had too many side effects. They found that marijuana is an effective pain treatment with minimal side effects. Fearing federal prosecution, they sued the federal government for the right to use the medicine they need to cope with their pain.

The lawyer who agreed to represent them in the case was Randy Barnett. Last year, the Ninth Circuit Court of Appeals sided with the women, and the Supreme Court agreed to hear the case. On November 29 Barnett told the justices that the power granted to Congress by the Constitution to "regulate interstate commerce" was never meant to apply to an activity like growing marijuana for medicinal use. After all, he noted, growing marijuana for personal medical use is a noncommercial activity that occurs entirely within the state of California. Moreover, because California law still bans selling, transporting, or distributing marijuana, Raich and Monson's medicinal use of marijuana will have no effect on interstate commerce. The Court is expected to rule in the spring of 2005. ■

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tance of export markets to the most dynamic areas of U.S. manufacturing, we cannot afford to jeopardize them by inviting foreign barriers to our products.

In conclusion, I think it unlikely that we will see a marked global reversal of trade liberalization on the order of the restrictions enacted in the 1930s. Policymakers have generally learned the lessons of that destructive episode. Nevertheless, it is not inconceivable that progress in dismantling trade barriers could stall. Many of the easiest negotiations—such as those on lowering tariffs—have already taken place. More ambitious and intrusive trade liberalizations, which often involve dismantling barriers to internal competition or cherished systems of domestic subsidies, may not have the necessary public support. It is also possible that a multiplicity of narrow, targeted trade actions—such as antidumping or safeguard actions—could lead to a de facto rollback in the overall degree of free trade even without a concerted shift in national policies.

Thus, it is crucial to maintain public pressure for free trade. It is important to continue to educate the public and create a political environment supportive of free trade as well as to implement policies that foster stability and economic growth. ■

“Marx’s theory of human nature, like Kim Jong Il’s theory of pine needle tea, is a biological fantasy, and we have the corpses to prove it.”

CAPITALISM *Continued from page 1*

According to evolutionary psychologists, the basic constitution of the human mind hasn’t changed appreciably for about 50,000 years. Thus the evolutionary psychologist’s slogan: modern skulls house Stone Age minds.

As pioneers of evolutionary psychology Leda Cosmides and John Tooby put it:

> The key to understanding how the modern mind works is to realize that its circuits were not designed to solve the day-to-day problems of a modern American—they were designed to solve the day-to-day problems of our hunter-gatherer ancestors.

Understanding the problems faced by members of human hunter-gatherer bands in the EEA can therefore help us to understand a great deal about human nature and the prospects and pathologies of modern social systems.

First, a word of caution: We cannot expect to draw any straightforward positive political lessons from evolutionary psychology. It can tell us something about the kind of society that will tend not to work, and why. But it cannot tell us which of the feasible forms of society we ought to aspire to. We cannot, it turns out, infer the naturalness of capitalism from the manifest failure of communism to accommodate human nature. Nor should we be tempted to infer that natural is better. Foraging half-naked for nuts and berries is natural, while the New York Stock Exchange and open-heart surgery would boggle our ancestors’ minds.

What evolutionary psychology really helps us to appreciate is just what an unlikely achievement complex, liberal, market-based societies really are. It helps us to get a better grip on why relatively free and fabulously wealthy societies like ours are so rare and, possibly, so fragile. Evolutionary psychology helps us to understand that successful market-liberal societies require the cultivation of certain psychological tendencies that are weak in Stone Age minds and the suppression or sublimation of other tendencies that are strong. Free, capitalist societies, where they can be made to work, work with human nature. But it turns out that human nature is not easy material to work with.

There is a rapidly expanding library of books that try to spell out the moral, political, and economic implications of evolutionary psychology. (*The Origins of Virtue* by Matt Ridley, *Darwinian Politics* by Paul Rubin, and *The Company of Strangers* by Paul Seabright are good ones.) Below is a short tour of just a few features of human nature emphasized by evolutionary psychologists that highlight the challenges of developing and sustaining a modern market-liberal order.

We Are Coalitional

The size of hunter-gatherer bands in the EEA ranged from 25 to about 150 people. The small size of those groups ensured that everyone would know everyone else; that social interactions would be conducted face-to-face; and that reputations for honesty, hard work, and reliability would be common knowledge. Even today, people’s address books usually contain no more than 150 names. And military squadrons generally contain about as many people as Pleistocene hunting expeditions.

Experiments by psychologists Leda Cosmides and Robert Kurzban have shown that human beings have specialized abilities to track shifting alliances and coalitions and are eager to define others as inside or outside their own groups. Coalitional categories can easily lead to violence and war between groups. Think of Hutus and Tutsis, Albanians and Serbs, Shiites and Sunnis, Crips and Bloods, and so on ad nauseam. However, coalitional categories are fairly fluid. Under the right circumstances, we can learn to care more about someone’s devotion to the Red Sox or Yankees than their skin color, religion, or social class.

