

CATO

CATO INSTITUTE 2012 ANNUAL REPORT

The Cato Institute's expanded headquarters
on the evening of its dedication, May 5, 2012.

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BOARD OF DIRECTORS

In 2012 the Cato Institute continued its rigorous defense of individual liberty, free markets, limited government, and peace. Cato's competent and dedicated staff promotes cogent, pro-liberty solutions to just about every major policy issue. The Institute is also served by an engaged and committed board, which oversees compliance with our mission and shapes our vision for the future.

In the final months of the year, a crucial leadership transition took place—seamlessly. Ed Crane, Cato's cofounder and president, stepped down, and John Allison became president and CEO. Over the course of 35 years, Cato grew from a three person shop in San Francisco to an organization with a global reputation for quality, integrity, and objective, fact-based research.

Throughout the year, Cato's policy experts fought vigorously to

- Restore financial discipline to the Federal government
- Stop Obamacare
- Repeal Dodd-Frank
- Defend your Second Amendment right to bear arms
- Develop a rational strategy for immigration reform
- Restore the concept of sound money
- Reduce military expenditures to a goal-oriented, reasonable level—with the objective of defending the United States, not righting all of the planet's perceived wrongs.

Cato's studies and publications, including the *Supreme Court Review*, *Cato's Letter*, and *Cato Policy Report*, were downloaded 2.2 million times. Cato's scholars were cited in 3,684 news articles, authored 389 op-eds, appeared in 705 television interviews, and participated in 1,127 radio interviews. We filed 34 amicus briefs with the Supreme Court and educated 84 interns on libertarian principles.

Cato's building expansion was completed in 2012, providing us with a state-of-the-art facility in a city where visibility is critical. We held 78 seminars on topics from the Federal Reserve to Obamacare to immigration, attracting 7,700 participants. Counting those who attended online, Cato's seminars reached over 25,000 people.

Underlying all of that activity, Cato was ranked by the Center for Global Development as the #1 think tank in terms of impact per dollar spent. Our Sponsors' funds are being invested effectively!

The progress we've made over the course of the past year also underscores what we need to accomplish moving forward. An intensive, ongoing program of strategic planning will yield much in the way of new initiatives and sharpened focus. Indeed our recent strategic planning process has already identified two important opportunities for Cato. The first lies in recognizing that despite all our efforts, we are tremendously outnumbered and outspent by statist of various persuasions. Yet we can significantly increase our impact by focusing on elite communicators and opinion leaders across the political spectrum. Each policy group within Cato will identify the 100 or so most influential opinion leaders in its field. Then, after developing a sales process to target these "customers," we will be able to steer the national debate by personally engaging its key players.

The second opportunity, already identified by our strategic planning process, is to ensure that our resources are allocated to the most important issues—short-term, intermediate, and long-term. How can we be more flexible so that we can respond to the issue of today while being prepared for tomorrow's debate? For example, should we invest more in the analysis of fiscal and monetary policy? After all, if the United States experiences serious financial problems, their resolution will drastically impact every other issue. Accordingly, Cato is contemplating the establishment of a Center for Monetary Policy. Immigration, on the other hand, is an example of a critical issue where Cato is playing an important role in the national debate that may lead to important policy decisions in the relatively near future.

One new project has already emerged from our strategic planning process: we will be preparing a balance sheet and income statement for the U.S. government as if it were a business. As you might expect, the preliminary numbers are frightening: if you were an investor in Uncle Sam, it would be hard not to sell your stock.

In short, we here at Cato recognize that statism fails and freedom works on every front. By continuing our principled defense of individual liberty, we intend to change the direction of the United States and ultimately, the world. But this work and these accomplishments are only possible because of the generosity of our Sponsors. We thank you and hope that you will continue to support our efforts to defend life, liberty, and the pursuit of happiness.

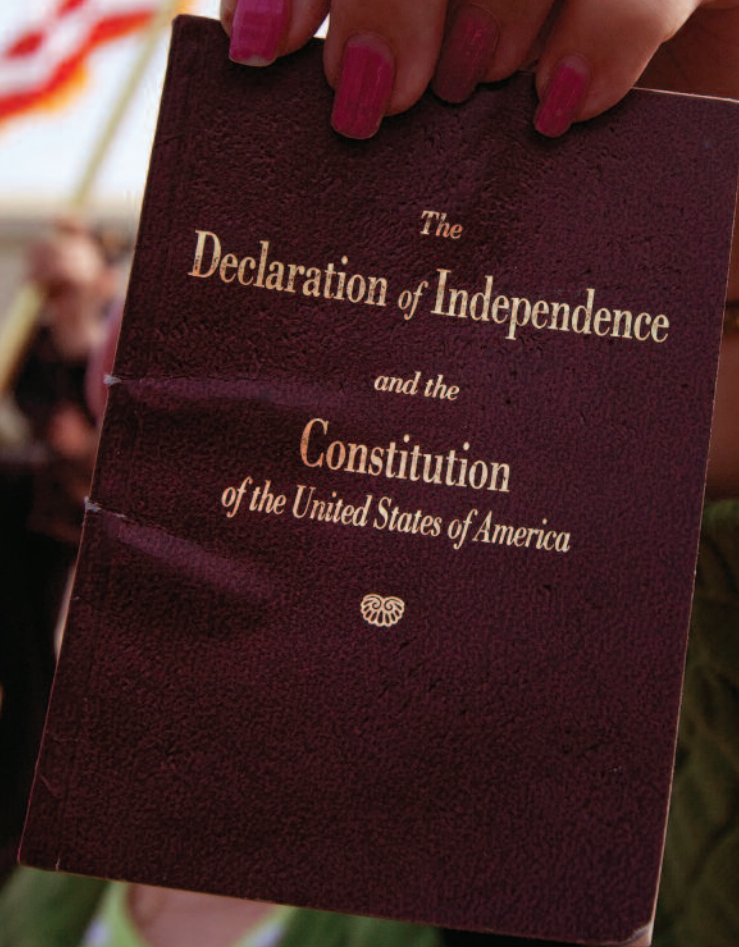


John Allison
JOHN A. ALLISON
PRESIDENT



Robert A. Levy
ROBERT A. LEVY
CHAIRMAN

A protestor against Obamacare holding a Cato Pocket Constitution



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ver the course of the past year, the political establishment has extended its reach, stretching the tendrils of the state into every corner of civil society. The federal government continues to expand beyond all moral and legal bounds, shifting responsi-

bility from the individual and in turn draining the country's wealth. In response to reckless spending, a bloated entitlement state, an aggressive global military presence, and disregard for the rule of law, an energized freedom movement has risen up, committed to countering these trends by stemming the tide of bipartisan government growth.

If limited government is to succeed, the public must first understand the principles on which it is based. To that end, the Cato Institute has been on the front lines in the battle over ideas, proposing timely and concrete policy solutions to ensure that our heritage of liberty is passed on, intact, to the next generation.

