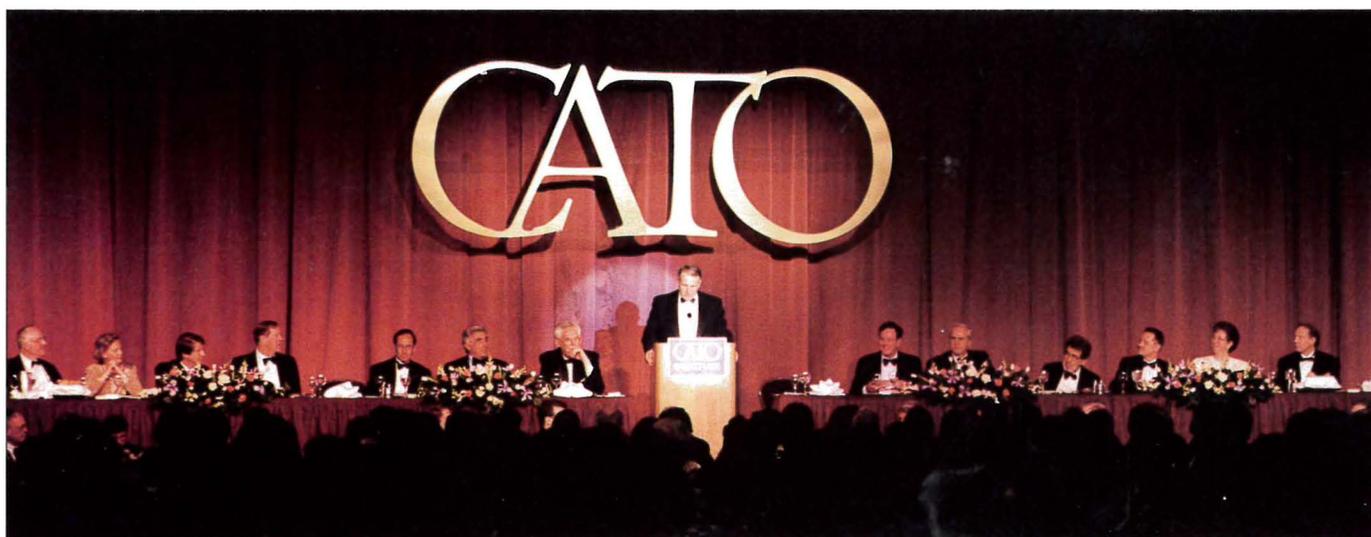


The Renewal of America



Cato Institute president Edward H. Crane welcomes more than 2,000 friends and supporters to the Institute's 20th anniversary celebration at the Washington Hilton on May 1, 1997. Speakers at the event included publisher

Steve Forbes, entrepreneur Fred Smith, civil libertarian Nat Hentoff, Social Security reformer José Piñera, and humorist P. J. O'Rourke. Many Cato Sponsors participated in other anniversary events over the next two days.

by Steve Forbes

The Cato Institute represents something that is uniquely American. Many of our colleges and universities have become stale in their ideas, resistant to genuine research and the willingness to consider new things. But in this country when one way of doing something is blocked, the very practical American approach is do it another way. And think tanks are another way to do it. We've gotten more new ideas, more fresh thinking from Cato and a few other institutes like it than from most American colleges and universities put together. And you don't have to pay \$30,000 a year for the privilege of learning about it.

It is an American tradition that when one avenue is blocked you take another—whether

Steve Forbes is editor in chief of Forbes. These remarks were delivered at the Cato Institute's 20th anniversary celebration on May 1, 1997.

in business or in public policy. And all of you know what Cato has done. It has promoted policies—from deregulation to Social Security reform—that show a genuine belief in human freedom and that are absolutely necessary if America is to truly move ahead.

That last point gets to the basic question tonight: What is the state of the American experiment? Ed Crane and his colleagues understand that the human spirit does truly flourish in freedom, that when free people have true choice, they do move ahead. They also realize that in freedom people can discover and develop their talents, and that extraordinary, noncoercive cooperation takes place when people are free.

Just think about what we take for granted. We don't think about the extraordinary web of trust and cooperation that exists in a country like the United States. There is no coercive agent that says the cooks must cook the food tonight and the waiters must serve it in a timely manner. They do it because

of our free system. They have an interest in it and we have an interest in it, but no coercion is involved. No rack is outside the room if they don't do it. This extraordinary web is a tribute to what our Founding Fathers launched over 220 years ago.