We cannot, however, consistently think of ourselves as members only of that one grand coalition: the Brotherhood of Mankind. Our disposition to think in terms of “us” versus “them” is irremediable and has unavoidable political implications. Populist and racialist political rhetoric encourages people to identify themselves as primarily rich or poor, black or white. It is important to avoid designing institutions, such as racial preference programs, that reinforce coalitional categories that have no basis in biology and may heighten some of the tensions they are meant to relax. A great deal of the animosity toward free trade, to take a different example, depends on economically and morally inappropriate coalitional distinctions between workers in Baltimore (us) and workers in Bangalore (them). Positively, free trade is laudable for the way it encourages us to see members of unfamiliar groups as partners, not enemies.

We Are Hierarchical

Like many animals and all primates, humans form hierarchies of dominance. It is easy to recognize social hierarchies in modern life. Corporations, governments, chess clubs, and churches all have formal hierarchical structures of officers. Informal structures of dominance and status may be the leading cause of tears in junior high students.

The dynamics of dominance hierarchies in the EEA was complex. Hierarchies play an important role in guiding collective efforts and distributing scarce resources without having to resort to violence. Daily affairs run more smoothly if everyone knows what is expected of him. However, space at the top of the hierarchy is scarce and a source of conflict and competition. Those who command higher status in social hierarchies have better access to material resources and mating opportunities. Thus, evolution favors the psychology of males and females who are able successfully to compete for positions of dominance.

Living at the bottom of the dominance heap is a raw deal, and we are not built to take it lying down. There is evidence that lower-status males naturally form coalitions to check the power of more dominant males and to achieve relatively egalitarian distribution of resources. In his book *Hierarchy in the Forest,* anthropologist Christopher Boehm calls those coalitions against the powerful “reverse dominance hierarchies.”

Emory professor of law Paul Rubin usefully distinguishes between “productive” and “allocative” hierarchies. Productive hierarchies are those that organize cooperative efforts to achieve otherwise unattainable mutually advantageous gains. Business organizations are a prime example.

"Property rights are prefigured in nature. Evolutionary psychology can help us to understand that property rights are not created simply by strokes of the legislator's pen."

Allocative hierarchies, on the other hand, exist mainly to transfer resources to the top. Aristocracies and dictatorships are extreme examples. Although the nation-state can perform productive functions, there is the constant risk that it may become dominated by allocative hierarchies. Rubin warns that our natural wariness of zero-sum allocative hierarchies, which helps us to guard against the concentration of power in too few hands, is often directed at modern positive-sum productive hierarchies, like corporations, thereby threatening the viability of enterprises that tend to make everyone better off.

There is no way to stop dominance-seeking behavior. We may hope only to channel it to nonharmful uses. A free society therefore requires that positions of dominance and status be widely available in a multitude of productive hierarchies, and that opportunities for greater status and dominance through predation be limited by the constant vigilance of "the people"—the ultimate reverse dominance hierarchy. A flourishing civil society permits almost everyone to be the leader of something, whether the local Star Trek fan club or the city council, thereby somewhat satisfying the human taste for hierarchical status, but to no one's serious detriment.

We Are Envious Zero-Sum Thinkers

Perhaps the most depressing lesson of evolutionary psychology for politics is found in its account of the deep-seated human capacity for envy and of our related difficulty in understanding the idea of gains from trade and increases in productivity—the idea of an ever-expanding "pie" of wealth.

There is evidence that greater skill and initiative could lead to higher status and bigger shares of resources for an individual in the EEA. But because of the social nature of hunting and gathering, the fact that food spoiled quickly, and the utter absence of privacy, the benefits of individual success in hunting or foraging could not be easily internalized by the individual and were expected to be shared. The EEA was for the most part a zero-sum world, where increases in total wealth through invention, investment, and extended economic exchange were totally unknown. More for you was less for me. Therefore, if anyone managed to acquire a great deal more than anyone else, that was pretty good evidence that his was a stash of ill-gotten gains, acquired by cheating, stealing, raw force, or, at best, sheer luck. Envy of the disproportionately wealthy may have helped to reinforce generally adaptive norms of sharing and to help those of lower status on the dominance hierarchy guard against further predation by those able to amass power.

Our zero-sum mentality makes it hard for us to understand how trade, innovation, and investment can increase the amount of total wealth. We are thus ill-equipped to easily understand our own economic system.

These features of human nature—that we are coalitional, hierarchical, and envious zero-sum thinkers—would seem to make liberal capitalism extremely unlikely. And it is. However, the benefits of a liberal market order can be seen in a few further features of the human mind and social organization in the EEA.

