




## Memorandum

TO: BOARD OF DIRECTORS, SPONSORS, AND FRIENDS OF CATO  
FROM: PETER GOETTLER   
DATE: SEPTEMBER 23, 2022  
SUBJECT: QUARTERLY UPDATE

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"I'm as mad as hell, and I'm not going to take this anymore!"

Those of you who were sentient in 1976 recall the famous exclamation of newsman Howard Beale from the film *Network*. It's the way I feel these days about what is happening to our country. We care deeply about what kind of nation we're going to pass on to future generations—and whether they'll be able to live their own version of the American dream. It's why you so generously support Cato and our mission, and why my colleagues at the Institute have dedicated their careers to that mission.

But the risks to our country continue to rise as both political tribes are happy to place partisan pugilism and their own electoral prospects above the well-being of the nation. This isn't anything new, but it's getting worse. We are the most fortunate people on the planet because we inherited a country blessed with the rule of law, a libertarian constitution, and the idea—if not always the reality—of limited government. But what will our children and grandchildren inherit from us?

And make no mistake, both sides are contributing.

The spending orgy we're witnessing under unified Democratic government in the face of high inflation is a disgrace. And for the latest spend-fest to be called "inflation reduction" is an abomination. (Isn't fraud still against the law?) This fiscal profligacy—and the discretionary monetary system that accommodates it—is a continuing threat to the republic and the economic well-being of our descendants.

On the other side of the aisle, continued adherence to the "big lie" is a live, near-term threat to the republic. It's a lie that rejects the results of a presidential election and has become a litmus test for many Republican candidates. And it's a lie that represents an ongoing threat to another of our precious inheritances: the centuries-long tradition of the peaceful transition of power. The ultimate irony is that the big lie continues to cost Republicans electorally—as in the 2021 Georgia runoffs, without which the current spending blowout might have been held in check.

I say "might" because the record of government spending is a bit better—but still terrible—under unified Republican government. And the bipartisan consensus on spending is too often a strong one, each party seeking power by promising more giveaways of taxpayer money. Even conservatives have boasted of their support for budget-busting boondoggles like the Paycheck Protection Program and the infrastructure spending bill. And does anyone think it's worth taking money from our grandkids to give to prosperous semiconductor companies? The spending itself is bad enough. When it funds corporate welfare, it's even worse.

And what about the uncompromising social agendas that are tearing the country apart? Half the country is tired of having toxic wokeism jammed down their throats. On the other hand, a prominent conservative leader declared last year that you can't be a movement conservative if you don't oppose same-sex marriage. Haven't we already seen this movie? Don't we owe fellow human beings the respect and dignity each individual deserves? Shouldn't each of us own our life, our liberty, and our pursuit of happiness?

We can be angry—but we shouldn't act angry. There's more than enough outrage at the moment. Adding more might feel good at times, but it won't help us win. Many of our supporters have told us they're tired of partisan combat, and they say it's Cato's adherence to principle, reason, and sound analysis that attracts them to the Institute and is the way forward. They insist we keep above the fray. I couldn't agree more. If we want to attract people to our cause, persuade the unconverted, and engage with broad new audiences, we need to be happy warriors. We need to project optimism about the world that the ideas of liberty can create. And we need to project confidence that those ideas are so strong that they will inevitably win—even when we're as mad as hell and concerned for America and liberty.

## Market Failure?

That said, let's dispense with the happy-warrior thing for a minute. Something else that makes us furious is when free markets are left holding the bag for big-government failures.

In a few days I'll be coheadlining an event where I'll be holding up the free-market side of a moderated discussion titled "Capitalism and the Good Society: Can They Co-Exist?" At the event, I'll suggest a title change to "The Good Society Can't Exist without Capitalism!"

Many of the challenges we face are attributed to so-called market failure. But to really screw things up, you need the government to be involved. The biggest challenges we face stem from policy failure and political failure.

Although we're living in an age of abundance, wonder, and innovation, the things many of us seek for a fulfilling life haven't changed all that much. We want the contentment and satisfaction that comes from deep, meaningful relationships with family, friends, and community. Regrettably, having the state moving into every aspect of our lives—telling us the government will smooth over every rough edge of modernity for us—seriously undermines the ties of family and community.

And what do we want from the material world? We aspire to own a home. We want to keep our families safe and healthy. And we want our children to be successfully educated so they can pursue their American dream.

And these things—housing, health care, and education—are being priced out of reach of the average American. For example, I recently saw a stunning chart bemoaning the disappearance of the \$300,000 "starter home." In 2001, a mere two decades ago, about 80 percent of new homes in America were priced at \$300,000 or less. Today, about 10 percent are. And we can document similar horror stories regarding the costs of medical care and higher education. Failure of capitalism and markets? Not so fast.

