CATO

Memorandum

To: Board of Directors, Sponsors, and Friends of Cato

From: Peter Goettler Peter

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Subject: Quarterly Update

In the face of the rise of socialism in 1848, Frédéric Bastiat wrote wise and famous words in his essay *The State*: "The state is the great fiction through which everyone seeks to live at the expense of everyone else." This sums up much of American politics in our lifetime.

Politicians rail all the time about the struggling middle class and how much help middle-class Americans need from the government. Traditionally this has been a mantra of the left, pushing for more redistribution from rich Americans to pretty much everyone else. But they've recently been joined by a bevy of conservatives peddling the wrong-headed idea that markets have failed working people. This latter group advocates using state power—like industrial policy, protectionism, and outright subsidies—to somehow help the middle class.

Bastiat didn't have a computer. And you don't need to turn on your calculator or laptop to know, as he did, that the government can't possibly provide for a majority of Americans (e.g., the middle class) just by laying unconscionably high taxes on a few. Simple arithmetic dictates otherwise. (As does, in my opinion, simple morality.) Redistribution from rich to poor is itself fraught with unintended consequences and, in a truly free society, moral implications. But at least it's not a Ponzi scheme. On the other hand, our unsustainable entitlement programs—the bulk of whose benefits flow to the middle class—*are* a Ponzi scheme. It's like robbing Peter to pay Paul. Or, more accurately, robbing Peter and Paul's grandchildren to pay them both.

The American middle class is one of the most fortunate demographics in the history of the planet. Second only, perhaps, to the American upper class. But many people don't feel fortunate, what with politicians always talking about how tough things are for the middle class, so that those same politicians can ride to the rescue with ill-advised and unaffordable programs.

And as politics foments class envy and constantly reminds people there are others with more stuff, we lose sight of the cornerstones of a happy and fulfilling life: deep and rewarding relationships with family, friends, and community; and the sense of accomplishment that comes from self-sufficiency and taking care of the ones we love—however modestly—without help from the state. I grew up in a lower-middle-class family and, even though we had some challenging times financially, we had all the essentials of life. And the love we had for one another and our extended family made us feel rich.

But I've recently come to believe that some challenges faced by middle-class Americans are indeed becoming serious and suggest an urgent plea to the government: ***stop helping us!***

I wrote briefly a year ago about how misguided government policy, even if well intentioned, was making some key elements of the American dream more difficult to attain. We all have different ideas about the essential elements of a good life. But for many Americans, a big part of it is having a place to live; seeing your kids develop, mature, and get ahead; and living a healthy life.

But the prices of housing, higher education, and quality health care—in other words, the means to these ends—keep rising rapidly, as they have for decades. With government more deeply involved in these markets than any others, you probably smell a rat. Early in my days as a Cato donor, I attended an event in New York City where a speaker asked an insightful question about universities: "What industry can or would produce a product no one can afford?" His answer was equally insightful: "None! Unless the government is in there screwing things up."

In all three of these sectors, supply is constrained through regulation, licensing requirements, accreditation, and a range of other policies. Meanwhile, demand is stimulated by subsidies and grants in many forms, designed—ironically—to make housing, health care, and higher education more affordable. Over many years, the combination of constrained supply and subsidized demand has priced these essentials out of reach of many people. And the political response has been to rinse and repeat: further subsidize demand, thus tossing more logs on the inflationary fire.

Why write about this again? It's been 30 years since we bought our home, so I'm out of touch with the challenge this presents for young families, but conversations with colleagues, relatives, and others looking to buy their first house has made me appreciate how daunting a prospect it is for many of them—even those with well-paying jobs who are managing their lives and finances responsibly. And it is daunting. I went on Zillow recently and found that the house I lived in from ages four to seven—all 960 square feet of it—has a value of about $700,000. And it's in Staten Island, not Pacific Heights in San Francisco or Park Slope in New York.