Property Rights Are Natural

The problem of distributing scarce resources can be handled in part by implicitly coercive allocative hierarchies. An alternative solution to the problem of distribution is the recognition and enforcement of property rights. Property rights are prefigured in nature by the way animals mark out territories for their exclusive use in foraging, hunting, and mating. Recognition of such rudimentary claims to control and exclude minimizes costly conflict, which by itself provides a strong evolutionary reason to look for innate tendencies to recognize and respect norms of property.

New scientific research provides even stronger evidence for the existence of such property "instincts." For example, recent experimental work by Oliver Goodenough, a legal theorist, and Christine Prehn, a neuroscientist, suggests that the human mind evolved specialized modules for making judgments about moral transgressions, and transgressions against property in particular.

Evolutionary psychology can help us to understand that property rights are not created simply by strokes of the legislator's pen.

Mutually Beneficial Exchange Is Natural

Trade and mutually beneficial exchange are human universals, as is the division of labor. In their groundbreaking paper, "Cognitive Adaptations for Social Exchange," Cosmides and Tooby point out that, contrary to widespread belief, hunter-gatherer life is not "a kind of retro-utopia" of "indiscriminate, egalitarian cooperation and sharing." The archeological and ethnographic evidence shows that hunter-gatherers were involved in numerous forms of trade and exchange. Some forms of hunter-gatherer trading can involve quite complex specialization and the interaction of supply and demand.

Most impressive, Cosmides and Tooby have shown through a series of experiments that human beings are able easily to solve complex logical puzzles involving reciprocity, the accounting of costs and benefits, and the detection of people who have cheated on agreements. However, we are unable to solve formally identical puzzles that do not deal with questions of social exchange. That, they argue, points to the existence of "functionally specialized, content-dependent cognitive adaptations for social exchange."

In other words, the human mind is "built" to trade.

Trust and Hayek's Two Orders

It is easy to see a kind of in vitro capitalism in the evolved human propensity to recognize property rights, specialize in productive endeavors, and engage in fairly complex forms of social exchange. However, the kind of freedom and wealth we enjoy in the United States remains a chimera to billions. Although our evolved capacities are the scaffolding upon which advanced liberal capitalism has been built, they are, quite plainly, not enough, as the hundreds of millions who live on less than a dollar a day can attest. The path from the EEA to laptops and lattes requires a great *cultural* leap. In recent work, Nobel Prize–winning economists Douglass North and Vernon Smith have stressed that the crucial juncture is the transition from personal to impersonal exchange.

Economic life in the EEA was based on repeated face-to-face interactions with well-known members of the community. Agree-

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New studies on reimportation, New York's reckless overspending

How the States Are Handling Welfare Reform

The 1996 welfare reform exceeded the expectations of most analysts, moving millions of people from welfare to work and cutting nationwide welfare caseloads by almost three-fifths. One particularly innovative aspect of the reform was its steps toward federalism: Congress ended welfare's status as a federal entitlement and instead gave states block grants to design welfare programs tailored to the needs of their own citizens. In a comprehensive analysis, "Implementing Welfare Reform: A State Report Card" (Policy Analysis no. 529), Cato's Jenifer Zeigler studies and rates each state's reform efforts. The most successful states—Idaho, Ohio, Wisconsin, and Wyoming—have set tough work requirements and achieved significant caseload reductions. On the other hand, states such as Vermont, Missouri, North Dakota, and Maine have done little to move their welfare populations from welfare to work and have seen only modest caseload reductions as a result. For each state, the survey includes detailed statistics and performance ratings, as well as a letter grade for handy comparison with other states.


Jenifer Zeigler

◆High Cost of Health Care Regulation

Much ink has been spilled about the rising costs of health care. Oft-cited culprits include bureaucratic waste, the development of increasingly expensive high-tech treatments, and the escalating cost of prescription drugs. Commentators rarely mention the effects of government regulation on health care costs. Yet, as Christopher Conover of Duke University demonstrates in "Health Care Regulation: A $169 Billion Hidden Tax" (Policy Analysis no. 527), those costs are substantial and are a major factor pushing the cost of health insurance out of reach for low-income workers. Conover estimates that health services regulation imposes costs of almost $340 billion while generating only half as much in benefits, for a net cost to consumers of $170 billion. Conover concludes that the most effective way to reduce those costs is to reform the tort system and the Food and Drug Administration.

◆Fannie Mae's Hidden Risks for Taxpayers

Fannie Mae and Freddie Mac—corporations that help banks pool home mortgages in order to manage risk—are odd beasts. Created by acts of Congress, they are not quite private companies but not quite government agencies either. They enjoy a variety of special benefits not available to ordinary public companies. Perhaps the most significant is the "halo effect" created by their special status, which allows them to borrow money at favorable rates because of an implied guarantee of federal backing. In "Fannie Mae, Freddie Mac, and Housing Finance: Why True Privatization Is Good Public Policy" (Policy Analysis no. 528), New York University's Lawrence J. White warns that the "halo" is hazardous to taxpayers. Should either company blunder and become unable to meet its financial obligations, he predicts, there could be a sequel to the savings-and-loan debacle of the 1980s. To avert that outcome, he urges Congress to fully privatize the two entities. In the meantime, he recommends stricter scrutiny of the companies' books and limits on their debt accumulation.

