



POLICY FORUM

Cato's impact is growing

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Cato's 32nd Sponsor retreat

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COLLISION COURSE

The high cost of spending and debt

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Cato Policy Report

JULY/AUGUST 2023. VOL. XLV NO. 4



THE
MILTON
FRIEDMAN
PRIZE FOR
ADVANCING LIBERTY

Jimmy Lai receives the
2023 Milton Friedman
Prize for Advancing
Liberty. **PAGE 4**



BY PETER GOETTLER

“
Those of
us at Cato
today have
inherited
an incredibly
strong foun-
dation on
which to keep
building.”

“Keep Cato Busy Being Born”

The Benefactor Summit held here at Global Freedom HQ in May was the most energizing summit in my eight years at Cato. Honoring Jimmy Lai with the Milton Friedman Prize for Advancing Liberty—presented by Tiananmen protestor and labor camp survivor Tong Yi and accepted by Jimmy’s son Sebastien—was an inspiring way to kick off the weekend. But it was only the start.

All of us at Cato look forward to when our community comes together. This time it was gratifying to receive such tremendous feedback from the Sponsors in attendance! We heard strong affirmation of Cato’s strategic direction, the Institute’s impact, and our numerous initiatives. We received effusive feedback on all the things your generosity is making possible: the outstanding talent we’ve added, the expanded effort to advance free markets and enterprise, our seasoned and growing outreach team, our innovative programs that are reaching so many young people, and the newly renovated F. A. Hayek Auditorium that’s now a state-of-the-art digital production studio.

Our staff and culture are committed to continuous improvement, working every day to lift Cato to a higher level of performance and impact. This is essential if we’re to see liberty triumph. And it’s a serious responsibility to those whose generous support makes our mission possible: we’ll always work to accomplish more with the resources you entrust to us. As Nobel laureate Bob Dylan famously said, “he not busy being born is busy dying.” We’re looking to keep Cato busy being born.

Those of us at Cato today have inherited an incredibly strong foundation on which to keep building. Decades of generous support from our Sponsors and hard work by dedicated leaders built the Institute and its reputation. As some of those who have built Cato leave their previous positions—allowing a new group of leaders to take the Institute’s mission forward—we recognize our debt to them.

Jim Dorn was Cato’s first hire when the Institute arrived in Washington from San Francisco. A focused and organized scholar, Jim established the *Cato Journal* in 1982 and went on to produce its next 117 issues. Jim made Cato a lonely but important voice speaking out against our fiat money system and in favor of monetary reform, creating the annual Cato Monetary Conference and turning it into a Washington institution. He also

organized the very first conferences on market liberalism ever held in Moscow and Shanghai—before email or the internet!

One thing that has set Cato apart through most of its history is a commitment to realism and restraint in foreign policy, and it was Ted Galen Carpenter who created our program in defense and foreign policy studies. Not only was Ted a prolific scholar—writing or editing 22 books in 35 years—he also sought out, published, hired, and mentored many younger scholars who have gone on to do excellent work at Cato and elsewhere. It was Ted’s steadfast and principled stand that authored what was perhaps Cato’s finest hour: its lonely opposition to the war in Iraq.

In 30 years at Cato, Michael Tanner wrote 10 books on health care, Social Security, big-government conservatism, welfare, and poverty. He joined the Institute just in time to become a vigorous critic of President Clinton’s health care plan. Starting in 1995, he directed Cato’s Project on Social Security Privatization, sparking what Daniel Patrick Moynihan called a “remarkable transition from white papers from libertarian think tanks to the mainstream of policy thinkers.”

And no one has had as big an impact on Cato for as long as David Boaz over his 42 years of dedicated service. David has simultaneously been Cato’s chief intellectual officer, chief quality control officer, and Institute-wide ombudsman. He has been the most diligent—and hence, the most important—guardian of Cato’s adherence to principle and its commitment to nonpartisanship, independence, and excellence. Last year David stepped down as executive vice president and assumed the role of Cato distinguished senior fellow—a title shared by only four others, three of them Nobel laureates.

These colleagues have recently left Cato or stepped down from their management roles, passing the torch to a new generation of leaders to continue Cato’s intellectual leadership and policy impact and to keep that flame of liberty alive for those who come next. The history of Cato, therefore, parallels our own view of U.S. history: established on timeless principles, a recognized debt to the Founding generation, and excitement for the future—a future of freedom and openness that Cato will help write.

lection of Economic Freedom
at Craig Roberts

number, or other au-
thority, is being, both, national-
ists, creed or right to be
more about work, trade,
will. He was born into a
person could travel any-
face of the earth, except
worker, without need of a
immigration

has been one of autonomy not of the
individual, but of the state. He was
born in a century that pulled down
walls, and he lived out his life in the
century of the wall builders. Whether
made from iron, or from barbed wire,
mine fields, and machine-gun towers,
or from paper—the barbed wire of
documents—20th-century walls are
byproducts of the universal bureaucra-
tization of life. In place of the 19th
century's autonomous individual, to
whom some romanticized that all things
were permitted, we have the 20th
century's autonomous state, to which, as
Chomsky predicted and Lenin de-
clared, all things are permitted.

Terrorism's Fellow Travelers

by Erik Lindey

elicitate and commensurate the
plicity divide justice. Liberal val-
ues for their "constitution," or lack of
social cohesion." In the wake of Sep-
11, the backbone of these values
should seem to be obvious. Although
city as freedom may not be oppo-
the initial impact the devastating
19 post-9/11, its presence became pal-
pable as liberty came under attack.
crown of Flight 93's doomed pas-
sage, and of firefighters and police vil-
lified into burning buildings; the
even supporting of aid and assistance
victims, the non-union treatment
by president on down, that there be
freedom-loving people around
the clarifying divergence
nation here at home, the train and
of freedom-loving people around
aid all consider that the promise of
freedom remains alive and well,
the far political fringe, though, are
that fall out from beyond the pale
of fellow feeling. Adding obscure
expressions, these views respon-
to the horror of September 11 to those



han David, director of defense policy studies, answers questions about national defense after
Book Forum for his new book, 'Fellow Travelers' Book Into U.S. Defense Policy: Retelling
U.S. Security in the Post-9/11 World

In This Issue



Women Backs Health
Baby-Boom Confere

Brown, secretary of health
services, said the govern-
explore medical IRAs as a
using Medicare costs.
marks came at a confer-
ence's Elderly Planning
'Boomer Generation's Re-
newed by Americans for
Equity and co-sponsored
Ferrara is
I on the future of Social
Super IRAs

Dear reader,

This is the second to last issue of
Cato Policy Report. Since 1979, we have
brought you this comprehensive look
at Cato's wide-ranging research, policy
work, and events. As we sunset this
publication, we are excited to an-
nounce that the Cato Institute will be
launching a brand-new magazine that
will bring our ideas to life, update you
on the latest news from Cato, keep you
informed on our results, and reach
new and wider audiences.

Thank you for being a reader of
Cato Policy Report. Be on the lookout
for more updates about this exciting
new publication soon!

cy Rep

ment Gave Us
d Progress

we know that con-
ment/optimism con-
spiring the last
showing the last
out at our peril.
The Enlightenment
are
visions, but they shape



y Repo

Steadily Improving
room

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re example, and
as well as social
problems almost
refers to broad
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not themselves—
AIDS, skin can-
a health devel-
one layer of that
philanthropy rather

any progress for
sally in the past
fore begin by discussing
because I'd written that
lich. Fortunately about this
transition is an unfortunate

country, people have a fundamental
part of their institutions and so in them
a guarantee of security, or of justice,
practically the opposite.
or we share with us a personal accep-
After living for a time in England, I
I surely became aware that something
had happened to me. I didn't feel

PRESIDENT
DARDOSO
Opposition to
prohibition
pains stream
PAGE 12



ent Law at a Crossroads

"that society
and even more
have had real
evolution of the
processing of the
to appear prin-
the public. An
admirer allows
to reach posi-
tively results.