Such challenges to families—again, largely driven by policy mistakes—ironically become a continuing threat to limited government. The calls for more government assistance that we can't afford will become even more extreme as the intensity of these dynamics persists. And the fact that it's the government itself that has so exacerbated the problems won't matter.

So these are issues at which we need to take direct aim. Neal McCluskey and Cato's Center for Educational Freedom have long connected the dots between government financial assistance and spiraling college costs. On housing, Director of Family and Opportunity Policy Studies Vanessa Calder's work focuses on the supply side—the role of zoning and land-use regulation in constraining the housing stock—while Director of the Center for Monetary and Financial Alternatives Norbert Michel and his team tackle housing subsidies and mortgage policy that stimulate demand—and inflation. And one of the two cornerstones of Michael Cannon's health policy strategy is restoring control of health care spending to patients, thus reestablishing the consumer dynamics that keep cost increases in check in every market that the government doesn't destroy.

Stopping the government from subsidizing demand and restricting supply would resolve these problems. But within each of these policy areas, relatively modest policy reforms can make a big difference. Demand-side subsidies on housing, like down-payment assistance, government-provided mortgage insurance, government-backed mortgage securities, and the Low-Income Housing Tax Credit, boost prices without helping renters. Meanwhile, federal land ownership in the western United States prevents urban growth in San Diego, Phoenix, Las Vegas, and Salt Lake City—raising housing prices in fast-growing areas.

Similarly, health care policy is a mess of supply restrictions and demand subsidies. On the former, occupational licensing and the FDA restrict the supply of medical professionals and new drugs and medical devices, respectively. Demand subsidies through Obamacare, Medicaid, Medicare, and the tax exclusion for employer-sponsored health insurance also drive up prices. Aligning consumer incentives can resolve some of the demand-side problems. Pairing abolishment or reforms to the tax exclusion with an expansion of health savings accounts would incentivize consumers to be choosier in selecting health care because it would introduce price competition among insurance companies and suppliers.

Revolutionary change that fundamentally transforms the role of government in our economy would dramatically benefit millions. But potentially achievable reforms on a smaller scale could help defuse these dynamics that are harming middle-class Americans and fueling the growth of government.

Publication Lineup Changes

Soon you'll be receiving your last editions of our publications *Cato Policy Report*, *Cato's Letter*, and this *Cato Quarterly*. These publications have consistently brought readers principled research, policy analysis, and relevant commentary, serving as a reliable source of information for policy enthusiasts and dedicated libertarians alike. We are immensely proud of the impact they have had, the ideas they've advanced, and the readers they've enlightened.

But it is crucial for us to adapt and innovate, even while we hold firm to the principles and commitments that set Cato apart in Washington, DC. We have always been at the forefront of intellectual exploration and the pursuit of a freer society, and it is in that spirit that we move forward and strategically look to reach a wider audience with our vision for liberty. So, it is with great excitement and anticipation that I announce a new Cato magazine—a publication that will build upon the foundation laid by the *Cato Policy Report*, *Cato's Letter*, and *Cato Quarterly* to elevate our ideas, influence, and impact and reach the widest audience possible.

The new publication, which will launch later this year, will provide a broader scope of content, including in-depth policy research, interviews with leading thinkers, stories from the victims of an ever-growing state, and insightful commentary on current events from a libertarian perspective. We believe that this magazine will not only inform and inspire our existing readership but will also attract new audiences and foster a wider understanding of the principles that underpin a free and prosperous society.

The objective is to keep improving our communication to you and the rest of our audience. My current plan is to continue the president's memo, returning to a bimonthly format, which will be sent to you separately. The memo is not only a Cato tradition but a key connection between those of us who staff the Institute and our generous supporters. In my many years as a Sponsor, receiving the memo always made me feel less like a donor and more like a colleague and member of the team. And this is an ethos we're determined to maintain.

Briefly. . .