◆Cut Dividend Taxes, Get More Dividends

The centerpiece of President Bush's tax cut in 2003 was a sharp reduction in the individual dividend tax rate. Supporters argued that ending the double taxation of dividends would enable corporations to return their profits to shareholders, reducing a source of economic distortion. In "Show Me the Money! Dividend Payouts after the Bush Tax Cut" (Briefing Paper no. 88), senior fellow Stephen Moore and Phil Kerpen of the Club for Growth examine the results of the cuts after one year and find that they have spurred a 23 percent increase in dividend payouts. Moore and Kerpen recommend that the cuts be made permanent.

◆Tax-Funded Stadiums Strike Out

Washington, D.C., mayor Anthony Williams recently announced plans for a taxpayer-supported, $400 million baseball stadium to bring Major League Baseball to Washington. Williams joins a long line of public officials who have sought to line the pockets of sports team owners with public money. Politicians invariably tout the job creation powers of such projects. In "Caught Stealing: Debunking the Economic Case for D.C. Baseball" (Briefing Paper no. 89), Dennis Coates of the University of Maryland and Brad Humphreys of the University of Illinois survey the research literature on the economic effects of publicly financed stadiums and find no evidence that stadiums are economically beneficial. If anything, they conclude, taxpayer-financed stadiums harm local economies by diverting revenue from other area businesses. The authors urge the D.C. City Council not to "be mesmerized by the faulty impact studies that claim that a baseball team and a new stadium can be an engine of economic growth."

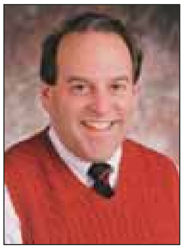
◆Drug War Undermines Fight against Terror

Is fighting the drug war worth the risk of losing the war on terrorism? That's a very real risk in Afghanistan, as Ted Galen Carpenter, Cato's vice president for defense and foreign policy studies, explains in "How the Drug War in Afghanistan Undermines America's War on Terror" (Foreign Policy Briefing no. 84). Tracking down the remnants of Al Qaeda and the Taliban will require not only the full attention of the U.S. military but also support and cooperation from locals. And, unfortunately, Carpenter notes, opium poppies are a lucrative source of revenue for ordinary farmers and the Afghan warlords who control substantial portions of the countryside. At the moment, many opium farmers are acting as informants, and most warlords are supporting Afghan president Hamid Karzai, an ally of the United States. However, Carpenter warns, if Afghanis' economic interests are threatened by aggressive drug interdiction efforts, there is a very real risk of undermining support for Karzai and driving many Afghanis into the arms of the enemy. Whatever one's view of the broader drug war,


Ted Carpenter

he concludes, it should be clear that fighting drugs must take a back seat to fighting terrorism in Afghanistan.

◆The Trouble with Halfway Deregulation


Peter Van Doren

When California's electricity market imploded in 2001, it gave electricity deregulation a dirty name. In "Rethinking Electricity Restructuring" (Policy Analysis no. 530), Peter Van Doren, editor of *Regulation* magazine, and Jerry Taylor, Cato's director of natural resource studies, argue that the electricity restructuring of the 1990s failed largely because there were few efficiency gains to be had in a market that was struggling to recoup large sunk costs in wasteful nuclear power plants. From the beginning, Van Doren and Taylor argue, jurisdictions with low-cost power sources—whose politicians have forced local utilities to sell power at below-market rates—have resisted the creation of a nationwide power market for fear that high-cost jurisdictions would bid away low-cost power and raise prices for their consumers. The result was a clumsy partial deregulation that caused underinvestment in transmission facilities and volatile electricity prices. The authors urge Congress to preempt state and local legislators and create a truly deregulated market in which the owners of generation and transmission capacity would be able to fully reap the benefits of upgrades. In the interim, returning to the old system of vertically integrated, state-regulated monopoly generation would be an improvement on the status quo, they conclude. ■


Jerry Taylor

CAPITALISM *Continued from page 13*

ments were policed mainly by public knowledge of reputation. If you cheated or shirked, your stock of reputation would decline, and so would your prospects. Our evolutionary endowment prepared us to navigate skillfully through that world of personal exchange. However, it did not prepare us to cooperate and trade with total strangers whom we had never met and might never see again. The road to prosperity must cross a chasm of uncertainty and mistrust.

The transition to an extended, impersonal market order requires the emergence of "institutions that make human beings willing to treat strangers as honorary friends," as Paul Seabright puts it. The exciting story of the way those institutions piggybacked on an evolved psychology designed to solve quite different ecological problems is the topic of Seabright's book, *The Company of Strangers*, as well as an important part of forthcoming works by North and Smith.