CHUCK
HAGEL
Senate deplores
Republican
loss of votes
PAGE 8



ANDREI
ILLARIONOV
What's gone
wrong in the
new Russia
PAGE 17



LAWRENCE
SUMMERS
Intention
after the
pandemic
PAGE 9



CATO Policy Report

Libertarian
Voters in
2004 and 2006

ed libertarians using the 2006
election? Given and poll re-
sults suggest it's possible. While
partisans still voted along party
lines, Republicans lost big a
rising independence. By our analysis, lib-
ertarians may be the largest bloc of such
independently minded voters. Particu-
larly in states with high concentra-
tions of libertarians such as Arizona,
Nevada, Colorado, Montana, and New
Hampshire, disaffected libertarians lib-
erally vote Republican House and Senate
seats. But an obsession with political



Cato Policy Report

The Women Who Launched a Rev

BY TIMOTHY SANDFUR
I n May 1943, British prime minister
Winston Churchill stood before a joint
session of Congress to say that the
war against the Nazis was likely to
become more grueling in the coming days.
Nevertheless, he insisted, the Allies would
prevail. "By singleness of purpose, by stand-
fastness of conviction, by tenacity and endurance,"
he members of the audience heeded him,
they might have quipped the dome of the new
Jefferson Memorial. And they might have
passed before the windows of a bookstore
and seen inside these volumes on the theme
of freedom, all by remarkable American women:
The God of Machine by Isabel Paterson; the
Discovery of Freedom by Rose Wilder Lane; and
the *Foundations* by Ayn Rand.
As libertarians, independent career women,
these writers of both novels and nonfiction
would later be described by journalist William
F. Buckley Jr. as the "three ladies of freedom



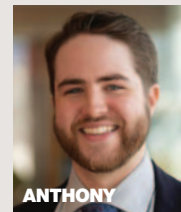
Cato
News Notes

INFLUENCING DC



For the
third year
in a row,
Michael Can-
non, Cato's di-
rector of health
policy studies,

has been named among the 500
Most Influential People in Wash-
ington by the *Washingtonian*.



CBDC
TRACKER
Nicholas
Anthony, policy
analyst in Cato's
Center for Mone-
tary and Financial
Alternatives,

is developing a CBDC tracker with
the Human Rights Foundation.
Coming in November, the site will
include an interactive map track-
ing the progress of CBDCs and
how they might impact freedom
around the world.

CATO ON C-SPAN

Cato's event, "Private Spon-
sorship: Revolution in Immig-
ration Policy," featuring David
Bier, associate director of immigra-
tion studies, and Ilya Somin,
B. Kenneth Simon Chair in Consti-
tutional Studies, aired on C-SPAN.
They addressed the effectiveness
of refugee and asylum programs in
the United States, and the coming
revolution of private sponsorship
as a pathway to citizenship.

THE
MILTON
FRIEDMAN
PRIZE FOR
ADVANCING LIBERTY



THE
CATO INSTITUTE
AWARDS

JIMMY LAI

WITH THE 2023
MILTON FRIEDMAN
PRIZE FOR ADVANCING
LIBERTY



At a gala dinner in Washington, the Cato Institute awarded the Milton Friedman Prize for Advancing Liberty to Jimmy Lai, a businessman and vocal advocate for democracy and freedom in Hong Kong. Lai was unable to accept the award in person because he is presently imprisoned by the Chinese government.

Hong Kong was once one of the freest jurisdictions in the world that protected freedom of speech and assembly as fundamental human rights. Now, after the passage of the draconian National Security Law (NSL) in 2020, Hong Kong is under the direct hand of Beijing, whose assault on Hong Kong's freedom has been alarmingly rapid. Less than two months after the law was passed, the arrest of Jimmy Lai, founder

of *Next* magazine and *Apple Daily*, sent shock waves through the international community, with many seeing it as a direct assault on press freedom and political dissent.

Jimmy Lai was born in 1948 in Guangdong, China. At the age of 12, he fled to Hong Kong as a stowaway, escaping the tumultuous period of the Cultural Revolution. Despite his limited education, Lai had an inherent entrepreneurial spirit and eventually found success in the clothing industry. In 1981, he founded Giordano, a popular retail clothing chain that provided him with the financial resources to eventually venture into media ownership.

In 1995, Lai launched *Apple Daily*, a Chinese-language newspaper known for its bold and critical reporting on political issues. The publication quickly



PETER GOETTLER AND SEBASTIEN LAI



SEBASTIEN LAI AND TONG YI



ALLAN CAREY, JOHN SNOAD, AND ELYSE WARREN ALTER



PAUL STUECK AND EILEEN LEECH

gained popularity among Hong Kong’s pro-democracy movement, with Lai using it as a platform to expose corruption and champion civil liberties. *Apple Daily* became known for its sensationalist headlines, investigative reporting, and unwavering support for democratic values.

“Lai is still an outspoken critic of the Chinese government.”

Through his media empire, Jimmy Lai became a prominent figure in Hong Kong’s pro-democracy movement, fearlessly speaking out against Beijing’s encroachment on the region’s autonomy. His relentless advocacy for freedom of speech, press freedom, and democratic values made him both a respected figure and a target for the Chinese government.

When it became evident that Lai would not be bullied, end his strong criticism of the NSL, or end his

support of mass protests against it, he was arrested on August 10, 2020, and accused of collusion with foreign forces and of subversion.

In prison and denied bail, Lai is still an outspoken critic of the Chinese government and an advocate for democracy even while facing charges that could keep him in jail for the rest of his life. Like many others before him, he is a prisoner of the state.

Cato has a long history with Jimmy Lai. As a close friend of Milton Friedman, Lai was a member of the first International Selection Committee for the Milton Friedman Prize for Advancing Liberty in 2002. A year later, Cato featured a commentary that Lai wrote for the *Asian Wall Street Journal*, which shows how long he has been loudly speaking out against the Chinese Communist Party and its cronies in Hong Kong.

The people of Hong Kong have been asking Mr. Tung and now are asking you, “How can you lead if you don’t care?” At almost every turn we have been trashed and insulted by the Tung government. Our prosperity and hopes for our children have been blighted. Our sense of ethics and fair



IAN VÁSQUEZ AND TONG YI



EREC SMITH



JOHAN NORBERG AND MARIAN TUPY



ROBERT A. LEVY

play insulted by cronyism and the corrupt acts of senior officials. And for the six years that this has been underway, no one in Beijing has cared. Jimmy Lai embodies what it means to dedicate one's life to the cause of advancing human freedom. When success and wealth provided him the opportunity to leave Hong Kong and live a free and flourishing life elsewhere, he chose to stay, rather than signal to other Hong Kongers that there was no hope. For that commitment, he is now living in a cage. But because of that, he is also a beacon to so many more who refuse to give up their liberty.

Named after the late Nobel laureate and champion of freedom who lent his name to the award in 2001, the Friedman Prize has been awarded to policymakers who led their nations out of tyranny and to heroic dissidents who have been persecuted by totalitarian regimes. *Wall Street Journal* columnist William McGurn, a friend and advocate of Jimmy Lai, gave the keynote address. The award was formally presented by former imprisoned Chinese dissident Tong Yi and accepted in Lai's absence by his son Sebastien Lai. ■

THE
MILTON
FRIEDMAN
PRIZE FOR
ADVANCING LIBERTY



William McGurn

This night is a celebration of liberty—at a time when it really needs celebrating. My *Wall Street Journal* colleague Evan Gershkovich is in prison in Vladimir Putin’s Russia for doing his job. Jimmy Lai is in prison in what was once the freest Chinese society in the world.

Jimmy’s trial on these trumped-up national security charges is supposed to begin in September. If convicted, he could die in prison. I cannot say if word has reached him about this award. I can say he would be thrilled.