"I believe that we shall be able to preserve and extend freedom," Milton Friedman wrote in the final pages of *Capitalism and Freedom*, "despite the economic powers already concentrated in Washington. But we shall be able to do so only if we awake to the threat that we face." Those of us at the Cato Institute consider it our duty to sound the alarm, and we will continue to be vigilant in maintaining a society based on the preservation of individual liberty, free markets, and peace.

“The Cato Institute turns out lucid and literate critiques of government activity in every sphere and at every level.”

—E. J. DIONNE JR.
Washington Post

Cato Senior Fellow **ILYA SHAPIRO** answering reporters' questions outside the Supreme Court

UPHOLDING THE RULE OF LAW

Although we can take pride in the fact that the constitutionality of Obamacare was seriously debated in the Supreme Court, the decision itself was surely a disappointment. On June 28, 2012, the Court handed down a complex decision upholding the individual mandate of the Patient Protection and Affordable Care Act. The 2,700-page law, commonly known as Obamacare, represents a massive federal effort to control that section of the economy concerning the most intimate details of life—our health. “It’s the most ambitious example to date of the political hubris progressives have displayed for over a century now,” wrote Roger Pilon, vice president of Cato’s Center for Constitutional Studies, “the belief that government can solve all of our problems.”

The ruling—a largely political decision dressed up in legal robes—hinged on the government’s taxing power. This authority, according to Pilon, is now being used “as a vast policy tool, with a tax code so interlarded with incentives, disincentives, and transfer provisions that no one remotely does or can understand it all.” This is hardly what the Framers of the Constitution had intended.

Nor is the struggle for Obamacare finished: Senior Fellow Ilya Shapiro continues to pepper the Court with amicus briefs on various unresolved Obamacare issues. By the same token, Michael Cannon, Cato’s director of health policy studies, has argued that Obamacare’s future hinges on whether states force Congress to reopen the law. “Cannon, the Cato Institute health care expert who has waged a one-man crusade to stop Obamacare implementation, has been pointing this out for months,” the *New Republic* wrote in November.

The Institute continued to struggle for better policy on the drug front as well. In October, Cato Senior Fellow Ted Galen Carpenter released *The Fire Next Door: Mexico’s Drug Violence and the Danger to America*, in which he details the mounting crisis stemming from drug prohibition. This knee-jerk adherence to a failed policy, Carpenter argues, has had devastating consequences for both countries. “The carnage associated with the black-market trade in drugs does not respect national boundaries,” he writes.

As former Mexican president Vicente Fox wrote in the book’s foreword, “There is already an irresistible push around the world for a new, more realistic,



and more constructive policy paradigm.” In fact, the *Wall Street Journal* also noted last spring that an anticipated sea change may already be underway.

Although the exorbitant costs of the war on drugs continue to gain attention, Cato has also delved into other severe threats from law enforcement. In May, the Institute launched *PoliceMisconduct.net*—a website intended to bring more attention to the problem of police impropriety. The site features a comprehensive database of media reports on misconduct, allowing visitors to determine the extent to which law enforcement officials exceed the limits of their authority.

“We are simply trying to create a ruler with which we can measure police misconduct, so that people can determine for themselves if it’s really a problem,” said Tim Lynch, who oversees Cato’s National Police Misconduct Reporting Project, of which the website is the cornerstone. By identifying policies that will enhance police professionalism in the long run, the new site dovetails closely with the Institute’s push to preserve civil liberties more broadly.

Cato’s scholars, particularly Jim Harper, director of information policy studies, and Julian Sanchez, a research fellow, have also continued to push back against government violations of privacy. In July at a Cato Policy Forum organized by Sanchez, Sen. Ron Wyden (D-OR) discussed the National Security Agency’s controversial powers to vacuum up the international communications of U.S. citizens. “Searching for Americans’ phone calls and emails without a warrant is something that these agencies should not do,” he said.

Fortunately, Cato is having a decisive impact. “Jim Harper may be the digital era’s version of Diogenes the Cynic,” the *Washington Examiner* reported in December. “In a manner reminiscent of the ancient contrarian, the Cato Institute’s director of information policy studies walks around town figuratively carrying a lamp while searching for honesty.”

Facing Top: In July, **SEN. RON WYDEN (D-OR)** offered his hopes for establishing sorely needed accountability when it comes to government surveillance. **Facing Middle:** (From left) **MICHAEL TANNER**, senior fellow at the Cato Institute; **ILYA SHAPIRO**, senior fellow in constitutional studies; and **MICHAEL CANNON**, director of health policy studies, held a Capitol Hill Briefing to discuss the future of Obamacare. **Facing Bottom:** In testifying before the House, **TIM LYNCH** (right), director of Cato’s Project on Criminal Justice, joined former attorney general **DICK THORNBURGH** to address simplifying the federal criminal code. **Top:** Standing outside the Supreme Court, Cato Senior Fellow **MICHAEL TANNER** was interviewed by **RITA COSBY** on the implications of the momentous decision upholding Obamacare. **Bottom:** At an American Enterprise Institute forum, **JIM HARPER** (speaking), director of information policy studies, joined **ADAM SEGAL** of the Council on Foreign Relations (center) and **JEFF SNYDER** of the Raytheon Company to discuss cybersecurity.

BATTLING BIPARTISAN BLOAT

“**T**he financial crisis is the most important economic event in 80 years,” John Allison, president and CEO of the Cato Institute, wrote in his bestselling book *The Financial Crisis and the Free Market Cure*. Allison joined Cato in 2012, after completing a 20-year tenure as CEO of BB&T Corporation.

Allison maintains that BB&T’s loyalty to free market principles gave it a competitive advantage, noting that BB&T managed to remain profitable throughout the crisis and, in doing so, outperform its peers. Five years after the downturn began, the company has still not experienced a single quarterly loss. Allison believes that free market principles could have prevented the financial crisis and that a return to those principles is the country’s best hope for a cure. The rest of Cato’s scholars couldn’t agree more.

In a policy analysis, Senior Fellow Jeffrey Miron argued that the United States now faces two economic challenges: slow growth and ballooning debt. While many policymakers believe the solutions to these problems are at odds, Miron argued that they are a “nondilemma.” “The United States has a simple path to a brighter economic future: slash expenditures and keep tax rates low,” he wrote.

In February, Michael Tanner explained that allowing workers to invest in personal retirement accounts would involve “exchanging the political risks of an underfunded Social Security system for the market risks of private investment.” And according to his analysis, the choice between the two is clear. “The vast majority of younger workers would be better off switching to such a system,” Tanner wrote.

Yet the costs of these ballooning entitlements represent just one of the government burdens placed on our economy. The red tape currently strangling private businesses is yet another. The Dodd-Frank Wall Street Reform and Consumer Protection Act, for instance, will have a disproportionate impact on smaller lending institutions, despite assurances that it would target the major players. According to Louise Bennetts, Cato’s associate director of financial regulation studies, this will do little to revitalize financial health.