Our Founding Fathers realized that life

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“The true source of wealth is not material things—armies, land, jewels, slaves—but the human mind.”

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is better from the bottom up rather than from the top down. We don't need an aristocracy; we don't need a politicized priesthood and a forced religion; we don't need a military caste to keep a country together when there are shared sets of ideas and ideals. Those ideas—a belief in freedom, a belief in democracy, a belief in individual equality before the law, a belief that everyone should have a chance to get ahead—may sound very simple, but they have very profound implications.

We are at one of the most extraordinary points in human history. America has tremendous potential. Never before has a nation occupied the position that we do today. No nation has had the global influence that we do today. And whether other peoples around the world admit it or not, they are looking to the United States as a model for how a free people can move ahead in changing circumstances.

War and Big Government

The end of the Cold War was obviously a seminal event. But I think we don't fully recognize why it was such an important event. Just ask yourself a very basic and simple question: How was it that the United States of America, which

was the most anti-government, anti-statist, pro-individual nation ever invented, came to have a government of the size and scope that we have today? How did it come to pass? We think that because it happened, it was inevitable, that it was a result of modernity, industrialization, and complexity. It wasn't. Even before World War I, with the advent of the Progressive reforms, which brought a belief in top-downism, we didn't have government of nearly the size and scope that we do today. The real origins of what we are facing today are the wars that we had to fight this century.

You know from your history books that when you face a major enemy, you place the resources of society under the control of a strong central government to meet that threat.

That's how the absolute monarchies of Europe developed. But America was always different, until this century. Take the Civil War. When we mobilized, we had conscription, massive debt, and the first income tax. Yet, remarkably, after the war government was significantly scaled back.

But look what has happened in this century. Except for brief periods of time, throughout the century we have faced a major

ferent from a hot war, but it did profoundly affect and change social, economic, and political life in our country.

Take, for example, federal aid to education. It was initially justified in the name of national security. Even Eisenhower's interstate highway program of the 1950s was justified by national security. When John Kennedy talked about getting America moving again, one of his justifications was national security. He argued that we must show the Soviets and the world that we could grow faster than the totalitarian Soviet regime. And so by the early 1960s a lot of people said, if government can help us win two world wars, help alleviate the distress of the Depression, put men in space, lead the civil rights movement, why couldn't government do a lot of other good things? And thus we got the War on Poverty, Jimmy Carter's moral equivalent of war on the energy crisis, and the war on drugs. War, real or metaphorical, has been the motif of this century.

The Cold War, the world wars, and the Great Depression damaged our society in other ways as well. For example, look at our courts. With the belief that an elite could do things better than the rest of us, too many judges have behaved as emperors, instead of objective adjudicators. Look at voluntarism.

George Orwell would love some of the current rhetoric concerning voluntarism. There is, after all, a difference between paying somebody to do something and coercing somebody to do something. And there is the assumption that business is based on greed, that the people who are really concerned are in public life. There's the notion that real altruism comes from bureaucrats, that they are the moral equivalent of nuns and monks. That is one of the legacies that we must get rid of. There's the notion that prosperity causes inflation. And you see a similar attitude toward taxes. There is this Old World idea that the nation's income belongs to the monarch and the aristocrats here in Washington, and, as in days of old, they bestow favors and we're supposed to be grateful.



Steve Forbes

threat of one sort or another. Take World War I. It produced massive growth in government. The income tax was instituted in 1913. At first, the top rate was 6 or 7 percent. A few years later, as a result of the war, it was in the 70 percent range. Then in typical American tradition in the 1920s, we began to scale back.

Soon we got the economic warfare of the Great Depression, which was brought about by misguided policies, and which was really a peacetime version of World War I mobilization. Nevertheless, by the end of the 1930s, government began to shrink slightly.

Then came World War II, and once again you had massive governmental growth. And after that conflict we had the 40-year Cold War. Obviously, a 40-year cold war is dif-

“War, real or metaphorical, has been the motif of this century.”

Postwar Renewal

So the question is, will America renew itself? I think the answer is yes. For the first time in a century we don't face a world full of danger and peril, and that gives us an opportunity to rediscover the basic values, the American values, that made this country unique.

Change is already beginning to occur. The fact that we're celebrating 20 years here is evidence that it is beginning to happen. The fact that some of our ideas are actually mainstream ideas is something that should give us cause for celebration. You see this change in all facets of America. There's the group Promise Keepers, whose members voluntarily renew their commitment to their responsibilities. You see it in the welfare debate. Last year's welfare debate was not so much about money as about the fact that the old system was destroying the very people that it was supposed to help and save.