My first point is personal. I did two stints in Hong Kong for Dow Jones. My second was in the 1990s, as editorial page editor for the *Far Eastern Economic Review* (*FEER*). One day I noticed a new clothing chain that looked like a Hong Kong version of the GAP. Well-lit stores, well-stocked shelves, brightly colored polo shirts. It was called Giordano’s.

We wouldn’t notice it here. But in Hong Kong there were basically two kinds of markets. One was for luxury brands like Dior or Armani. For everyone else it was largely hit or miss. So *FEER* did a cover story on the entrepreneur who was one of the first to appeal to a Hong Kong middle class that was looking for quality and consistency and value.

That entrepreneur was Jimmy Lai.

After the article ran, Jimmy invited our editor, Gordon Crovitz, to lunch. When Gordon got back, he sent me a note in his spidery handwriting. It said, “Jimmy claims to be the only man in Hong Kong to have read all of . . . Engels.”

It turned out that Gordon had actually written Hayek—not Engels. And that was my entry into the world of Jimmy Lai.

Eventually we grew as close as brothers. I was his godfather when he became a Catholic a week after the 1997 handover. His wife, Teresa, is godmother to one of my daughters, and my wife, Julie, to one of his. So, this is personal.

In October, my wife and daughter Grace were detained a few hours at Hong Kong’s airport when they tried to visit what had been our former home. It’s but a small example of the harassment that has now become routine in Chinese-ruled Hong Kong.

It is also personal for Cato. When Cato first set up the Milton Friedman Prize more than 20 years ago, Jimmy was on its international selection committee. Now that he is in prison for promoting these same values, Cato has not forgotten him.

I’m proud to say the *Wall Street Journal* has been another stalwart defender. Thank goodness for

freedom. Thank goodness for this night. Thank goodness for the *Wall Street Journal* and the Cato Institute.

My second point is what Jimmy's case says about today's China. In China under Xi Jinping, we have a resurgence of old-style Communist oppression. We also have a resurgence of apologists. Many who have eaten at Jimmy's table and have benefited from his generosity now pretend they don't know him.

Both Jimmy and Milton had high hopes for China when it first began to open its markets. Maybe they were too optimistic. But let us acknowledge that the turn to global markets has brought enormous benefits to the Chinese people—in terms of opportunity, life expectancy, contact with the outside world, and so on.

The willingness of so many American corporations to kowtow to Beijing seems to be confirming Marx's quip that when the last of the bourgeoisie is hanged, a capitalist will sell him the rope. But one reason China gets away with it is the sheer size of its market. Any normal-size nation, even a relatively large one like Vietnam or Japan, simply lacks the leverage over global investors and foreign governments to get away with what China does routinely.

In the midst of this, Hong Kong still makes Friedman's point. The British never delivered political freedom to Hong Kong. But the tremendous economic freedom Hong Kong enjoyed created a life ordinary Chinese people never knew before. And it's no coincidence now that China's crackdown on Hong Kong abuses many of these critical freedoms. That includes the government theft of Jimmy's newspaper from him because it gave people an alternative to the official point of view.

It's not the free market that makes China a menace in today's world. It's the deliberate undermining of the rule of law that free markets can't themselves create but ultimately depend on. And there will be consequences.

My final point about Jimmy is that he had a close relationship with Milton that stemmed from principles they had in common.

It was a match made in heaven. Before he ever met Jimmy, Milton had been traveling to Hong Kong for

decades. Hong Kong routinely featured as Exhibit A in his case for free markets. It also featured in his popular TV series *Free to Choose*.

Jimmy accompanied Milton on one of his trips into China in the 1990s. Jimmy told me they were in Chongqing—a city built on a cliff. One member of their group looked up at the steep slope they had to climb from the river. He said, "I can't do it."

“Both Jimmy and Milton had high hopes for China when it first began to open its markets. Maybe they were too optimistic.”

So, Jimmy took 30 renminbi out of his pocket and paid one of the Chinese who could be hired to carry luggage and packages up the incline. At the time that was a lot of money for a Chinese worker. Jimmy asked him to carry his friend up, which he did—on his back. It wouldn't be the first time Jimmy found a market solution to solve a problem in China.

Let me end by saying that tonight we will all be returning to our own beds. But Jimmy Lai will sleep behind bars. Despite all this, he is a man who is at peace with himself because he knows that being in prison means he has not betrayed his principles.

Because of that, he has been honored with a number of awards. I am sure there are more to come. He has even been twice nominated for this year's Nobel Peace Prize. But if I know Jimmy, he would be more delighted by this award tonight—bearing the name of his late, great friend, Milton Friedman.

So God bless Jimmy Lai—and all those unjustly imprisoned because of their work for freedom. I hope you'll invite me back on that glorious day Jimmy comes to Cato and tells you himself how much this award means to him. Thank you. ■

THE
MILTON
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PRIZE FOR
ADVANCING LIBERTY



Tong Yi

I too was a prisoner of conscience held by the Chinese Communist Party, so I think I have a certain intuitive sense for why people choose to do such things, as well as for why other people choose to be the ones who send them to prison.

To understand why Beijing has sent Jimmy Lai to prison, it is useful to recall the famous essay by Vaclav Havel called “The Power of the Powerless.”

Why, Havel asks, did the rulers in the Soviet Union need to drive Alexander Solzhenitsyn out of the country?

Certainly, it was not because he could have rivaled any of them for the pinnacle of power. No, it was “something else: a desperate attempt to plug up the dreadful wellspring of truth,” which, if not plugged, could lead to “political debacles unpredictable in their consequences.”

To unplug a wellspring of truth is something that

even a single person can do—if he or she is willing to pay the price.

“I have a certain intuitive sense for why people choose to do such things.”

Jimmy Lai’s entry into prison was a loss of personal freedom and of secular power but a gain in moral power that will reach considerably beyond where his secular power ever could. These two effects of imprisonment are simultaneous and inseparable, and they leave the regime that oppresses him with the terrifying dilemma that the harsher they persecute, the brighter the moral power will shine. ■

Sebastien Lai

When Milton Friedman was invited to China, he asked my father to go with him. As dad tells it, one day they were seated at a hotel bar and saw this lady soliciting clients.

You see, China was very poor at the time. So, even an economist, Milton Friedman gave my father a one-hour lecture about the economics of the oldest profession in the world.

Even in this planned economy there were sprouts of free-market forces everywhere you looked.

It was a common belief that as China became more liberal economically it would also become more democratic. Hong Kong was a litmus test in how China viewed democratic and free-market values.

My father knew that information is choice and choice is freedom. This led him to start *Apple Daily* and *Next* magazine after the Tiananmen Square massacre.

For more than 26 years, they told truth to power and campaigned for democracy. This bought him the ire of the powerful across China.

Dad championed freedoms that the Chinese Communist Party calls Western ideals, but we know these freedoms are self-evident. For defending these truths, refusing to bend the knee, and campaigning for representation in his home city, my father now sits in a

prison cell at an age when most would have retired.

Jimmy Lai went to Hong Kong as a child thirsting for freedom. He is now sitting in prison at the age of 75 trying to protect that freedom.

Allow me to end these remarks with a story of mine. A few weeks ago, I was heading out of the BBC building in London in the pouring rain. To reach my Uber, I passed Orwell's quote etched onto one of its walls: "If Liberty means anything at all, it means the right to tell people what they do not want to hear."

Drenched and realizing that I was soaking the gentleman's car, I turned to the driver and said, "Isn't the weather horrible today?" He replied, "You know, most times I'm by myself in the car, but the rain brings passengers and friends to ride with me."

He then went on to say: "I'm from Eritrea, and when I was a kid, we would go to church and prayed for rain. We felt lucky on days it rained."

It dawned on me that freedom of speech is like rain: most people in free societies take it for granted, but when it's gone, nothing vital can flourish. Free speech and its champions should not be taken for granted.

For that I would like to thank the Cato Institute for giving this prize to my father. I pray that he may be able to thank you personally himself soon. ■



CATO BENEFACTOR SUMMIT

In May, Cato hosted the 32nd Benefactor Summit—a three-day event featuring memorable forums with Cato scholars, notable guest speakers, and opportunities to network with fellow libertarians.