“Crippling community banks under a heavy regulatory weight is not the way to bring about structural change,” Bennetts wrote in *American Banker*. And this



JOHN A. ALLISON,
Cato President and CEO, speaking
at the 2012 Monetary Conference

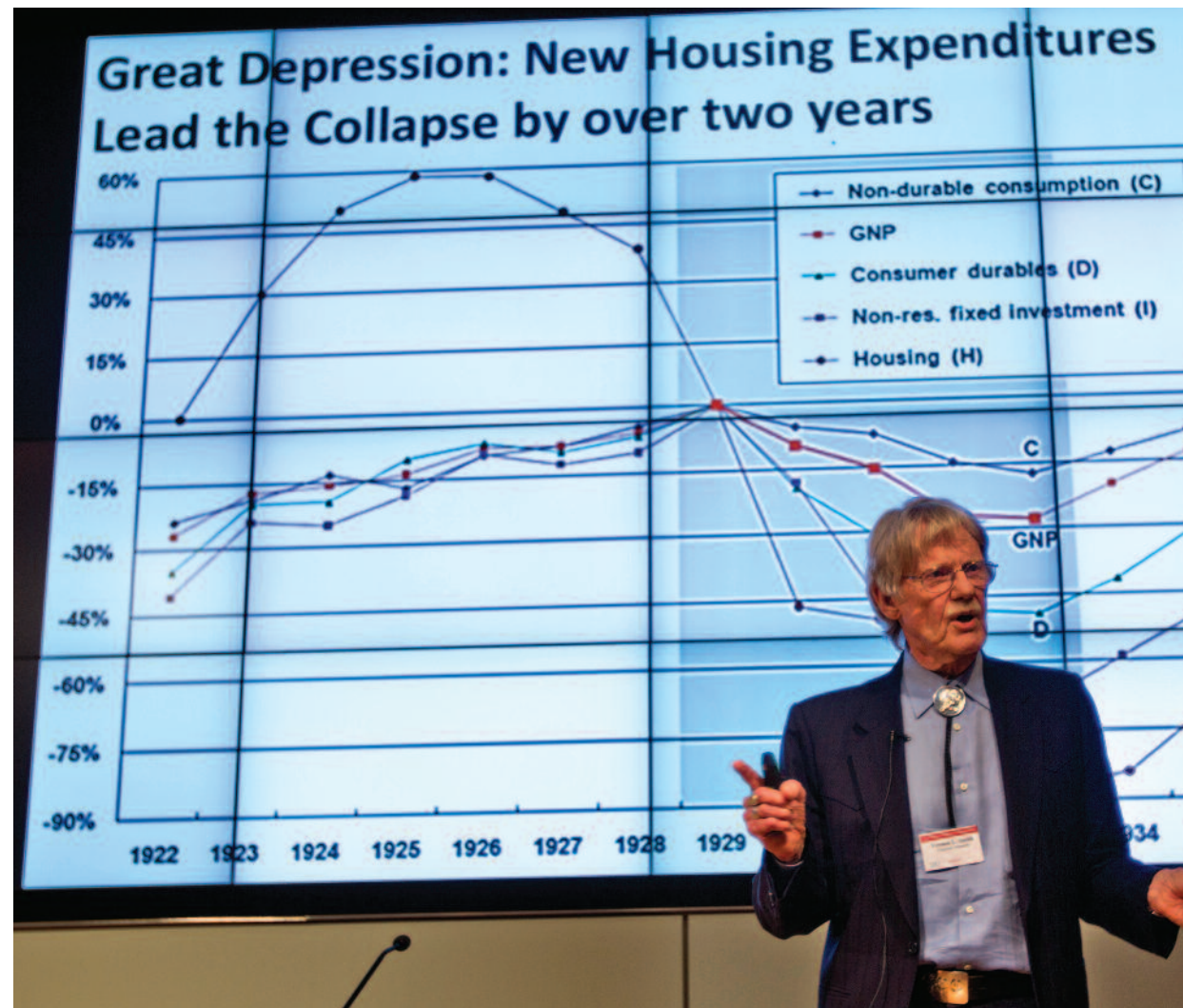
represents just one of the many flaws embedded in the law, according to Mark Calabria, Cato's director of financial regulation studies. "After two years of the Dodd-Frank [act]," Calabria told the *Washington Post*, "a few of the landmines hidden in its hundreds of pages are starting to come to the surface."

In fact, many of the federal government's excesses have come to light, thanks to websites like DownsizingGovernment.org. Created by Chris Edwards, director of tax policy studies at the Cato Institute, the site examines the federal budget department-by-department, offering a blueprint for major spending reforms in an era of trillion-dollar deficits.

As the year came to an end, the political elites were consumed with wrangling over the fiscal cliff. But the real problem, according to Cato Senior Fellow Dan Mitchell, is the "ticking time bomb" of entitlement programs and the welfare state. "Some politicians claim this huge, baked-into-the-cake expansion of government isn't a problem, because we can raise taxes," Mitchell wrote in the *New York Post*. "But that's exactly what Europe's welfare states tried—and it didn't work."

Unfortunately, some of the most damaging public interventions are those that remain concealed. Back in 2009 the Environmental Protection Agency issued a massive report to be used in regulating carbon dioxide emissions. According to Cato Senior Fellow Patrick J. Michaels, every paragraph was missing information. In October Michaels released a comprehensive addendum which—paragraph-by-paragraph and page-by-page—adds back vital information omitted from the original report. Michaels noted that "calling this an 'addendum' is a tongue-in-cheek jab at the substantial relevant science the authors of the USGCRP [United States Global Change Research Program] report left on the cutting room floor while crafting their version."