One of the strengths of democracy is not that we don't make mistakes, but that when we do stumble or fall, we not only pick ourselves up, we find the inner strength to reach new heights. We've done it before, and working voluntarily together we will do it again. To see the truth of that, all we have to do is look back to the 1820s, when per capita alcohol consumption was four to five times what it is today. Everyone took a swig from the jug. Adults did it. Preachers did it. Teachers did it. Kids did it. So by noon in America in the late 1820s, most of the nation was in a haze. And while we chuckle about it today, it had all the predictable social consequences. So what happened? There arose a series of movements in America that said a self-governing nation must be inhabited by self-governing individuals. The first public health movement in America did not come out of Washington; it was the temperance movement. And it worked. Within a generation, alcohol consumption fell by over 50 percent. The 1830s saw the rise of a series of religious movements that historians call the Second Great Awakening. That was the beginning of a widespread abolitionist movement. We also saw the rise of the Sunday school movement. So we've had periods of reform before, and we feel that same energy again.

This new era that we are entering is also economic in nature. But it's not just numbers. It is about the truly heroic nature of

human endeavor. That endeavor is symbolized by the microchip, which is extending the reach of the human brain the way that machines extended the reach of human muscle during the machine age. During the industrial era, if you learned to drive a tractor, you could do more physical labor in a day than a hundred Herculean plowmen could in the days of old. Similarly, in this new era the chip is going to make us all smarter, and give us more choices and control. It is going to remind us that the true source of wealth is not material things—armies, land, jewels, slaves—as we thought in the past. The real source of wealth, the real source of human capital, is the human mind. Human ingenuity, human innovation, people having the chance to discover where their real talents lie is the source of our strength.

A New Heroic Era

This new era is not going to be exclusive. One group is not going to get ahead while everyone else trails behind. To see why that is true, all you have to do is look at an instrument today that is making us all more productive: the calculator. Thirty years ago calculators cost over \$1,000. Today the packaging costs more than the instrument itself. And, think about it, even if you do have a knack for arithmetic, a calculator, which most people can easily learn to use, can now do in a matter of seconds or minutes what would have taken math wizards hours or days to do 40 or 50 years ago. Will people be left behind in the labor force? No.

When you go to the checkout counter in the supermarket (presidential candidates and would-be candidates often visit supermarkets), what do you see? Very sophisticated inventory equipment, changing the face of retail. But virtually anyone can get the hang of it. No one has to be left behind.

We are approaching an era that really is going to celebrate the human mind. We are going to spread knowledge and make it available in ways we couldn't have dreamed of before. If a tyrant wants to burn a great library, as happened in Alexandria centuries ago, let him. Computers have given us other ways to store information. With the amount of plastic in the world, and the number of computer disks that can be made from that plastic, no one will be able to eliminate infor-

mation. Everyone will be able to bring it up on his computer screen.

Tax Reform

If we voluntarily work together for our shared causes, ultimately we will triumph against Washington. We can reform our institutions; we can reform our schools and return them to the control of parents; we can reform our legal system and no longer allow judges to act like emperors; and we can replace regulatory mandates with common sense proposals. We can, and we should, also enact significant entitlement reform. If we allow people to control their own pension system, they will feel a sense of responsibility, and they will be able to receive benefits that far exceed what they receive today. They will come out ahead; America will come out ahead; we will all come out ahead. The same thing is true if we reform our medical system by expanding medical savings accounts.

And of course, one of the biggest dead-weight costs imposed on America today is the federal income tax code. It is the biggest source of power and corruption in this town. It is no coincidence that the members of the tax-writing committees get more contributions than their peers do. A survey about a year ago found 68,000 people working in the lobbying industry in Washington alone. And that number—which is four times larger than it was 30 years ago—does not include Maryland and Virginia offices. As a result, is it any coincidence that the tax code is about four times more complex than it was 30 years ago?

If you remember just one thing about taxes, it should be that taxes are not just a means of raising revenue; they are also a price and a burden. The tax you pay on profit—capital gains—is the price you pay for being productive, innovative, successful, and willing to take risks. The proposition I am advancing is very simple: when you simplify and lower those burdens, you get more of the things we all value, and when you raise them, you get fewer of those things. If we liberate the American people from the current tax system, we'll have a higher standard of living and the only losers will be those who have a corrupt interest in preserving the status quo.

As you know, a few weeks ago, the Internal Revenue Service announced that their

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“A self-governing nation must be inhabited by self-governing individuals.”