CLARK NEILY



GLENN LOURY



CALEB BROWN AND REP. JUSTIN AMASH



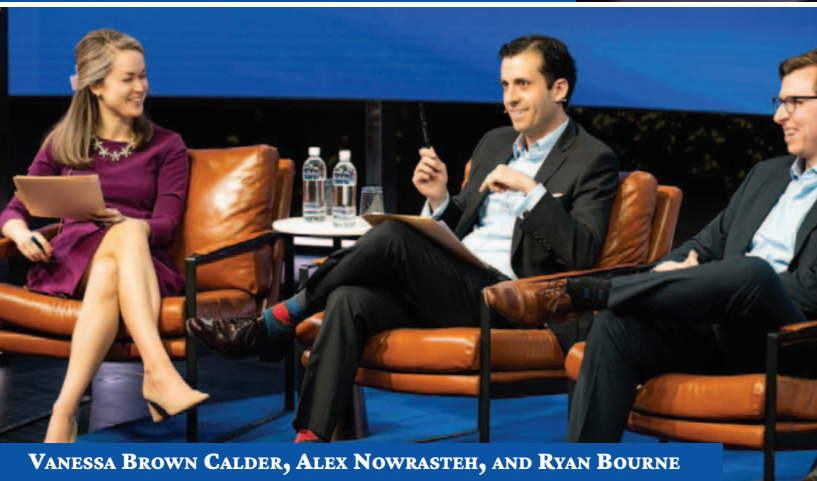
JAY LAPEYRE



COLLEEN HRONCICH AND KERRY McDONALD



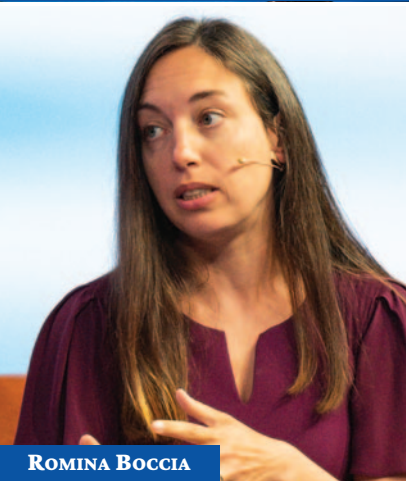
IAN VÁSQUEZ, SCOTT LINCICOME, AND JUSTIN LOGAN



VANESSA BROWN CALDER, ALEX NOWRASTEH, AND RYAN BOURNE



NORBERT MICHEL AND JENNIFER SCHULP



ROMINA BOCCIA



SALLIE JAMES



JOHAN NORBERG



HARRISON MOAR



Bankruptcy—Gradually, Then Suddenly?

BY ROMINA BOCCIA

US. government spending is on a collision course with economic disaster. Legislators need not lift another finger to increase spending any further. The U.S. federal budget is on a Titanic-esque voyage that could result in a fatal crash with a massive iceberg of unfunded entitlement obligations. This ship also has no captain.

ROMINA BOCCIA is director of budget and entitlement policy at the Cato Institute.

It is racing full steam ahead on autopilot. Failure to grab the helm and change course undermines living standards, technological progress, and the very foundations of liberal democracy. It will take greater constituent or economic pressure to get members of Congress to finally act.

In just five years, publicly held debt—the portion of debt the government has borrowed in credit markets and from the Federal Reserve—will exceed the highest level of debt recorded in U.S. history: 106 percent of

gross domestic product (GDP). And in just 10 years, even if one assumes no major wars, recessions, or public health crises occur, publicly held debt will grow to between 120 and 140 percent of GDP. Within 30 years, public debt would exceed 180 percent of GDP.

Projections differ depending on whether modelers assume that the 2017 tax cuts will expire or that Congress will extend some or most of them and depending on the degree of optimism modelers apply to economic

“ It is racing full steam ahead on autopilot. ”

assumptions for growth and interest rate estimates. And none of those estimates account for unexpected new spending, despite ongoing discussions in Congress to increase spending for everything from fighting climate change to boosting American fertility to subsidizing domestic industries deemed critical for competing with China. Despite historically high deficits, the answer in Washington to any problem, real or perceived, continues to be more spending.

Even if the current federal government spending trajectory was affordable in the sense that Congress would simply need to raise the taxes to pay for it, the fact that most of the growth in federal spending will go toward subsidizing consumption, rather than toward productive investments, is problematic. This directs resources away from growth-enhancing activities and directs them toward political rent seeking, thereby undermining current and future prosperity. Even when the government makes the case for subsidies to build defense-relevant industrial capacity, political bargaining leads to a misallocation of resources toward politically favored outcomes and undermines the stated goals. As my *Cato* colleague, Scott Lincicome, points out in his commentary “Social Policy with a Side of Chips” in *The Dispatch*: “Even the most well-intentioned and theoretically sound plan . . . can fall victim to legislative sausage-making, KStreet meddling, bureaucratic capture, and other facets of public choice economics.”

HIGH SPENDING AND DEBT COME AT A HIGH COST

Excessive public debt with damaging consequences is here now. High government debt that grows faster than the economic product of a country has costs. And those costs, whether they are seen or unseen, are significant.

From the obvious seen costs of interest rates consuming an ever-larger share of the U.S. federal budget, there are also the too

often neglected unseen costs of reduced economic growth. As Jack Salmon highlighted in the fall 2021 *Cato Journal*, after reviewing 40 studies published from 2010 to 2020 on the relationship between public debt levels and economic growth, the research unequivocally demonstrates that high debt hurts growth. In looking at studies exploring the existence of a particular threshold where government debt negatively affects growth, Salmon identified that government debt drags down growth when it exceeds 80 percent of GDP in industrialized nations.

As government borrowing rises, it crowds out private investment and reallocates resources from productive endeavors, with the potential for pushing out the technological frontier, toward politically driven spending that all too often has negative growth effects. Higher interest rates on federal government borrowing spills over into higher interest rates in the private sector, making it more difficult for businesses to launch and expand and for individuals to buy homes and cars and to make other major purchases. The results of excessive government spending and debt are lower economic growth, lower living standards, and an enhanced risk of a fiscal crisis.

As the government borrows more, interest costs will rise. The Congressional Budget Office (CBO), Washington’s nonpartisan government agency that projects budgetary outcomes and scores congressional legislative proposals, projects net interest costs will total \$640 billion this year. That total cost is equivalent to 13 percent of all federal revenues. By 2033, the CBO projects net interest costs will reach \$1.4 trillion, or 20 percent of federal revenues. On that trajectory, interest costs

will exceed U.S. defense spending as soon as 2028. If interest rates were 1 percentage point higher than CBO currently projects over the next 10 years, interest costs would rise to nearly \$2 trillion a year by 2033.

A FISCAL CRISIS COULD OCCUR WITHOUT WARNING

The interest cost scenarios discussed above all assume a gradual increase in debt and interest costs. Often discounted is the significant tail risk of a sudden fiscal crisis: the chance of huge economic losses in the event rising public debt triggered a loss of confidence that would send interest rates skyrocketing. Such a crisis could be triggered if investors change their expectations about the U.S. government’s ability or willingness to pay its debts at the agreed-upon value.

As Ernest Hemingway wrote in his 1926 novel, *The Sun Also Rises*:

“How did you go bankrupt?” Bill asked.

“Two ways,” Mike said. “Gradually and then suddenly.”

The U.S. dollar is the world’s preeminent reserve currency, and it is the preferred method for global exchange. Treasury bonds are as close to cash as it gets, likely trading at interest rates that are below what is sensible given the U.S. government’s precarious fiscal imbalance. These features of the U.S. currency regime are also bugs when it comes to giving off warning signals to legislators that it’s time to tighten the fiscal belts before investors turn away from the U.S. Treasury bond market. There is no canary in this coal mine.