I was delighted to awaken last Sunday and find "Don't Let Ukraine Join NATO," by Cato's Justin Logan and Josh Shifrinson to be the most-read article on the website of *Foreign Affairs* magazine. Their argument that the costs and risks to the United States of admitting Ukraine to the alliance are significant is compelling: While "Kyiv's resistance to Russian aggression has been heroic . . . the security benefits to the United States of Ukrainian accession pale in comparison with the risks of bringing it into the alliance. Admitting Ukraine to NATO would raise the prospect of a grim choice between a war with Russia and the devastating consequences involved or backing down and devaluing NATO's security guarantee across the entire alliance." . . . **Chad Davis**, vice president for government affairs, has recruited **Max Hyman** and **Lawrence Montreuil** to join Cato as directors on Cato's growing government affairs team. Both are well-networked on Capitol Hill and in Washington. Max, who previously served in the office of Sen. Shelley Moore Capito (R-WV) and on the U.S. Senate Committee on Environment and Public Works, will focus on economic policy. Lawrence's specialty will be in foreign policy; he's the former legislative director at the American Legion and an eight-year veteran of the U.S. Marine Corps . . . We recently welcomed two new team members to our economic and foreign policy groups. **Jai Kedia**, a recent PhD in economics from the University of California, Irvine, is a research fellow at the Center for Monetary and Financial Alternatives, and **Jon Hoffman**, a Middle East expert whose work has been published in the *Washington Post*, is our newest foreign policy analyst . . . The general economics team led by Scott Lincicome continues to innovate in delivering our message in different ways and to new audiences. To that end, the team has brought on **Paul Best** as its first investigative reporter. Paul will write original long-form pieces documenting the vast array of problems and unintended consequences arising from U.S. economic policy, which are only multiplying given the rash of new spending and regulation. He is a former digital reporter for FoxNews.com and producer for John Stossel and Kennedy on the Fox Business Network . . . **Emily Ekins's** new survey on central bank digital currencies (CBDCs) and surveillance policy was cited in several dozen radio stations and news outlets in June due to its striking findings. Fortunately, only 16 percent of Americans support a government-issued CBDC. Yet the kids are not all right, with nearly one-third of Generation Z favoring the government installing surveillance cameras in homes. Wow. Emily's results were cited in outlets including the *Boston Globe*, *Politico*, *Las Vegas Review-Journal*, and the *New York Post* . . . The first public event in the transformed F. A. Hayek Auditorium was a screening of the critically acclaimed film *Pinball: The Man Who Saved the Game*, the story of how bans on pinball across the country were overturned. The theater was packed with friends and Sponsors eager to experience the state-of-the-art auditorium and to discuss the future of libertarian messaging with the film's directors, Reason's **Austin** and **Meredith Bragg**, who led a lively Q&A session . . . The 2023 Milton Friedman Prize for Advancing Liberty was highlighted in the media, with the *Wall Street Journal* editorial board writing "Hong Kong's Jimmy Lai Rules" on May 19 and the *New York Sun* on May 20 printing the speech Sebastien Lai gave at the event on behalf of his father . . . **Michael Cannon** was once again named to the list of *Washingtonian* magazine's "500 Most Influential People." His work educating the public and policymakers on the benefits of market-based reforms to our health care system earned him the reputation of "the most famous libertarian health care scholar," according to the *Washington Examiner* . . . **Marian Tupy** and **Gale Pooley's** *Superabundance* project continues the legacy of former Cato senior fellow Julian L. Simon. It's quite fitting, then, that these disciples of Simon will be awarded the Competitive Enterprise Institute's 2023 Simon Award. David Simon, Julian's son, will present the honor at an event in Washington, DC, in September . . . If you live in the Chicago area, please join us for a **Cato Institute Reception on October 26** from 4:30 p.m. to 6:30 p.m. For more information on this event, please contact Josh Ferencik at 202-216-1465 or jferencik@cato.org.

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