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\$4 billion computer modernization program was a complete flop and that they will have to start all over again. That, I think, begs the question. Instead of starting the computer modernization program all over again, why not start the federal income tax code all over again? If you want to know why two incomes in a family can't do the job that one income could in previous generations, just look at the tax burden a family faces today versus the tax burden a family faced 40 or 45 years ago. Americans hate taxes, but they have always felt it was their civic duty to pay them. The current code makes a mockery of that with its incomprehensibility and ambiguity. It is wrong. And the only thing to do with the monster, as you well know, is to kill it, drive a stake through its heart, bury it, and hope it never rises again.

This gets me to the budget deal that is currently being discussed. Let me raise two issues. One is Medicare. Let us not commit ourselves to price controls for the next five

years in the name of a balanced budget. Let us instead loosen the restraints that were put on medical savings accounts last year. Let us provide people with choice. If we do that, then health care, like all other services, will become consumer driven and we'll all be the healthier for it.

Now let me say something about the Consumer Price Index. A recent report says that we have been overstating inflation. I believed that until I discovered something very important. Do you realize that this index, which purports to measure the cost of living, leaves out income taxes and payroll taxes, as if they're not costs of living? If you included those taxes, as a study done nine years ago did, the CPI would actually understate the real cost of living by seven-tenths of a percent. So if the Bureau of Labor Statistics does an honest study, they will find that they are understating inflation—a fact that the American people intuitively understand. Americans know that on paper they are doing very well pretax, but they under-

stand that somehow they are on a treadmill and the treadmill is winning. So let us not use the CPI as a backdoor way of raising taxes and cutting benefits.

Political leaders have an obligation to state their principles and to translate them into policies that people will find compelling and right. Even if the president vetoes a principled Republican proposal, Republicans will have shown what they stand for. And when the next election comes, people will have a reason to vote. They will know that they have a real choice.

So, in closing, we are on the verge of a fabulous era, thanks to the work that Ed Crane and others at Cato have done and thanks to people who help new businesses get on their feet. I'm an optimist. I'm convinced that when historians look back at this era, they're going to have to conclude that, despite all of our flaws and frailties, we advanced greatly and we once again made America a leader and an inspiration to the world. ■

News Notes

Oregon Seeks Social Security Waiver

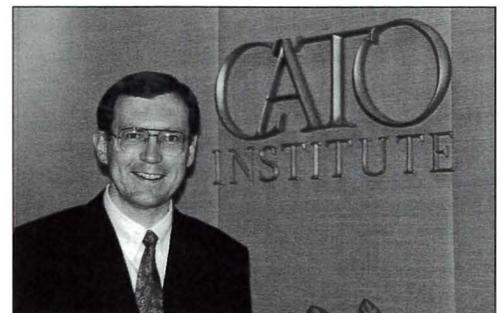
In early May the Oregon legislature adopted a resolution petitioning Congress to enact a waiver system that would allow states to implement and design their own retirement systems. The resolution, which passed in the Oregon Senate 20 to 8 and the House 31 to 22, was introduced by Republican state senator Gene Derfler after he heard the idea discussed by José Piñera, co-chairman of the Cato Project on Social Security Privatization, and Steve Buckstein, president of Oregon's Cascade Policy Institute.

The *Wall Street Journal* reported that many legislators who voted for the resolution were impressed by the Cato Institute's new Social Security Web site (www.socialsecurity.org).

The Oregon resolution echoes many of the things that Cato scholars have said about

Social Security. It states that “investment return on Social Security contributions made by many workers today is significantly below that available from other sources” and argues that “more retirement investment alternatives might dramatically increase Oregonians' savings rate and retain more young adults who otherwise would leave the state for jobs elsewhere.”

While the resolution does not legally bind Congress to act, Buckstein maintains that it is a sign of growing discontent with the current Social Security system. “It's time for all American to talk about alternatives to Social Security. Oregon is the first state to ask Congress to begin this discussion. We expect other states to follow. Together, we can develop plans that give all American the retirement choices they want and deserve.” ■



The Cato Institute has named Daniel Griswold director of trade and immigration studies. Griswold was previously press secretary to Rep. Vin Weber (R-Minn.) and served for several years as editorial page editor of the *Colorado Springs Gazette-Telegraph*. Most recently, he has taken a two-year sabbatical to study international trade at the London School of Economics. Griswold replaces Stuart Anderson, who moved to the office of Sen. Spence Abraham (R-Mich.).