It's the ultimate irony that the things society deems "too important" to leave to markets (which work), it delegates to government (which doesn't work). In all of housing, health care, and higher education, we've pursued the same misguided policy approach: restrict supply and subsidize demand. So it's no surprise when prices spiral ever higher in these sectors. And it's no surprise the policy response to these higher prices is always the same: more subsidizing of demand. Rinse and repeat, and the challenges get worse.

Market failures? No way. And two important new books chronicle the power of free markets and more reasons to be wary of government.

## Superabundance

*Superabundance*, by Cato's Marian Tupy and Brigham Young University–Hawaii professor Gale Pooley, gives reason for renewed and continued optimism. Subtitled *The Story of Population Growth, Innovation, and Human Flourishing on an Infinitely Bountiful Planet*, the book demolishes the stubborn myth that finite resources consumed by a growing population will ultimately

create scarcity, shortages, and sharply rising prices. (By the way, if you're a Cato Sponsor at the \$1,000 level or above, you can download this book for free or we'll send you a copy. For more information, contact my colleagues at [Sponsors@cato.org](mailto:Sponsors@cato.org) or 202-789-5276.)

*Superabundance* shows that the opposite is true. I love Tupy and Pooley's take that the number of atoms on our planet hasn't changed appreciably for billions of years. They assert that what has changed is the continuously growing population of ingenious humans, innovating in the way we use those atoms: finding new ways to locate, extract, use, and substitute those resources—and new ways to deploy them ever more efficiently.

These effects are so dominant that as the population grows, the things we need to live—elemental materials, food, and items we manufacture like televisions and smart phones—routinely become not scarcer but more abundant. And often this abundance, in fact, grows faster than population, a phenomenon the authors call “superabundance.”

Furthermore, all these things necessary for human living typically fall in price, and they almost always get cheaper in terms of their “time price”: the amount of time a worker must toil to purchase the item. After all, it's our labor—and hence our time—that we use to purchase things. For example, if a flat-screen TV costs \$300 and a worker makes \$30 per hour, the time price of the TV for that worker is 10 hours. In this way, prices of items and our growing prosperity can be chronicled throughout time and across countries, without concerning ourselves with measures of inflation or exchange rates. It shows how dramatic our progress and growth in prosperity have been in just a few short centuries. For example, in the amount of time a U.S. blue-collar laborer had to work in 1850 to afford 1 pound of sugar, he or she could earn 227 *pounds* today.

But to me, the most important message of the book is that this possibly infinite abundance is not threatened, but rather *fed*, by population growth. Progress and prosperity require innovation, and innovation is a product of expanding human knowledge and the development of new ideas. A growing number of people produce more knowledge and ideas, such that an increasing population generates more innovation. People are not pollution, as some environmental radicals would have you believe. Rather, they're the raw material of progress. Free people and free markets, allowing innovators to profit from their ideas, are the fuel that keeps this rocket ship going.

## The Myth of American Inequality

Three years ago, I received a telephone call from former senator Phil Gramm. When I answered the phone and he said, “Peter, there's something going on at Cato that I think you ought to know about,” I braced for some kind of complaint. But instead, he told me that Cato adjunct scholar John Early's 2018 study, “Reassessing the Facts about Inequality, Poverty, and Redistribution,” was—and I quote—“the most important piece of research ever produced by a think tank.” High praise, indeed! Senator Gramm was so inspired by John's study that he and John have collaborated on a book and a series of *Wall Street Journal* op-eds to highlight and extend the analysis.

We keep hearing that burgeoning income and wealth inequality are a crisis. But you can see from many sources—including John's work and Ryan Bourne and Chris Edwards's 2019 study, “Exploring Wealth Inequality”—that most of these claims simply don't withstand scrutiny. And now *The Myth of American Inequality: How Government Biases Policy Debate* has been released by Gramm, Early, and coauthor Robert Ekelund.

In the United States, the Census Bureau publishes household income and inequality statistics by dividing households into quintiles. Its numbers show the top quintile having more than 16 times the “income” of the bottom quintile. But those numbers exclude taxes and the two-thirds of transfers that are not cash. Since the United States has the most progressive income tax system in the world, and since the majority of transfers go to the lower income quintiles, the results change dramatically when we include those factors. (And how can we not?)

1. The “true” income—after taxes and transfers—of the top quintile is just 4 times the bottom quintile, rather than 16 times.
2. Inequality, as measured by the Gini coefficient, has actually fallen modestly—rather than increased—in the postwar period.