Two aspects of U.S. public debt markets deserve particular attention: its winner-take-all nature and investor herd mentality.

In a winner-take-all market, the asset considered safest, currently U.S. Treasury bonds, would attract most of the available capital at cheap prices, while the nearest competitors’ bonds would trade at a substantial risk premium. A surge in volatility in global markets, as was apparent during the financial crisis of 2008 and during the COVID-19 public

health emergency, would send investors scouring for safe havens to park their money in until market movements smoothed. In such cases, investors will flock to U.S. Treasury bonds, even if the source of the volatility, such as during the financial crisis of 2008, originates in the United States. As Leonard Burman and others wrote in the 2010 *National Tax Journal* article “Catastrophic Budget Failure,” the U.S. government bond market operating like a winner-take-all market “would explain why Treasury yields plummeted even as the U.S. financial sector was teetering on the brink of collapse and the economy was heading into a deep recession, and it would be consistent with the further decline in U.S. interest rates when Greece and other Eurozone countries experienced debt crises.”

If the U.S. Treasury market indeed represents such a winner-take-all market, we may not experience gradually increasing interest rates to warn legislators that the tide is about to turn. Rather, U.S. government interest rates may stay low for far too long, lulling legislators into a false sense of security as they continue deficit spending without serious concern. Yet, when the tide turns, it could quickly swallow up any opportunity for sensible policy changes. Instead, it could force legislators to make sudden, steep spending cuts and attempt to rapidly raise more revenue, just as the economy crashes under the weight of rapidly rising interest rates.

This situation is also where investor herd mentality plays against us. Herd models suggest that a fiscal crisis can arise suddenly because investors’ behavior is driven more by the actions of other investors in the market rather than guided by the underlying economic fundamentals. When investor sentiment toward the safety of U.S. Treasury bonds turns, the first investors to sell off their holdings can reap significant rewards, while those who hold onto their investments could face steep losses. This creates a powerful incentive for investors to act quickly and follow one another in a panic, potentially

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Medicare
and Social
Security make
up 95 percent
of long-term
unfunded
obligations.
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leading up to a self-reinforcing cycle of bond sales and increasing interest rates.

As U.S. publicly held debt continues to grow, the volume of outstanding U.S. treasuries makes the federal government’s ability to borrow vulnerable to sudden shifts in investor sentiment and changing market conditions. Should a financial panic ensue, the government has little chance of stopping the flood wave of declining bond market sales, rising interest rates, and pressure to monetize the debt via the Federal Reserve. In the worst-case scenario, the United States might even lose its standing as the world’s preeminent reserve currency, with implications for America’s economy and national security.

Although rational market actors can see the unsustainability of the U.S. fiscal trajectory from miles away, they continue to buy U.S. Treasury bonds—until they don’t. As emphasized by Carmen Reinhart and Kenneth Rogoff in their book *This Time Is Different: Eight Centuries of Financial Follies*, which surveys more than 800 years of financial crises data, debt crises tend to be triggered suddenly by a crisis of confidence in debt-laden countries. Meanwhile, Washington politicians have garnered a well-earned reputation for being procrastinators when it comes to dealing with inevitable issues—that is, until they are forced by a hard deadline with damaging consequences, a crisis that demands action, or constituent pressures leading up to a tight election race to address those issues.

A BRAC-LIKE COMMISSION TO REFORM ENTITLEMENTS

The debt limit has presented such a legislative deadline; yet thus far, it has failed in forcing reforms to the very programs driving the United States toward fiscal ruin. The culprits are clear: Medicare and Social Security make up 95 percent of long-term unfunded obligations. Other attempts at reducing deficits are mainly tinkering along the periphery.

Substantive reforms to old-age entitlement programs will inevitably be implemented over many years. Consider that the two-year gradual increase in the Social Security eligibility age was agreed upon in 1983. Fast-forward 40 years, and that age increase is still being phased in. For political and fairness reasons—namely, allowing Americans to adjust for how much to work, save, and invest when old-age benefit policies change—major changes to Medicare and Social Security will only begin to be phased in after an adjustment period. This will likely mean a delay of 10 or more years before big changes will take effect.

Entitlement spending represents an \$85 trillion iceberg. To illustrate the magnitude of that figure, unfunded obligations for Medicare and Social Security are equivalent to \$650,000 for every U.S. household. Given such massive long-term funding shortfalls, the U.S. federal budget is heading full steam toward an inevitable crash with economic reality. The long-term planning required to change this fiscal course is woefully lacking in the current Congress. And with presidents from both parties—President Biden now and President Trump before him—discouraging members of Congress from even discussing the need for entitlement reform, the solution to America’s entitlement crisis most likely lies outside the legislature.

A commission like the Base Realignment and Closure (BRAC) commission carries the greatest promise for elevating the entitlement reform discourse past short-term election politics and toward addressing America’s

long-term unfunded obligations. Such a commission should be composed of independent experts and guided by clear criteria—such as returning public debt as a share of GDP to below 80 percent in less than 30 years and achieving 75-year trust fund solvency for Medicare and Social Security. Commission recommendations should be self-executing unless Congress intervenes. This ship may sink if we wait until a majority in Congress is willing to go on the record in support of entitlement reforms.

Congress only knows how to limit discretionary spending, or so it seems. Most fiscal agreements impose spending caps on less than 30 percent of the budget, the discretionary portion that Congress determines annually. A more favorable view would suggest that a prudent Congress should limit that spending, which it directly controls. And even on that front, legislators have repeatedly fallen short of sticking to agreed-upon spending limits. There are gaping holes in “hard” spending caps, leaving room for so-called emergencies that rarely meet that mark. And can one blame Congress for renegotiating spending limits in future years, when most Washington insiders know that even holding tight to discretionary spending agreements won’t make a big difference in slowing the growth of the debt?

FISCAL ILLUSION HIDES INEVITABLE TRADEOFFS

Regrettably, constituents aren’t putting enough pressure on their legislators to tackle rising spending and debt. And why would they? Thanks to seemingly unlimited borrowing as taxes stay low, Americans are under a fiscal illusion. Washington passes on a large share of the cost of government spending to future generations. To no one’s surprise, when something is discounted, people buy more of it. And so it is with government spending. Americans put up with a larger government and demand more benefits for themselves than they would if taxpayers

were internalizing the full cost of government spending today.

This isn’t just theorizing. As Cato’s Emily Ekins found in a recent poll on Americans’ attitudes toward student loan debt cancellation, although most Americans support debt cancellation in principle, their support plummets when tradeoffs are introduced. Support for student debt cancellation drops from 64 percent to below 25 percent when respondents are confronted with the prospect that colleges will raise prices following loan cancellations, and support drops to about 36 percent if the policy comes at the cost of higher taxes.

Even with the threat of higher taxes, most Americans aren’t so sure they’d be affected. The top 10 percent of income earners pay about 60 percent of all revenues at an average tax rate of 27 percent. Meanwhile the bottom 20 percent of American income earners pay zero dollars in taxes, due to refundable tax credits offsetting any tax liability they incur. Popular discourse seems to suggest that closing America’s fiscal gap merely requires asking the “rich to pay their fair share.” In truth, a European-style welfare state will require European-style taxation, which falls far more heavily on lower- and middle-income workers. As my Cato colleague Adam Michel has calculated, workers making about \$40,000 in the United States would pay \$6,000 more in taxes if they moved to the average European country. Sure, European citizens receive several additional government benefits in exchange, but they do so at a loss of choice and control and at a high opportunity cost.

It’s no coincidence that Americans are much more innovative globally than Europeans. While there are several factors affecting a nation’s propensity to innovate, the returns to work and risk-taking play a significant role. If a European-style high tax system were to become the future for the United States, American entrepreneurship and innovation would most certainly take a hit. Less innovation translates to lower living standards and

slower economic growth, which reduce opportunity and increase the likelihood of internal strife. Economic stagnation is one of the key driving forces behind violent conflicts.