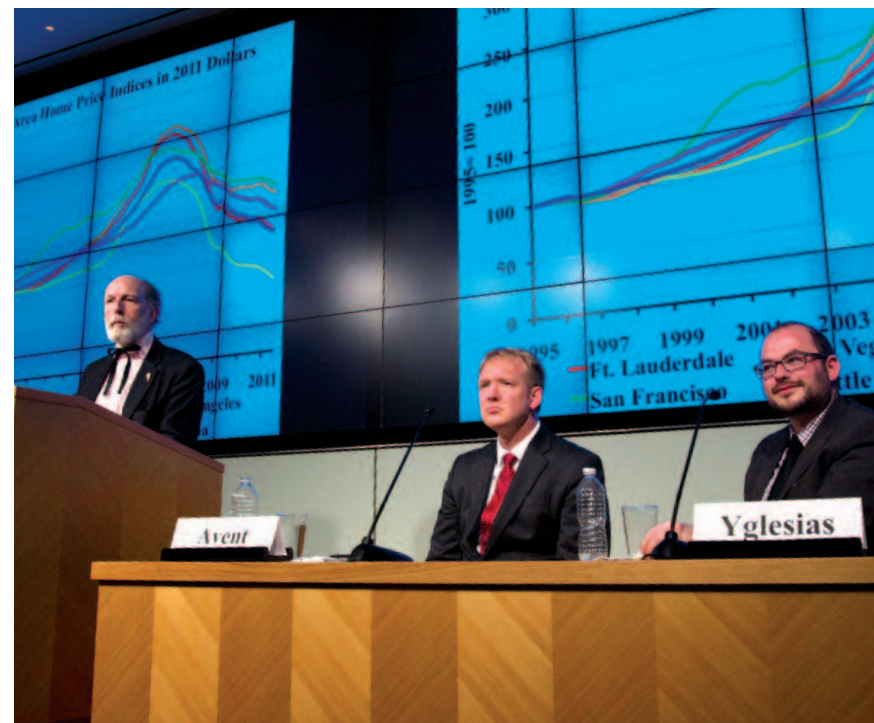
Top: At the 2012 Monetary Conference, Nobel laureate **VERNON SMITH** examined the history of bubbles in the United States. **Bottom:** At the 2012 Monetary Conference, **JAMES DORN**, Cato's vice president for academic affairs, chatted with Spanish economist **PEDRO SCHWARTZ** and **ZANNY MINTON BEDDOES** of *The Economist*. **Facing Top:** **P. J. O'ROURKE** speaking at a City Seminar in Naples, Florida. His luncheon address was entitled, "America—Down the Drain and Caught in the Greece Trap." **Facing Middle:** Cato Senior Fellow **GERALD P. O'DRISCOLL** (right) caught up with **MARK WYNNE**, economist and vice president at the Federal Reserve Bank of Dallas. **Facing Bottom:** Senior Fellow **PATRICK J. MICHAELS** released a comprehensive **ADDENDUM** detailing information missing from a 2009 report used by the Environmental Protection Agency to regulate carbon dioxide emissions.



The political elites seem to be overlooking many of their own pressing failures. The greatest problem our education system faces, for instance, is that “public schools have squandered their talents on a mass scale,” Andrew Coulson, director of Cato’s Center for Educational Freedom, wrote in the *Wall Street Journal* in July. Indeed, Neal McCluskey, associate director of the Center, has produced powerful statistics and charts measuring the ever-increasing costs of public education against diminishing academic achievement levels.

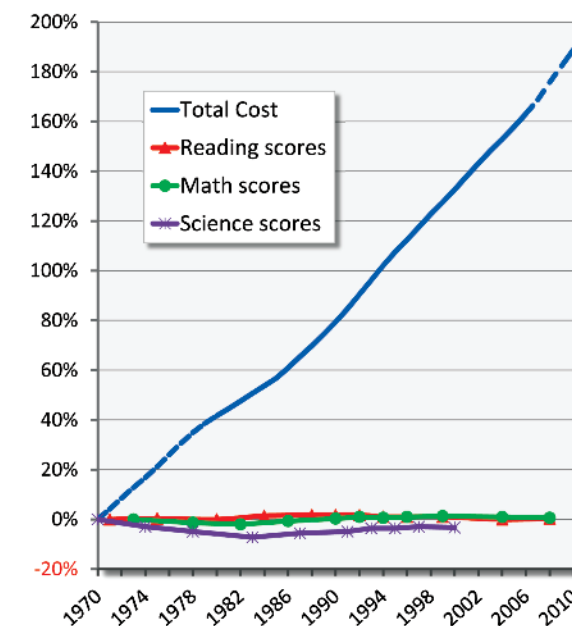
The good news, according to Coulson and McCluskey, is that a private solution is taking root. Coulson pointed in particular to the more than 20 school choice programs that exist across the nation. “By making it easier for families to access independent schools,” he told the *Journal*, “we can do what the president’s policies cannot: drive prosperity through educational improvement.”

Throughout the year, the Cato Institute continued to advocate policies that preserve individual sovereignty while decreasing government power, in areas ranging from regulatory policy to education reform. “The open question at this stage is not whether we have the ability to solve our problems,” Allison concluded in his book, “but whether we have the will to do so.”



Top: At a policy lunch on succeeding in the media world, **TUCKER CARLSON**, senior fellow at the Cato Institute and editor in chief of the *Daily Caller*, addressed a room full of aspiring journalists. **Bottom:** Cato Senior Fellow **RANDAL O'TOOLE** (at podium) joined a panel with **RYAN AVENT** (center), economics correspondent for *The Economist*, and **MATTHEW YGLESIAS**, a columnist for *Slate*, to discuss housing and development policy in American cities. **Facing Bottom:** Comparing skyrocketing public education spending to stagnant achievement levels over time, this graph from Cato’s Center for Educational Freedom depicts a bleak track record for education programs.

Trends in American Public Schooling Since 1970



Cato Institute

"Total cost" is the full amount spent on the K-through-12 education of a student graduating in the given year, adjusted for inflation.
 In 1970: \$56,903
 In 2010: \$164,426

Data sources:
 U.S. Dept. of Ed., "Digest of Education Statistics," & NAEP tests, Long Term Trends, 17-year-olds.

Chart by:
 Andrew J. Coulson,
 February 2013

“If you’re looking for a consistent commitment to preserving all forms of individual liberty, join the Cato Institute.”

—WENDY KAMINER
The American Prospect



MAO YUSHI, with his family, accepting the Milton Friedman Prize for Advancing Liberty

FREEDOM HAS NO BOUNDARIES

The year 2012 proved to be a contentious one around the world—dominated by brutal shadow wars, out-of-control U.S. military spending, and strident trade negotiations. “Over the past few years, the Obama administration has institutionalized the use of armed drones abroad,” the *Washington Post* reported in October. These strikes—which numbered in the hundreds in 2012—center on a campaign of targeted killings in Pakistan, Yemen, and Somalia that amount to a series of undeclared battles. Once considered last resort, these tactics are now fixtures in the current administration’s arsenal.

“Asking if Obama has gone too far in his drone policy is sort of like asking if eternity is too long or hell too hot,” Cato Research Fellow Benjamin H. Friedman wrote in *U.S. News & World Report*. These remote shadow wars, indefinite in both length and scope, represent the latest overstep in what appears to be an ever-expanding global military footprint.

The United States now accounts for nearly half of the world’s defense spending. Yet, according to Christopher Preble, vice president for foreign and defense policy studies, a significant portion of those expenditures are not set aside for our own protection. They simply subsidize our wealthy allies, “allowing them a free ride on America’s coattails”—as he wrote in *Foreign Policy*. This bipartisan bloat, in turn, tethers the United States to parochial quarrels that have no clear connection to its vital interests.

These frictions, unfortunately, have not been confined to the military sphere. In March, Daniel J. Ikenson, director of Cato’s Herbert A. Stiefel Center for Trade Policy Studies, authored “Trade Policy Priority One: Averting a U.S-China ‘Trade War,’” in which he discredited the retaliatory rhetoric many are employing against Beijing—an approach, he argued, that only serves to fuel bilateral tensions. “Such wars claim victims indiscriminately and leave significant damage in their wake,” Ikenson wrote. The best response, he continued, is to avoid outright confrontation. “Those agitating for tough policy actions should put down their battle bugles and consider that trade wars are never won.”