As he so often did, here, too, F. A. Hayek anticipated contemporary trends. He understood that our kind of economy and society, which he called an *extended* order, or "macrocosmos," is in many ways alien to our basic psychological constitution, which is geared to deal with life in small groups, the "microcosmos." We live in two worlds, the face-to-face world of the tribe, family, school, and firm and the impersonal, anonymous world of huge cities, hyper-specialization, and trans-world trade. Each world has its own set of rules, and we confuse them at our peril. As Hayek writes in *The Fatal Conceit*:

> If we were to apply the unmodified, uncurbed, rules of the micro-cosmos (i.e., of the small band or troop, or of, say, our families) to the macro-cosmos (our wider civilization), as our instincts and sentimental yearnings often make us wish to do, *we would destroy it*. Yet if we were always to apply the rules of the extended order to our more intimate groupings, *we would crush them*. So we must learn to live in two sorts of worlds at once.

The balance is delicate. Once we appreciate the improbability and fragility of our wealth and freedom, it becomes clear just how much respect and gratitude we owe to the belief systems, social institutions, and personal virtues that allowed the emergence of our "wider civilization" and that allow us to move between our two worlds without destroying or crushing either.

Evolutionary Psychology and Political Humility

The key political lesson of evolutionary psychology is simply that there is a universal human nature. The human mind comprises many distinct, specialized functions and is not an all-purpose learning machine that can be reformatted at will to realize political dreams. The shape of society is constrained by our evolved nature. Remaking humanity through politics is a biological impossibility on the order of curing cancer with pine needle tea. We can, however, work with human nature—and we have. We have, through culture, enhanced those traits that facilitate trust and cooperation, channeled our coalitional and status-seeking instincts toward productive uses, and built upon our natural suspicion of power to preserve our freedom. We can, of course, do better.

As Immanuel Kant famously remarked, "From the crooked timber of humanity no truly straight thing can be made." But, in the words of philosopher Denis Dutton,

> It is not . . . that no beautiful carving or piece of furniture can be produced from twisted wood; it is rather that whatever is finally created will only endure if it takes into account the grain, texture, natural joints, knotholes, strengths and weaknesses of the original material.

Evolutionary psychology, by helping us to better understand human nature, can aid us in cultivating social orders that do not foolishly attempt to cut against the grain of human nature. We can learn how best to work with the material of humanity to encourage and preserve societies, like our own, that are not only beautiful but will endure. ■

Reducing the role of the IMF and World Bank

Speakers Debate Global Monetary Policy

China has had an impressive growth record in recent years, with growth rates approaching 10 percent annually. If it continues at its current pace, China can expect to join the developed world in the coming decades. But there are troubles ahead. China's banking sector is still largely state controlled. China allows limited inflows of foreign capital but mostly restricts outflows. As China's need for capital grows, those capital restrictions will increasingly hinder the country's growth. And the Chinese government is facing increasing pressure to abandon its policy of pegging its currency, the yuan, to the dollar.

Critics warn that liberalizing its capital markets and floating its currency could unleash economic chaos in China as its fragile banking sector collapses under the weight of bad loans. But, reformers argue, China will need to liberalize its capital markets soon if it wishes to take full advantage of access to foreign capital.

Ian Vásquez welcomes former Polish finance minister Leszek Balcerowicz to the monetary conference.

At Cato's 22nd Annual Monetary Conference, "International Monetary Reform and Capital Freedom," cosponsored with *The Economist*, leading monetary economists debated the policy options of developing nations like China, which are seeking to reap the benefits of free markets and at the same time minimize the risk that botched reform efforts could precipitate a financial crisis. Most participants agreed that sequencing is critical; eventually, all aspects of the economy should be liberalized, but liberalizing some parts while leaving others highly regulated can be a recipe for disaster, as market forces upset the precarious structure built up over decades of centralized controls.

Ben Bernanke, a member of the Federal Reserve Board of Governors who is often mentioned as a leading contender to replace

Anna J. Schwartz, coauthor with Milton Friedman of *A Monetary History of the United States,* and Federal Reserve Board member Ben Bernanke listen to other speakers at Cato's 22nd Annual Monetary Conference on October 14.

Chairman Alan Greenspan, delivered the keynote address. He argued that, ideally, countries should adopt floating exchange rates, which give their economies maximum flexibility to cope with external shocks. However, he said, some smaller nations with weak fiscal records could benefit from a hard peg to a more established currency as a means of fighting inflation. He pointed out that capital controls are at best a necessary evil and that nations should endeavor to lift those restrictions as their institutions become robust enough to withstand the rigors of world capital markets.

Kristin Forbes, a member of President Bush's Council of Economic Advisers, characterized capital controls as "mud in the gears" of economic efficiency. The empirical evidence is limited, she said, but thus far it shows that the benefits of capital controls are few and ephemeral, while the costs are severe and pervasive.