AVOIDING DISASTER

America, a nation still standing strong, is on a course toward decline. With peacetime public debt levels quickly growing toward post-World War II highs as old-age entitlement programs rack up tens of trillions in unfunded obligations, legislators do not have an enviable task. To steer this ship away from disaster would require the heroic feat of untangling unfunded benefit promises made by legislatures of the past, while current legislators would have to face the inevitable political costs. The easiest way out for American politicians is to ignore the problem until it can’t be ignored anymore. By that time, sensible policy changes that protect the most vulnerable Americans from harm and avoid economy-crushing tax hikes on innovators and job creators will have likely expired. Unfortunately, it wouldn’t be the first time that a major superpower undermined its own long-term prosperity to avoid short-term political pain.

It will likely take much greater constituent or economic pressures before politicians will act to avoid further economic decline. Heeding the words of Milton Friedman, “we have to make it politically profitable for the wrong people to do the right thing.” When those pressures take hold, a BRAC-like fiscal commission offers the most promising way to overcome the political gridlock that is driving America toward a fiscal crisis. Today’s politicians do not feel responsible for entitlement promises made by their predecessors, and they’re unwilling to personally sacrifice to course correct. Giving politicians a way—a lever they can pull—to set entitlement reform in motion, without legislators having to personally take the helm, may very well be the only way to steer America out from the rough seas ahead. ■

From Research to Impact

At Cato's 32nd Benefactor Summit, held in Washington in May in conjunction with the Milton Friedman Prize for Advancing Liberty Dinner, one panel discussed how Cato's work is used on Capitol Hill, in federal agencies, and in state governments. **Caleb Brown**, host of the *Cato Daily* podcast, interviewed **David Bier**, associate director of immigration studies; **Mark Calabria**, senior adviser; and **Chad Davis**, vice president for government affairs.

CALEB BROWN: We've talked a lot about strategy this morning, and now we're going to talk a little about tactics. And Mark, you've got a lot of experience in and out of government. You've worked for the Senate Banking Committee, then Cato, then chief economist for Vice President Mike Pence, then director of the Federal Housing Finance Agency, and then back to Cato. That's an interesting experience, and I think it speaks to Cato's relevance in Washington that those kinds of moves are possible. So, what have you learned from government that can help Cato advance its mission?

MARK CALABRIA: One of the biggest takeaways is seeing the impact that the right person in the right place at the right time can make. I know for a fact that there are things in law and in regulation that are only there because I was in the room. And, of course, I know lots of bad things ended up in laws and legislation because somebody else was in a different room. One person in the right place can have a big impact. We sometimes assume that the politicians who don't vote the way we want are captured by special interests. And some of them are, I don't want to deny that, but often they just have never thought about policies this way. So, there's power in just exposing policymakers' staff to these ideas.

I often say my favorite day on the job at the White House was the second day. I'm in my first West Wing meeting with the vice

president, the meeting breaks up, and he says to me, "Read a bunch of your stuff, big fan." Of course, I say, "You and my mother. Small audience but extremely high quality." And it hit me that Vice President Pence had seen a lot of my Cato stuff because somebody somewhere was putting it in his book and putting it in front of him. The information flow to senators, members of Congress, and cabinet secretaries is curated. And part of our job is making sure Cato is in the book. How do we make sure we continually build those relationships with the staff who control what information gets to policymakers? And that's a lot of what Chad does.

BROWN: You know, you're talking about gatekeepers, and my thoughts immediately turned to Cato's intern program, which is a hundred or so young people a year, some of whom move on to be those gatekeepers in congressional offices throughout Congress.

CALABRIA: Yes. At the White House, I worked with a former Cato legal intern, James Schindler, who was then at the Interior Department, working on offshore drilling. And he was definitely "drill, baby, drill." There were former Cato interns at other agencies as well, where they took what they learned at Cato and applied it in government. So, again, us trying to train people so that they can be effective and understand how government really works.

DAVID BIER: I was a Cato intern, drilled in the perspective of libertarianism, who became a gatekeeper for a member of Congress who worked on immigration reform. So the pipeline does exist; we are building leaders for the next generation here, and I see them when I'm on Capitol Hill.

BROWN: Chad, Cato has prioritized outreach. What does that look like today?

CHAD DAVIS: Well, we are in progress. We've had government affairs people at Cato for nearly 30 years. But we are putting a lot more resources into it, and we are changing the way we think about it. Because of Cato's wide range of issues, we essentially are concerned about issues before almost every committee of Congress. That is uncommon—JP Morgan, the biggest bank in the world, has issues before two or three committees in Congress. So, they have great relationships in those two or three committees. We have the entire Congress. So, we look for high-quality, senior-level people that we can embed in each policy team so that they get to know the issues and the scholars well so that they can seize the opportunities when those committees are having those conversations. Mark talks about the policymakers' book. I'm fond of talking about the staffers' drawers. When I was on the Hill when Dodd-Frank went through, I saw that whole process. Dodd-Frank was not written a month before Dodd-Frank passed. Dodd-Frank was not written six months before Dodd-Frank passed. Dodd-Frank was a collection of dozens of bills that were in desk drawers of committee staff members, and they pulled out their desk drawers, and they took out those bills, and they threw them all together, and then they cobbled together language here and there to make it fit, but those were ideas that were discussed long before Dodd-Frank ever passed. And what we want

to do is get our scholars' ideas in those desk drawers.

BROWN: That's what the Patriot Act was, too, a laundry list of law enforcement wishes that were pulled out of drawers at a very difficult time, and well, you know, the joke is "we have to do something, this is something, we have to do this." So, Dave, the thing that most excites me about the work that you and Alex Nowrasteh have done on immigration is that you are doing your level best to meet policymakers where they are and to try to understand what their incentives are and craft policy solutions that will be agreeable to a lot of people.

BIER: Right. In the big picture, Cato is unique in that our perspective on immigration is that we want to make immigration legal. Everyone else wants to deal with illegal immigration after it happens. And so, whether it's members on the left who want to just focus on amnesty for people who've already come or people on the right who want to deport people, it's ultimately a reactive approach. And we come in and say, well, what about having a legal immigration system that lets people come in legally in an orderly manner? So, that's our big picture. But how do we actualize that for executive agencies or for members of Congress? Congress is very polarized. So, we want to come up with often-narrow ideas that can be agreeable to people in both parties. One idea is having states sponsor immigrants. That way, if California wants to do something with its immigration system, it may be very different from what we're going to see in North Dakota or North Carolina. And once people start thinking about that, they can say, "Okay, I can see how my state could work with this." On the immigration side, on the executive agency side, we have focused on, okay, there's going to be a border crisis under the Biden administration. We predicted it. We knew it. We knew the economy was going to bounce back, and if there's demand for workers, the workers are going to

come. And we got ahead of the game: we laid out exactly how to actualize a program where Americans could sponsor people from countries that are sending many immigrants to the border. And the Biden administration partially implemented that proposal in January for four countries, and it brought down those numbers from those four countries dramatically, over 90 percent, because for the first



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The right
person in the
right place at
the right time.
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time, there was a legal channel available to them through this sponsorship program.

BROWN: And that seems notable because Biden on immigration otherwise has not been great.

BIER: Look, the Biden administration would not have done it if they had any other option. They were at the end of their rope, and finally they just said, "well, there's nothing else we can do," and they just did it. And now no one's

going to want to roll this thing back that reduced the numbers of illegal crossings this much.

BROWN: Chad, Cato is not the only game in town. There are a lot of groups that are allies or adversaries, some are better funded, and some have more parochial interests. Cato is a 501(c)(3) nonprofit. How does that change the tactics of what we do?

DAVIS: Well, there are some legal restraints on our activities. We don't do political work; we don't lobby. However, we can and we do educate, and we do it very well. Since the beginning of last year, our scholars have testified before Congress more than 20 times, and we've had hundreds of conversations with members of Congress and their staffs.