The lapse in trade liberalization is just one of the U.S. indicators underlying a much broader—and more worrisome—trend. According to the latest



Economic Freedom of the World: 2012 Annual Report—copublished with the Fraser Institute and more than 70 think tanks around the globe—economic freedom in the United States has plummeted to an all-time low. The country now ranks 18th—a precipitous drop from its previous leadership role. This loss of freedom reflects a decade-long descent—the United States ranked 3rd in 2000—that has accelerated in recent years.

Nevertheless, economic freedom continues to rise on a worldwide basis after falling for two years straight, according to the report. Countries like Poland and Peru have shown sharp increases in economic freedom over time—and, while it remains in the grips of authoritarianism, China also continues to move in the right direction—due in large part to those who have dedicated their lives to the principles of limited government, free markets, and peace.

On May 4, in recognition of his role as one of the pioneers of China’s freedom movement, Mao Yushi was awarded the 2012 Milton Friedman Prize for Advancing Liberty. The 83-year-old economist accepted the honor after traveling from his home in Beijing, joining more than 1,000 Cato Sponsors and friends at the Washington Hilton in downtown Washington, D.C.

Recounting his past sacrifices, Mao emphasized that the future of limited government ultimately lies with succeeding generations. “In your hands, more than mine, will rest the final success . . . and hopes for liberty of our peoples,” he concluded.

Facing Top: CHRISTOPHER PREBLE (left), Cato’s vice president of defense and foreign studies, joined MICHAEL O’HANLON of the Brookings Institution at a Bloomberg conference to discuss the strategic challenges facing the U.S. military today. **Facing Middle:** Cato Chairman ROBERT A. LEVY (at podium) introduced IAN VÁSQUEZ (center), director of the Institute’s Center for Global Liberty and Prosperity, and SALLIE JAMES, a trade policy analyst, at a Cato Club Naples event in January. **Facing Bottom:** CHRIS CHRISTIE, governor of New Jersey, spoke at the 2012 Milton Friedman Prize dinner, offering advice to the nation by way of his leadership experiences at the state level. **Top:** BARBARA SLAVIN (at podium) of the Atlantic Council joined JUSTIN LOGAN (center), Cato’s director of foreign policy studies, and ALIREZA NADER of the RAND Corporation, to discuss whether current policy will have an impact on Iran’s nuclear program. **Bottom:** Former Mexican president VICENTE FOX talked with reporters after a Cato Policy Forum, “Mexico and the War on Drugs: Time to Legalize.”



CATO THROUGH THE YEARS

For more than 35 years, the Cato Institute has cultivated a well-deserved reputation for sound analysis and incorruptible integrity. Over that period, Edward H. Crane has been at the helm—guiding the Institute from a three-person outfit in San Francisco to one of the most prominent public policy research organizations on the national stage. He has played an indispensable role by cofounding, managing, and shaping the think tank into an institution that the syndicated columnist George F. Will called the country’s “foremost upholder of the idea of liberty.”

The Cato Institute opened its doors in January 1977, setting up shop in a rented office on Kearney Street in the Embarcadero District of San Francisco. By 1982 the Institute had moved to Capitol Hill, and within its first decade it had created a respected presence for classical liberal ideas. “Cato has managed to generate more activity and interest across a wider political spectrum than some of its more sedate competitors with much larger budgets,” the *New York Times* reported in 1987.



THE WALL STREET JOURNAL.

Wednesday, October 24, 2012

Ed Crane’s Freedom Legacy

The cause of limited government is enjoying a political resurgence, and it may even prevail on November 6. But if it fails on Election Day, the fault won’t lie with Ed Crane, who has stepped down this month after 35 years building the Cato Institute and promoting free people and free markets.

With money from Wichita businessman and libertarian Charles Koch, Mr. Crane founded Cato in San Francisco in 1977 with a budget of \$800,000 and a staff of 10. He reluctantly moved the think tank to Washington in 1981 to more effectively communicate the small-government case in the heart of Leviathan. Cato’s annual budget is now \$21 million with a staff of 127, and its scholars have led the battles for entitlement reform, regulatory restraint, free trade and lower taxes.

Unlike some leaders of the libertarian movement, Mr. Crane is not a dogmatist and allowed his scholars wide latitude. We’ve disagreed with Cato’s isolationist approach

to foreign policy, but its ideas and op-eds have regularly informed readers of these pages. Cato’s annual conference on monetary policy is especially influential by airing debates over a subject typically ignored by most of the media and think tanks. Under Mr. Crane, Cato held the first conferences on free markets and the rule of law in China (1988) and Russia (1990).

Mr. Crane’s final months at Cato were marred by an unfortunate row over control with Charles and David Koch. We’re pleased that the battle has been settled with a new governance pact that organizes Cato like a more traditional nonprofit with a self-sustaining board. Mr. Crane is graciously retiring at age 68.

His able successor is the longtime and highly successful former CEO of BB&T bank, John Allison, who has plans for expansion but who will build on the foundation of Mr. Crane’s broad shoulders.

Facing: ED CRANE (left) talked with MILTON and ROSE FRIEDMAN at a picnic to celebrate the Cato Institute’s 25th anniversary in 2002. **Top:** The highlight of Cato’s 2004 Moscow conference, a four-hour meeting with Russian president VLADIMIR PUTIN included (from left) Chilean economist JOSÉ PIÑERA, Kazakh statesman GRIGORI MARCHENKO, former prime minister of Estonia MART LAAR, then-Cato president EDWARD H. CRANE, author DANIEL YERGIN, and Georgian politician KAKHA BENDUKIDZE. **Bottom:** In October a *Wall Street Journal* editorial paid tribute to Ed Crane’s “35 years building the Cato Institute and promoting free people and free markets” after Crane stepped down as president and CEO.

With oversight from executive vice president David Boaz, the Institute began to have an impact on every major public policy area, from health care reform to term limits. While many avoided Social Security as a third rail issue, Cato began pushing for privatization in 1979—eventually establishing the Project on Social Security Reform in 1995. The 2001 President’s Commission to Strengthen Social Security validated this initiative by drawing heavily on the Institute’s scholarship.

Cato has also worked to expand its reach beyond our borders, holding perhaps the first conference on free markets and the rule of law in China, as well as the largest gathering of classical-liberal thinkers ever to take place in the Soviet Union. “When [Crane] reminded the large audience that ‘the government that governs least governs best’ . . . hundreds of Russians clapped and cheered wildly,” the *Wall Street Journal* reported after the Moscow forum. “Only a handful of die-hard Communists sat glum-faced, arms folded.”