All too often, countries fail to adopt prudent reforms, and severe financial crises are a common result. Often, countries find themselves unable to pay their debts and are forced to renegotiate their loans with creditors. Adam Lerrick of Carnegie Mellon University argued that private capital market institutions have matured to the point where the International Monetary Fund has become a hindrance to the negotiation process. He applauded the IMF's recent reluctance to bail out countries that experience debt crises. Kenneth Rogoff, former chief economist of the IMF and a professor of economics at Harvard, agreed and said that the World Bank should be restructured to give development grants—rather than loans—to developing countries.

Panelists discussed the diverse array of exchange rate regimes that countries might adopt, from "hard pegs" to an anchor currency to freely floating currencies whose value is determined entirely by market forces.

Several participants advocated that countries with weak currencies choose dollarization, in which a stronger currency—often the U.S. dollar—is adopted as a nation's official currency. Treasury economist Kurt Schuler surveyed the history of dollarization and found that, in general, countries that remained dollarized performed better economically than nations that abandoned their dollarization experiments in favor of a national currency.

Raghuram Rajan of the International Monetary Fund, Adam Lerrick of Carnegie Mellon University, and Kenneth Rogoff of Harvard discuss debt crises.

George Selgin of the University of Georgia spoke out for a system of private currency. A free market in currency issuance, he said, would serve consumers by producing competitive pressures for currencies with stable values.

A special sort of hard peg is the currency union. Leszek Balcerowicz, president of the National Bank of Poland, defended the track record of Europe's freshly minted common currency, which Poland committed to when it joined the European Union in May. Adopting the euro will speed Poland's integration with the rest of Europe, he said, and the much-maligned stability and growth pact that accompanies EU membership is, on net, beneficial to economic growth, he concluded. ■

Nonintervention or overturning despots?

Debating Libertarian Foreign Policy

Few issues have split advocates of liberty and limited government like the war in Iraq. Some libertarians and limited-government conservatives—persuaded by the president's arguments that Iraq was a haven for terrorists and a developer of weapons of mass destruction—supported the invasion. Many others, however, mindful that there was little evidence that Saddam Hussein posed a threat to U.S. security, insisted that the invasion of Iraq fell outside the military's proper job of defending the homeland from attack. On October 22 libertarians of all stripes gathered in the Cato Institute's F. A. Hayek Auditorium for a conference, "Lessons from the Iraq War: Reconciling Liberty and Security."

At Cato's conference "Lessons from the Iraq War," luncheon speaker Nick Gillespie, editor of *Reason* (left), called for open debate among libertarians on foreign policy, and columnist Deroy Murdock vigorously argued that the Iraq war was justified.

As Cato's Charles Peña argued, the failure to find weapons of mass destruction and the speculative nature of Hussein's alleged links to Al Qaeda have undermined the original case for war while escalating violence has raised its cost. John Mueller of Ohio State University asserted that the situation in Iraq is hopeless and urged policymakers to avoid romanticizing democracy. Christopher Preble emphasized that a commitment to limited government at home requires a commitment to a restrained foreign policy abroad. Otherwise, he warned, attempts to rein in the federal leviathan will be thwarted by the need for ever-higher taxes to support military endeavors around the world.

But the hawks had arguments of their own. Columnist Deroy Murdock detailed Saddam Hussein's many links with terrorist organizations, including his cash support for Palestinian terrorists in Israel and his granting of safe haven to terrorists with ties to Al Qaeda. *Reason's* Ron Bailey argued for a return to the Reagan Doctrine, under which the United States supported armed insurgents seeking to overthrow despotic regimes.

Nick Gillespie, editor of *Reason*, urged libertarians to debate divisive issues like the Iraq war openly. Libertarians, he argued, should cherish debate and dissent rather than demand conformity to dogma.

In his closing remarks, David Kelley of the Objectivist Center argued, "Our enemy is the phenomenon and network of Islamic terrorism," not just Al Qaeda.

John Mueller of Ohio State University denounces the Iraq war as a major strategic blunder.

We can't limit our efforts to pursuing Al Qaeda, he said, insisting that foreign policy can't be bound by the same clear rules that libertarians apply to domestic issues.

Ted Galen Carpenter, Cato's vice president for defense and foreign policy studies, ended the conference with a stirring defense of a foreign policy of nonintervention. He denounced "crusading interventionism," which commits the American taxpayer to financing a far-flung global empire, violating the government's constitutional duty to spend tax dollars in defense of American lives and liberties.

David Kelley of the Objectivist Center argues that Islamic terrorism is a threat that the United States must confront.

Every decade, a new argument for protectionism

Free Trade in the Age of Outsourcing

Long-time supporters of free trade often feel a sense of déjà vu. Every decade, it seems, free traders are forced to debunk the same skewed statistics, spurious economic logic, and demagoguery that proved so wrong in the past. The rhetoric changes, but the basic argument remains the same. And each time, protectionists insist that the latest crisis is worse than the crises that came before.