You know, one thing that I'm not sure is appreciated until somebody has been through it is when you are part of a committee staff that's relied on to write legislation in a very short period. You don't do that by yourself. Some of it is in the desk drawer we talked about. Some of it is having your own personal network that you rely on when it's crunch time and your boss is telling you, "You gotta have something." And so, we try to have our people be that committee member's personal network. And the work that the scholars do makes that a lot easier when you're trying to make those connections. So, I think that yes, we do things differently. In some ways I think that benefits us, because we're not seen as political actors the way some organizations are.

BIER: I want to jump in on that. I think the fact that we're a 501(c)(3) and that we're non-partisan and not a special interest allows us to have more impact. People know they can trust us.

DAVIS: I would agree. And I think Mark and David are great examples in that Mark was a witness called by Republican staff and David was called by Democratic staff. And the reason we can do that and the reason we have

that credibility is because we're not seen as partisan actors.

CALABRIA: I would add, when I was on the banking committee during the 2008 crisis, we were trying to fight against bailouts, we were trying to come up with alternatives to the Troubled Assets Relief Program, and it was very difficult to find thoughtful, knowledgeable parties who didn't have a financial interest in it. And I often say my leaving the committee and coming to Cato at that time was partly a way to create a job that I wished had existed when I needed it. And of course, because of many people's generous support, we created the Center for Monetary and Financial Alternatives. But I raise this to say there is a hunger on the Hill and in the agencies for independent, knowledgeable parties who don't have a financial stake in the issue.

BROWN: Chad, what about at the state level? We have a state affairs staff, headed by Christopher Hansford and Zayna Resley. What does the terrain look like at the state level?

DAVIS: In a lot of ways, the opportunities can ebb and flow at the federal level, but given that you have 50 states, there are almost always opportunities at the state level. And Chris and Zayna are fantastic about identifying states where there is an issue that has some momentum and bringing our people into that conversation to help educate people as that issue moves forward. We also have legislators come to us for ideas. Recently we had a leading legislator who admires Cato ask for a portfolio of ideas that would benefit the state so that members of Congress could look at new ideas for introduction in the next Congress. Even when big legislation stalls at the federal level, there will almost always be states that present opportunities to increase civil and economic liberties. Chris and Zayna have been working in Utah and Arizona and North Carolina on everything from housing to health care—they are very agile and very

adept at moving between different issues and bringing our people into those conversations.

BROWN: I recently did a *Cato Daily* podcast on occupational licensing with a former Catoite and a state lawmaker, who just happens to be in my home state of Kentucky, and we talked about the policy and the difficulty of doing occupational licensing reform in the



DAVID BIER

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legislature. And he tweeted about our conversation and said, “Thanks for having me on.” And shortly afterward a member of the other party replied and said, “Cosigned.” And I thought, well, that's pretty good for a day's work, right? We took a policy issue and made it bipartisan. And that's what Chris and Zayna are doing pretty much all the time.

Mark, you've said that in some ways, it's worse than people think, when you talk about how government actually works—and that creates opportunities.

CALABRIA: One way that it's worse than people think is that the power of the permanent bureaucracy is overwhelming. But it's not monolithic, and no administration is monolithic. When I was in the White House, there was a lot of opposition to immigration, but Secretary Perdue at the Agriculture Department was a huge advocate for letting in farm workers. And there were certainly occasions when I could bring up a Cato study or op-ed and maybe change the debate a little.

BIER: And we've seen something of a flip-flop in the Biden administration, where the Department of Homeland Security is more favorable to immigration and the Department of Labor is very restrictive. So, in the agencies, we try to find specific people who are sympathetic to our view, and we try to give those people the information and analysis they need to move things in that direction.

CALABRIA: And the regulators are of course constrained to operate within certain rules when promulgating a regulation, but they have some leeway. And mostly they hear from the special interests with a financial stake in the outcome. But with comment letters and direct interaction, we can have an influence on things, partly because we have that level of trust and independence.

BIER: Of course, the immigration context is the area that I'm most familiar with, but Chad, this is happening all over, right?

DAVIS: Yes. We're active both publicly and privately with a range of issues. We've also hosted members of Congress and governors here at Cato. We hosted two governors earlier this year, and we had Sen. Tim Kaine (D-VA) and Rep. Tom Emmer (R-MN), who is the House Majority Whip. Not to mention we

hosted the British secretary of state for business and trade.

BENEFACITOR QUESTION: When you have successes in Congress, are the successes the result of your turning somebody's opinion, or are the successes merely that Cato satisfied their preexisting goal?

CALABRIA: It's both. There are a number of members of Congress who—this may not surprise you—don't have deep philosophical views on much of anything. And to some extent they want to be policy entrepreneurs, they just don't know what the product is they want to sell. And so, there are times when we can help them.

BIER: Most people who lead on issues tend to be ones who have more passion about those issues. So, we do tend to focus on the people who agree with us and who we want to push in the best direction possible. But there are others who are really undecided. And that's where we can have a big sway if we craft an idea in a way that can persuade people.

DAVIS: Take the *New American Worker* handbook that Scott Lincicome edited. Some of those ideas turned into new proposals that probably would not exist were they not proposed by Scott and his team. So, in those ways you get new ideas into the debate.

BENEFACITOR QUESTION: There are often

massive battles over who's going to be the secretary of an agency. Are those battles worth it? Does the secretary have that much impact?

DAVIS: Yes.

CALABRIA: It may surprise you that I was maybe one of five candidates for the FHFA. I was not the only candidate. And many of us



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There are
almost always
opportunities at
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here know we have an association with Jeb Hensarling, who is chair of the House Financial Services Committee. So, I was not Secretary Mnuchin's candidate for the job. I was Vice President Pence's candidate. So, Mnuchin tries to talk Pence out of supporting me, and lo and behold, he did me the biggest favor anybody could ever do. He started the conversation by saying, "Mister Vice President, sending Mark over there would be like sending Jeb Hensarling." And after that Pence was like, "Okay, Mark's the man." But I can tell you I knew who some of the other candidates were, and we would have a very different government level of involvement in the mortgage market today if it had been one of the other candidates.

DAVIS: Just to put it in perspective, to me, who the president is matters less than who the people are that the president brings to DC, because those agencies have so much power, and each one of those secretaries, and each one of those administrators, they bring a team into that agency with them. So, it's not only that person but also that person's team—and their philosophy and goals. Who that person is directly impacts what the primary goals of that agency are. Even if it's somebody that you agree with or you don't agree with, you could have two people that in general seem very similar, but their priorities are different, right? Therefore, their positions on an issue may not be different, but their priorities are different. So yes, I do think that all those fights matter. ■

APRIL 4: Cut the Budget, Change the Strategy

APRIL 13: What to Do When You're the Wrong Kind of Black Academic

APRIL 24: Cato Institute Reception 2023

APRIL 25: *Evaluating NATO Enlargement*

APRIL 27: *Natural Property Rights*

MAY 4: *Time to Think Small*

MAY 9: *Better Money vs. Easy Money*

MAY 10: *Baby Ninth Amendments*

MAY 12: Turkey's Centennial Election: What Is at Stake?

MAY 18: The Milton Friedman Prize for Advancing Liberty

MAY 19: 32nd Benefactor Summit

MAY 22: Expanding Access to Primary Care by Removing Barriers to Assistant Physicians

MAY 25: Five Years of EU's General Data Protection Regulation: Impact and Lessons Learned

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Can Taxes and Spending Be Reformed?

Focusing on the implications of the Better Budget Control Act (BBCA), Cato’s director of budget and entitlement policy Romina Boccia highlights the potential limitations of the BBBCA, such as its reliance on discretionary spending caps and the likelihood of Congress overriding them. “How a Better Budget Control Act Would Limit Spending and Control Debt” (Briefing Paper no. 156) suggests that constitutional amendments or spending limits tied to gross domestic product growth could provide more effective long-term solutions for fiscal responsibility and debt reduction.