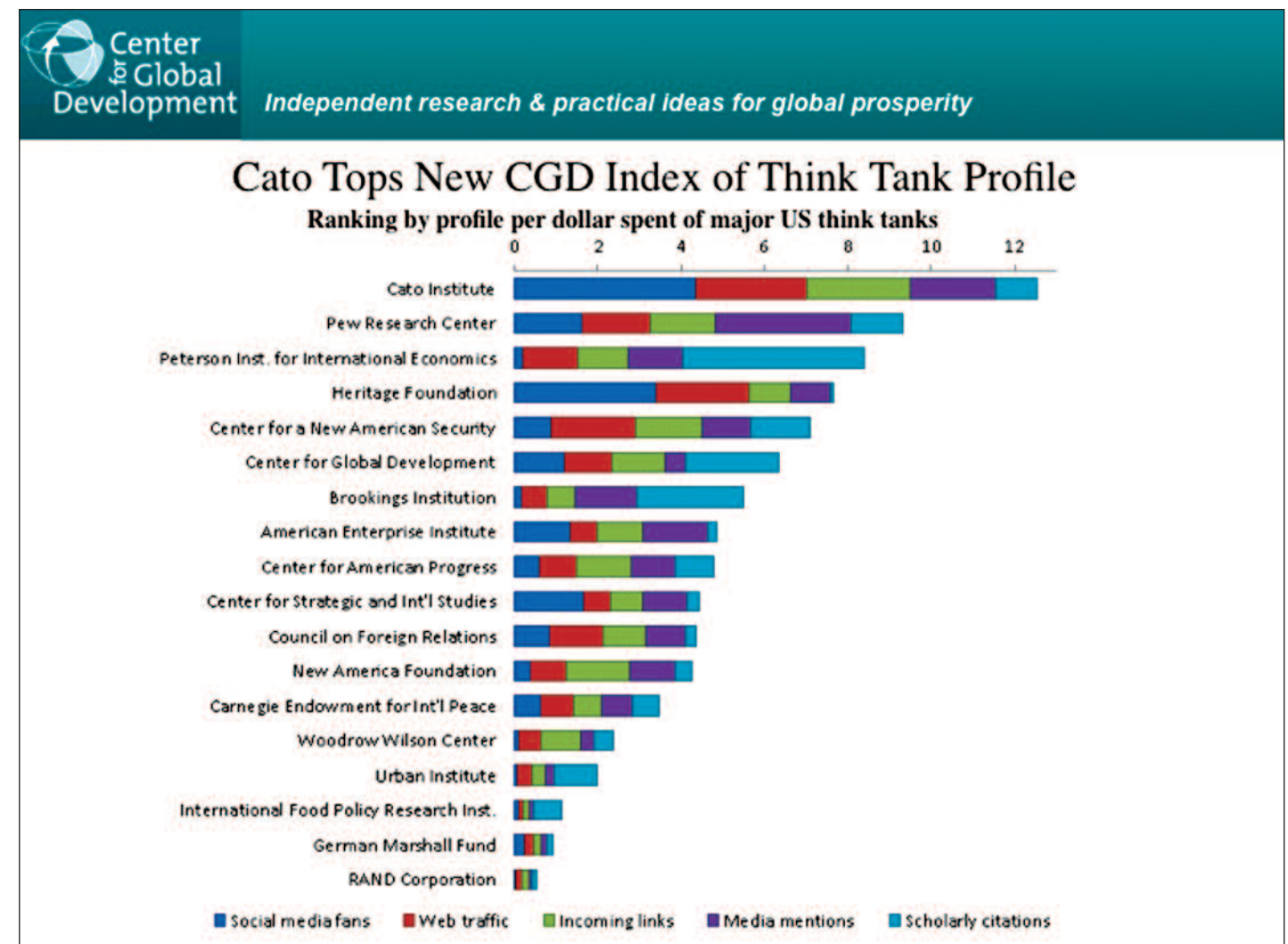
Today, the Institute has become a leading voice for the American principles of liberty and limited government. “Cato has managed the difficult feat of becoming both a fount of true-blue libertarian ideas and a reputable source of information even for those who don’t share its views,” columnist Steve Chapman wrote in the *Chicago Tribune* last year. “It may be the most successful think tank in Washington.”

This October, John Allison succeeded Crane as the Institute’s new president and CEO. Given his long-standing commitment to free market principles, Allison is an ideal choice to build on Cato’s history of success by refining its newly expanded platform. For his part, Allison has described the new role as “a natural fit.” He is eager to take the helm of an organization that has for decades become synonymous with a principled libertarian stance.

Looking forward, Allison plans to redouble the Institute’s efforts in a way that will, as the *Wall Street Journal* noted in October, “build on the foundation of Mr. Crane’s broad shoulders.”

Left: DAVID BOAZ, executive vice president of the Institute, has directed Cato’s extensive policy work over the decades. **Right:** During the State Health Policy Summit, Cato president and CEO **JOHN A. ALLISON** (left) chatted with **REP. PAUL RYAN (R-WI)** outside of the F. A. Hayek Auditorium.

Facing: The Cato Institute tops a new index of think tank performance in the United States, according to the Center for Global Development. Cato bested all other U.S. think tanks in the main category of “Aggregate Profile per Dollar Spent”—which divides performance indicators (such as media mentions, scholarly citations, and web traffic) by annual spending—to give a comparative measure of “bang for the buck.”



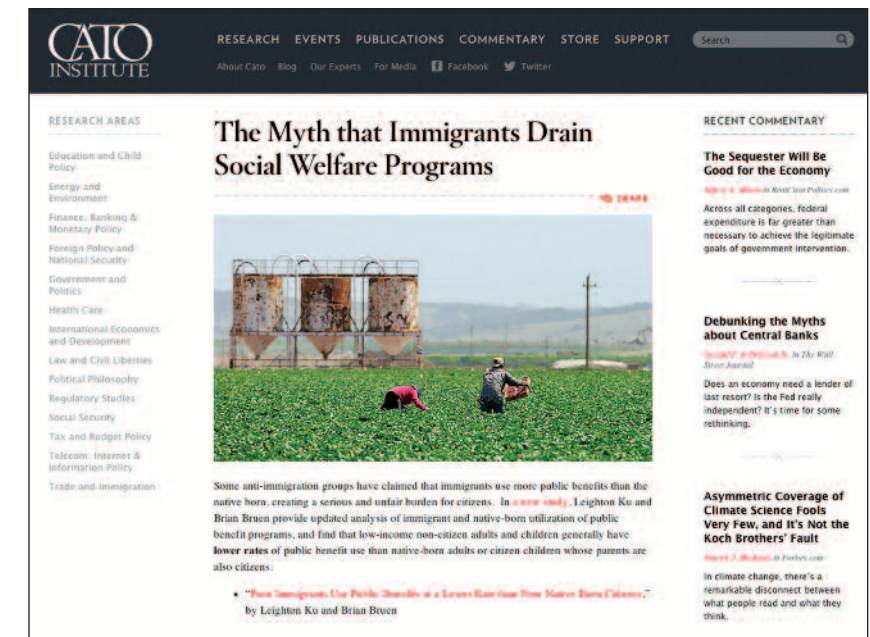


MEDIA HIGHLIGHTS

In 2012, Cato's policy experts were cited in 3,684 news articles, authored 389 op-eds, appeared in 705 television interviews, and participated in 1,127 radio interviews. In particular, the perspectives of Cato's scholars on economic and legal issues were highly sought throughout the year. Cato scholars were also cited in syndicated columns on the economy by George F. Will and Ezra Klein. Notable broadcast appearances



included (pictured above) Chris Edwards on CNBC's *Street Signs*, Cato president John Allison discussing his new book, *The Financial Crisis and the Free Market Cure*, on CNBC's *Squawk Box*, Ilya Shapiro on MSNBC's *The Rachel Maddow Show*, and Dan Mitchell on CNN's *The Situation Room with Wolf Blitzer*.