3. On the basis of this complete measure of income and because of differences in household size, the per capita income (after taxes and transfers) of the bottom three quintiles is nearly equal. (And the bottom quintile actually has slightly higher income than the second and third quintiles.) Hence, the workers in those second and third quintiles are receiving little or no return from their labor.
4. These factors are having a significant effect on work incentives. The “market income” of all quintiles has increased markedly over the past 50 years—except in the bottom quintile. Here, earned income has fallen. The proportion of working-age people in the bottom quintile who are employed has dropped, as has the average number of hours worked by those who are employed. This is a predictable result if going to work generates no incremental return after government gives or takes.
5. Conventional wisdom says our poverty rate is mired in the low teens. But when the missing two-thirds of transfers are included, the rate drops to 3 percent or less.

As Gramm and Early argued in a recent *Wall Street Journal* op-ed, our tax code and redistribution are creating too little inequality rather than too much. Some libertarians are reluctant to point out that transfers and progressive taxation have been effective at reducing inequality, since it sends the wrong message to policymakers. But with the bottom three quintiles nearly equal and work incentives destroyed, it sends an important message. Enough!

### Briefly. . .

Thanks for all the positive feedback we’ve received about my interview with Federal Reserve chair **Jerome Powell** at Cato’s 40th annual Monetary Conference on September 8. It’s appreciated. This conference was a milestone, as it was the final edition hosted by retiring vice president for monetary studies—and now senior fellow emeritus—**Jim Dorn**. Jim established the conference in 1983, and, as conference speaker Lawrence Summers noted, it has become an institution that’s brought an important focus to monetary policy. At Jim’s well-attended Cato retirement party, his colleagues presented him with a buffet of 40 cakes—one to commemorate each of his 40 years at Cato! . . . As part of the expanding investment in our economics team, **Romina Boccia** joined Cato in August as director of budget and entitlement policy. Romina formerly ran the Heritage Foundation’s Grover M. Hermann Center for the Federal Budget. When we recently met, Romina asked me my objective for our fiscal studies work. I replied: “I want Cato to be seen as THE policy organization consistently and continuously pushing back on government spending, sounding the alarm on our unsustainable fiscal path, and advocating for entitlement reform to avoid our looming fiscal crisis. Ultimately, our objective is to restore fiscal sanity to America.” It’s a lonely job, but someone has to do it . . . Speaking of fiscal policy, Cato’s **Chris Edwards** has been one of Washington’s tireless voices for fiscal reform, less spending, and better tax policy. Attendant to a very generous gift from Cato director **James A. Kilts**, Chris will now occupy the **Kilts Family Chair in Fiscal Studies**. We extend our heartfelt thanks to Jim and his family for their leadership and generosity and offer warm congratulations to Chris . . . Longtime Institute vet **Justin Logan** has been promoted to lead Cato’s defense and foreign policy studies department. Justin and his colleagues have long been a lonely voice for a more constructive foreign policy, including greater restraint in America’s use of military intervention as an instrument of that policy. Thanks to our longtime leadership in this area, there are more and more voices advocating for restraint . . . The Cato family has added a son this summer! **Audrey Grayson**, director of development communications, and her husband, **Brian**, welcomed baby boy **Otto** on July 23. Congratulations, Audrey and Brian—and welcome, Otto! . . . Earlier this month, **Liz Truss** became the United Kingdom’s newest prime minister (PM). Go to [www.cato.org](http://www.cato.org) and search “Truss” to see her 2018 forum here at Cato headquarters, “Markets for Millennials: How a New Supply-Side Radicalism Can Deliver Freedom, Wealth, and Opportunity in the U.S. and U.K.” You’ll also find two Cato podcasts with the new PM. We all know that too many politicians look better in dry dock than later on the open seas, but here’s hoping her free-market impulses guide PM Truss in governing . . . The 2023 recipient(s) of the **Milton Friedman Prize for Advancing Liberty**, yet to be announced, will be honored on May 18 at the National Building Museum in Washington, D.C. The event will be held in conjunction with the Cato Benefactor Summit May 18–21, here at Global Freedom HQ. Please mark your calendars! . . . If you live nearby, I hope you’ll attend our upcoming City Seminars in **New York** (October 25) or **Chicago** (December 1), featuring Cato scholars and staff. John McWhorter is scheduled to speak in New York. To learn more, please contact Mackenzie Johnson at (202) 789-5203 or [mjohnson@cato.org](mailto:mjohnson@cato.org).