The latest crisis is outsourcing, and as Cato vice president Brink Lindsey argued in a speech at a Cato conference, "Trade and the Future of American Workers," the crisis is just as bogus as Ross Perot's "giant sucking sound" of the 1990s or the "automation crisis" of the 1960s. Outsourcing low-level service jobs to India will benefit American consumers by lowering prices and stimulate the creation of new, more dynamic jobs in the United States, just as temporary job losses raised long-term living standards in the 1960s and 1990s.

Gregory Mankiw (center), chairman of President Bush's Council of Economic Advisers, talks with Barbra Bowie Whitman of the State Department and economist Arnold Kling.

In the luncheon address, Sen. Chuck Hagel (R-NE) stressed that outsourcing works both ways. Millions of Americans owe their jobs to companies that relocated their facilities to the United States or to exports purchased by companies overseas. Not only is trade good for American consumers, he argued, but it promotes economic stability and democracy abroad. Policymakers, he said, must look beyond the narrow self-interest of industries challenged by overseas competition and focus on the need to create a prosperous world economy.

In the keynote address Roger Ferguson, vice chairman of the Federal Reserve Board, argued that the case for free trade has convinced virtually all economists but that the general public remains ambivalent on the issue. That, he said, was largely due to the complexity of the issue and some widely held misconceptions. Economists, he concluded, must do a better job of clearly communicating the benefits of trade to a skeptical public.

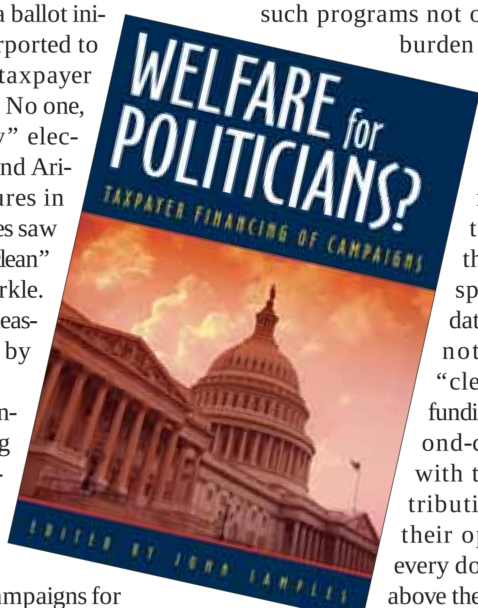
Cato's Dan Griswold, Brink Lindsey, and William Niskanen welcome Federal Reserve vice chairman Roger Ferguson (second from left) to Cato's conference, "Trade and the Future of American Workers."

Gregory Mankiw, chairman of President Bush's Council of Economic Advisers, argued that the primary determinant of a healthy job market is the overall rate of economic growth. Fortunately, he said, the president's economic policies have contributed to an economic recovery that is now gathering steam. Outsourcing is contributing to economic growth, he contended, and so it would be foolhardy to stop the process. Martin Baily, Mankiw's predecessor under President Clinton, agreed. He stressed that outsourcing is good for American consumers, who benefit from affordable goods and services. America, he noted, has the world's most flexible labor market, which will allow it to react nimbly to shifting economic pressures.

Video and audio of the trade conference, cosponsored with *The Economist*, are available at the Cato website, www.cato.org. To access them, click the "Events" tab and then "Watch or Listen to Archived Events Online." ■

Tax-Funded Campaigns: Pols on Welfare?

Who could be opposed to clean elections? Certainly not the voters of Maine, who approved a ballot initiative in 1996 that purported to clean up Maine politics with taxpayer financing of political campaigns. No one, after all, is in favor of "dirty" elections. Voters in Massachusetts and Arizona approved similar measures in 1998. But as voters in other states saw the results of those experiments, "clean" elections lost some of their sparkle. Voters in 2000 defeated similar measures in Missouri and Oregon by lopsided margins.



Not surprisingly, taxpayers consistently say they oppose being forced to fund politicians' election campaigns. When Massachusetts voters were asked whether they supported "taxpayer money being used to fund political campaigns for public office" in 2002, almost three-quarters answered no, suggesting either that voters had been unclear about the meaning of the 1998 ballot question or that the results had not lived up to their expectations.

As contributors to *Welfare for Politicians? Taxpayer Financing of Campaigns* demonstrate, voters have ample reason to be wary of taxpayer-funding proposals. As editor John Samples argues in the introduction, such programs not only impose a burden on taxpayers but do little to increase electoral competitiveness and much to trample on the right to free speech. Candidates who choose not to accept "clean" election funding become second-class citizens, with the state contributing money to their opponents for every dollar they raise above the spending limits. And because incumbents begin the race with a raft of advantages, challengers must often significantly outspend their opponents to unseat them. "Clean elections" laws ensure that incumbents will never be outspent.