Cato's newly designed website underscores the Institute's commitment to braiding together content, clarity, and innovation. Its responsive design—automatically reformatting to fit the type of device accessing its content—eliminates the need for apps and accommodates the site's more than 1.3 million (and rapidly growing) visits each year via mobile devices. The site's millions of annual users include visitors to Cato.org, Cato's highly popular blog *Cato at Liberty*, and to Cato's special Web projects DownsizingGovernment.org, Libertarianism.org, PoliceMisconduct.org, Cato's e-Briefings, and Cato Unbound—the monthly online exchange of ideas.

In a new index on think tank performance issued by the Center for Global Development, the Cato Institute was ranked at the top on a per dollar spent comparison with 17 other major (and many of them far larger) think tanks. (Please see the actual chart on page 25.) Cato's commitment to efficiently crafting and providing high caliber work has never been stronger . . . more necessary . . . or

OUTREACH AND EDUCATION

(gratefully) more recognized. By conveying facts and solutions, eschewing partisanship, focusing on what is right, and working hard, Cato's clear and measured voice was increasingly sought throughout 2012 across airwaves, in auditoriums, in Capitol Hill hearing rooms, on news programs, on online programs, as well as through a dynamic website and new books, research papers, journals, op-eds, and more.

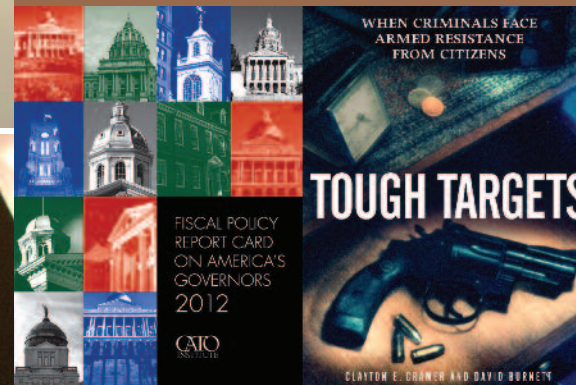
IN-HOUSE STUDIOS

Cato's new Roger and Elizabeth Hagans Multimedia Center includes on-site studios which offer immediate-response broadcast capabilities for television appearances, radio interviews, online programs, as well as the creation of original video and audio programming. At right, **LOUISE BENNETTS**, associate director of financial regulation studies, in the television studio for a cable news appearance.



CATO'S PUBLICATIONS: INSTANT ACCESS TO AUTHORITATIVE RESEARCH

Over 40 policy studies were published in 2012, covering key fiscal and economic issues, health care, immigration, taxes, education, trade, foreign policy, energy, entitlements, banking, and more. In addition, special White Paper



Reports were published, including Cato's acclaimed "Fiscal Policy Report Card on America's Governors" and "Tough Targets: When Criminals Face Armed Resistance from Citizens." *Cato Journal* and *Regulation* continued to rise in both print subscribers and online access. In addition to the sale and distribution of tens of thousands of printed copies, Cato's studies and publications—including *Cato's Supreme Court Review*, *Cato's Letter*, and *Cato Policy Report*—were downloaded more than 2.2 million times in 2012.

EVENTS: BRINGING THE PUBLIC, POLICYMAKERS, AND NATIONAL FIGURES TOGETHER



Between on-site attendees and those viewing Cato's Book and Policy Forums as they were streamed live online at Cato.org/live, over 25,000 participated in Cato's public programs in 2012. More than 10,000 others accessed Cato's online video events archive, YouTube events postings, and events podcasts throughout the year. Public events also included

CATO'S CITY SEMINARS | Nearly 2,000 participated in Cato's City Seminars held in New York City; Naples, Florida; Chicago; Miami; Houston; and in other communities. Speakers during the year included Steve Forbes, P.J. O'Rourke, Mary Anastasia O'Grady, Stephen Moore, Tucker Carlson, and senior Cato policy experts.

CATO UNIVERSITY | Nearly 200 attended this year's Cato University—The Summer Seminar on Political Economy. Held at the Cato Institute, the week-long program covered the economic, political, historical, and philosophical foundations of liberty. Above: SEN. RAND PAUL (R-KY) with students.

CONFERENCES | Additional conferences held in 2012 included Constitution Day, Cato's Annual Monetary Conference (as the *Wall Street Journal* noted in an editorial on October 12, 2012: "Cato's annual conference on monetary policy is especially influential by airing debates over a subject typically ignored by most of the media and think tanks."), Europe's Crisis and the Welfare State: Lessons for the United States, U.S. Policy toward Iran: The Prospect for Success and for Failure, Evaluating the Homegrown Terrorist Threat, Is Immigration Good for America?, and The Cato Papers on Public Policy—a new conference that will be held as a part of this new journal's annual publication.



MULTIMEDIA

Immigration Policy Analyst **ALEX NOWRASTEH** (left) and Director of Multimedia **CALEB O. BROWN** record a podcast in Cato's new studios. There are currently over 13,000 subscribers to Cato's daily podcast series, which is also widely accessed on iTunes, and nearly 20,000 subscribers to Cato's YouTube channel. Cato's social media connections continue to grow rapidly as well, with nearly 140,000 now in Cato's Facebook community, and 155,000 followers on Twitter.



ENGAGING THE NEXT GENERATION

Cato has continued to significantly increase outreach to younger audiences—intensifying efforts to attract and energize young classical liberal talent. Cato’s educational Internship program draws thousands of applicants, and the 84 Interns placed at Cato in 2012 received the intellectual ammunition and communications skills needed to make the case for a free society. Cato’s annual Libertarianism vs. Conservatism Intern Debate drew an on-site crowd of 300, with 1,500 online viewers. In partnership with the Institute for Humane Studies, Cato hosted two week-long seminars for students, offering over