A chapter by Thomas M. Finneran, former speaker of the Massachusetts House of Representatives, argues that the Massachusetts Clean Elections law was driven by wealthy out-of-state donors and "fringe activists whose demand for public funds is driven by the widespread resistance to their political agendas as well as by the refusal of private citizens to provide financial support for their radical social and economic proposals."

Cato's Patrick Basham and Martin Zelder of Canada's Fraser Institute find no evidence of increased competition due to Maine's public financing system.

Even more disappointing has been the presidential election system, which is on life support after President Bush, Sen. John F. Kerry, and Gov. Howard Dean all opted out of the system in order to raise and spend unlimited amounts during their 2004 primary campaigns.

Samples and Adam Thierer criticize Sen. John McCain's proposal to give political candidates "free" time on broadcast television. Such proposals, they argue, are based on a dubious understanding of both the electoral process and the broadcast spectrum.

Welfare for Politicians? is available in hardcover for $18.95 and in paperback for $12.95 in bookstores, at www.catostore.org, or by calling 800-767-1241. ■

"To Be Governed..."

◆The emaciated federal budget

When Congress adjourned last month for the election, it appeared lawmakers would have more to do when they returned this week than haggle over how to fund domestic agencies in 2005. . . .

A senior congressional aide said that "the election didn't change the fundamental problem: There's not enough money in these bills."

Some key Republicans agree. Sen. Ted Stevens (R-Alaska), who chairs the Appropriations Committee, said last month there was "an overwhelming need for more money" in the bills funding domestic spending.

—*Washington Post*, Nov. 14, 2004

◆Like small businesses getting expropriated for millionaire baseball owners?

"The way the opponents of eminent domain always want to portray it is, 'Oh, Old Mother Hubbard is getting kicked out of her cupboard by an evil government,'" said [District of Columbia mayor Anthony] Williams, a lawyer.

Much of the time, local governments try to expropriate the property of "some wealthy interest [who] doesn't want to get off their land for the benefit of the public," Williams said. Eminent domain authority constitutes "the exercise of the public realm for good productive purposes against selfish, private, parochial interests.". . .

"[Court restrictions on eminent domain] to me would be a veneration of property rights at the expense of community interest, a federation of private interests at the expense of the public commonweal," he said. "The restrictions on when you can take property are becoming more and more severe."

—*Bond Buyer Online*, Oct. 4, 2004

◆Really?

Joseph Montanaro Jr., a certified financial planner with USAA who is based in San Antonio . . . says new parents should . . .

• **Purchase disability insurance.** "The numbers indicate that people are much more likely to become disabled than to die," Montanaro said.

—*Washington Post*, Oct. 14, 2004

◆But Clinton was never actually convicted

Former President Clinton warned Tuesday that Democrats "cannot be nationally competitive when we don't feel comfortable talking about our convictions."

—*Newsday*, Nov. 9, 2004

◆Maybe you have to find a job

Over the past decade, Christiane Nimes has held a series of make-work jobs, such as pulling weeds or picking up litter. "They've never offered me a real job," she says of the state-run agency [in eastern Germany] that provided her stipend.

—*Washington Post*, Oct. 24, 2004

◆Pay a little in India, pay a lot in the United States, or get on a waiting list in Canada

Taking his cue from cost-cutting U.S. businesses, [Howard] Staab last month flew about 7,500 miles to the Indian capital, where doctors at the Escorts Heart Institute & Research Centre—a sleek aluminum-colored building across the street from a bicycle-rickshaw stand—replaced his balky heart valve with one harvested from a pig. Total bill: about $10,000, including round-trip airfare and a planned side trip to the Taj Mahal. . . .

Staab is one of a growing number of people known as "medical tourists" who are traveling to India in search of First World health care at Third World prices. Last year, an estimated 150,000 foreigners visited India for medical procedures. . . .

The same hospitals now are starting to attract non-Indian patients from industrialized countries, and especially from Britain and Canada, where patients are becoming fed up with long waits for elective surgery under overstretched government health plans.

"If you can wait for two years for a bypass surgery, then you don't need it or you're dead—one of the two," [Indian surgeon Naresh] Trehan said. "Similarly, if you're wobbling on your frozen joints for two years because of a waiting list, it's a human tragedy."

One such patient is Tom Raudaschl, an Austrian who lives in Canada and earns his living as a mountain guide. Suffering from osteoarthritis in his hip, Raudaschl last year decided to undergo "hip resurfacing," a relatively new procedure that involves scraping away damaged bone and replacing it with chrome alloy. He learned he would have to wait as long as three years if he wanted to have the operation under Canada's national health plan, a delay that would have cost him his job, Raudaschl said. In the United States, the procedure would have cost $21,000, he said.

—*Washington Post*, Oct. 21, 2004

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