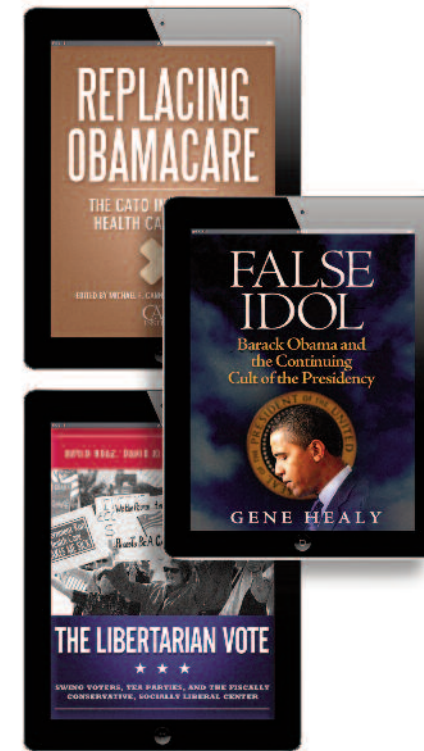
CAPITOL HILL OUTREACH

DAN MITCHELL, senior fellow, (above) speaking at Cato University on the Hill—a program created for Capitol Hill staff and members of Congress each summer. Over 1600 legislative staff attended Cato Hill Briefings during 2012, showcasing the work of Cato’s policy experts often with outside speakers, including Kevin Villani, former chief economist at HUD and Freddie Mac; Erin Ennis, vice president, U.S.-China Business Council; and David Brunori, executive vice president, Tax Analysts. Scholars addressed a range of topics from Middle East security to Social Security, campaign finance to the financial crisis, and Obamacare to reducing the federal budget.



40 lecture and discussion sessions and day-long visits to Cato to attend seminars and meet with Cato scholars.

CATO BOOKS AND EBOOKS



While nearly all of Cato’s books are available in both print and ebook formats, three new Cato works were published only as ebooks in 2012—providing readers with swift access to their analyses of immediate-impact issues.

FALSE IDOL: BARACK OBAMA AND THE CONTINUING CULT OF THE PRESIDENCY

BY GENE HEALY

An instant Kindle bestseller on Amazon, examining both the Obama administration and our fixation on the fable of being led, comforted, and delivered by a presidential savior.

REPLACING OBAMACARE: THE CATO INSTITUTE ON HEALTH CARE REFORM

EDITED BY MICHAEL F. CANNON AND MICHAEL D. TANNER

The best of Cato’s work on Obamacare—more than a dozen national experts on why



the Affordable Care Act should be repealed and what reforms should be put in its place.

THE LIBERTARIAN VOTE: SWING VOTERS, TEA PARTIES, AND THE FISCALLY CONSERVATIVE, SOCIALLY LIBERAL CENTER

BY DAVID BOAZ, DAVID KIRBY, AND EMILY EKINS

Demonstrates how 10 to 20 percent of Americans are fiscally conservative and socially liberal-libertarian, and provides some of the most pertinent insights available on this substantial block of voters.

THE FIRE NEXT DOOR: MEXICO’S DRUG VIOLENCE AND THE DANGER TO AMERICA

BY TED GALEN CARPENTER

Boldly conveys the horror overtaking Mexico and makes the case for abandoning our failed drug prohibition policies to disrupt the flow of funds to Mexico’s drug cartels.

SILENT SPRING AT 50: THE FALSE CRISES OF RACHEL CARSON

EDITED BY ROGER MEINERS, PIERRE DESROCHERS, AND ANDREW MORRIS

A team of national experts explore this iconic work’s historical context, the flawed science it was built on, and the dangerous policy consequences of its core ideas.

AMERICAN NIGHTMARE: HOW GOVERNMENT UNDERMINES THE DREAM OF HOMEOWNERSHIP

BY RANDAL O’TOOLE

How dismantling federal, state, and local government housing policies can energize the American dream of homeownership.

CATO PAPERS ON PUBLIC POLICY 2012–2013

EDITED BY JEFFREY MIRON

An annual collection of innovative articles by national experts on current economic and public policy issues.

ECONOMIC FREEDOM OF THE WORLD: 2012 ANNUAL REPORT

EDITED BY JAMES GWARTNEY, ROBERT LAWSON, AND JOSHUA HALL

(COPUBLISHED WITH THE FRASER INSTITUTE)

The leading index measuring the degree to which policies and institutions of countries are supportive of economic freedom and its cornerstones.

CATO SUPREME COURT REVIEW 2011–2012

EDITED BY ILYA SHAPIRO

Analysis from leading legal scholars of key cases from the Court’s most recent terms and a preview of the year ahead.

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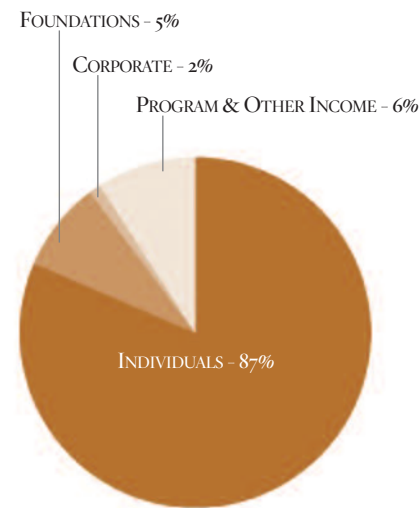
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The unaudited financial information below indicates that the Cato Institute is in a strong financial position, with substantial cash reserves. Although Cato's operating revenues increased modestly in fiscal 2013, a significant increase in expenses led to an annual deficit. Two major factors contributed to the rise in expenses: first, costs associated with maintaining Cato's independence and related changes in Cato's leadership and, second, hiring associated with the success of the Capital Campaign. The Capital Campaign contemplated that, as Cato's new facility reached completion, scholars would be added to policy areas. In the current year, the focus is on growing our revenues. Cato's fiscal year runs from April 1 to March 31.

FISCAL YEAR 2013 OPERATING REVENUE

INDIVIDUALS.....	\$19,220,000
FOUNDATIONS.....	\$1,069,000
CORPORATIONS.....	\$493,000
PROGRAM REVENUE.....	\$1,157,000
OTHER INCOME.....	\$162,000
TOTAL.....	\$22,101,000

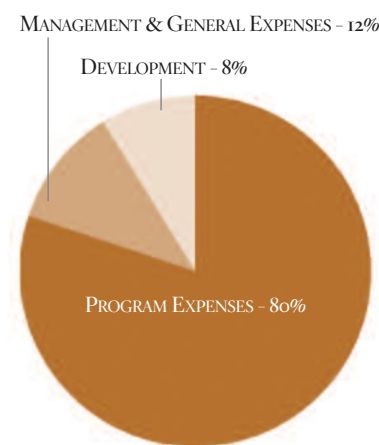
FISCAL YEAR 2013 OPERATING REVENUE



FISCAL YEAR 2013 OPERATING EXPENSES

PROGRAM.....	\$21,057,000
MANAGEMENT & GENERAL.....	\$3,076,000
DEVELOPMENT.....	\$2,136,000
TOTAL.....	\$26,269,000

FISCAL YEAR 2013 OPERATING EXPENSES



ASSETS AND LIABILITIES

CASH AND EQUIVALENTS.....	\$15,271,000
FIXED ASSETS.....	\$38,749,000
OTHER ASSETS.....	\$6,387,000
LIABILITIES.....	(\$1,857,000)
NET ASSETS.....	\$58,550,000

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