Cato’s director of tax policy studies Adam N. Michel indicts the complexity of Americans’ tax filing experience and details “Four Ways to Simplify Taxpaying” (Briefing Paper no. 151). First, child tax credits should be harmonized. Second, the many education credits should be consolidated. Third, Congress needs to simplify savings programs. And fourth, itemized deductions should be eliminated, with the increased revenue used to lower top-marginal tax rates.

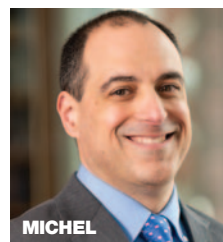
Adjunct scholar Joseph Bishop-Henchman highlights the costs that accompany additional funding to the IRS through the 2022 Inflation Reduction Act in “Transforming the Internal Revenue Service” (Policy Analysis no. 942). The analysis provides 10 reform suggestions, including significant tax reforms by Congress and providing clarity to taxpayers by making the IRS more efficient, disciplined, and accountable.

THE RISKS OF CBDCS

In “Poll: Only 16% of Americans Support the Government Issuing a Central Bank Digital Currency,” the majority of respondents expressed concerns about privacy

invasion, increased government surveillance, and potential cybersecurity risks associated with a government-issued digital currency. The survey, conducted by Cato’s vice president and director of polling Emily Ekins, and research associate Jordan Gygi, suggests that there is a significant lack of public support for a central bank digital currency and that more education and discussion are needed.

“Central Bank Digital Currency: Assessing the Risks and Dispelling the Myths”



cy Analysis no. 941), by policy analyst Nicholas Anthony and vice president and director of Cato’s Center for Monetary and Financial Alternatives Norbert Michel, examines how central bank digital currencies (CBDs) fail to provide unique benefits and displace the role of private financial institutions, and it argues that Congress should explicitly prohibit the Federal Reserve and Treasury from issuing a CBD in any form.

THE FUTURE OF REGULATING CRYPTO

In “Regulatory Clarity for Crypto Marketplaces Part I: Decentralized Exchanges” (Briefing Paper no. 154), Cato’s director of financial regulation studies Jennifer Schulp and policy analyst Jack Solowey recognize the advantages offered by decentralized exchanges and argue that clear and well-defined regulations can support their responsible development and expansion. “Regulatory Clarity for Crypto Marketplaces Part II: Centralized Exchanges” (Briefing Paper no. 155) focuses on the need for clear and adaptable regulations that protect investors, prevent fraud, and foster innovation. Schulp and Solowey acknowledge the

benefits of centralized exchanges, such as liquidity and user-friendly interfaces, while urging regulators to strike a balance between oversight and market freedom.

PARTISAN EVERYTHING

“The Political Polarization of Corporate America” (Research Briefs in Economic Policy no. 326) focuses on the makeup of executive teams and finds that they became more partisan between 2008 and 2020, with like-minded executives matching with each other and politically misaligned executives leaving firms. Comparing executive departures with abnormal stock returns, the authors

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CATO POLICY REPORT

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find that greater political similarity in the executive suite is likely not in the interest of shareholders.

THINK OF THE CHILDREN



Jennifer Huddleston, technology policy research fellow, analyzes recent youth online safety proposals in her study “Would New Legislation Actually Make Kids Safer Online?” (Briefing Paper no. 150). Although inspired by good intentions, current proposals have significant unintended consequences for parents, teenagers, and all online users. Policymakers should instead empower and educate parents and young people to make responsible choices with technology.

DOES MONEY SOLVE MURDERS?

Bolstering public confidence in vaccinations Using data on 50 of the largest cities in America between 2007 and 2017, David Bjerik in “Does Greater Police Funding Help Catch More Murderers?” (Research Briefs in Economic Policy no. 327) finds no evidence that greater police budgets increase homicide clearance rates. Clearance rates vary widely, from less than 45 percent to above 75 percent; rates also vary widely based on the age, gender, and race of the victim, with the lowest rates for adult minority male victims.

REDUCING INNOVATION

In “The Impact of Regulation on Innovation” (Research Briefs in Economic Policy no. 328), researchers analyze the effects of French labor regulations on larger firms and find that previous research focusing on reductions in patents has significantly underestimated the cost of the regulation. So many French firms cluster just below the employee-size threshold that the regulations are equivalent to a tax on profit of about 2.6 percent that reduces total innovation by

about 5.8 percent—equivalent to cutting the annual growth rate from 1.7 to 1.6 percent.

BORDER BACKLOGS

America’s legal immigration system is second only to the tax code in its complexity. “Streamlining to End Immigration Backlogs” (Policy Analysis no. 943) by Cato’s associate director of immigration studies David Bier reveals the extent of the dysfunction and outlines how to reverse the most critical inefficiencies. He finds there is a great need for an immigration agency coordinator and single filing platform, forms that aren’t needlessly long, longer employment authorization, and other improvements.

SHORTAGE OF HEALTH CARE WORKERS



The number of medical school graduates exceeds the number of residency positions, which is contributing to the shortage of health care professionals. Senior fellow Jeffrey A. Singer and research associate Spencer Pratt contributed “Expand Access to Primary Care: Remove Barriers to Assistant Physicians” (Briefing Paper no. 152) to discuss the licensing restrictions stopping U.S. and international medical school graduates from providing physician services.

TRADE AND TARIFFS

Misconceptions about trade deficits and the ability of tariffs to “fix” them are persistent. In “Balance of Trade, Balance of Power” (Policy Analysis no. 944), adjunct scholar Daniel Griswold and professor of economics Andreas Freytag explain the causes and consequences of a trade deficit and how it points to national strength, and they conclude by recommending policy steps to build on the nation’s underlying commercial and geopolitical strengths.

“Local Labor Market Effects of the 2002 Bush Steel Tariffs Progress” (Research Briefs in Economic Policy no. 332) analyzes the consequences of the Bush steel tariffs on employment and wages in steel-consuming industries. The brief argues that while the tariffs did benefit the steel industry, they resulted in overall job losses and increased costs for other sectors.

FINANCE INDUSTRY IS NOT SO SPECIAL

The growth and share of the U.S. economy that the financial sector constitutes are often mischaracterized as nefariously unique, and these estimates tend to influence policymaking. “The Growth of Finance Is Not Remarkable” (Research Briefs in Economic Policy no. 329) compares finance to other “high-skill” industries that demonstrate similar labor compensation trajectories.

THE MYTH OF FINANCIAL PRIVACY

Financial privacy in the United States has been in disrepair for more than 50 years, and it’s getting worse. “The Right to Financial Privacy” (Policy Analysis no. 945) from policy analyst Nicholas Anthony discusses the unrivaled access the government has to the lives of all Americans and provides suggestions for rethinking how financial privacy is treated in the United States.

INEFFICIENCIES OF MINIMUM WAGE LAWS

Contrary to popular perception, “Low Wages Aren’t a Growing Problem” (Research Briefs in Economic Policy no. 330) argues that policies aimed at increasing minimum wages or implementing other labor market regulations have unintended consequences and may not be the most effective solution for addressing poverty and income inequality. The brief presents evidence that the share of workers earning low wages has remained relatively stable over time. ■

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LOS ANGELES DEBATES LEGALIZING THEFT

Looking to combat a rash of thefts from Priuses and other cars, the Los Angeles City Council voted Tuesday to make it illegal to possess an unattached catalytic converter without proof of ownership.

On an 8-4 vote, the council approved an ordinance allowing police to arrest anyone who has a catalytic converter that is not connected to a vehicle—and fails to produce a receipt or other identifying information, such as documentation from an auto repair shop, spelling out the ownership.

Punishing people for possessing unattached catalytic converters “doesn’t help anybody,” [Councilmember Eunisses Hernandez] said.

“When somebody gets something stolen, the city should be doing everything we can to make sure they’re made whole—not to punish another person,” [Councilmember Marqueece] Harris-Dawson added.

—*Los Angeles Times*, April 11, 2023

THE MILITARY BUDGET CAN'T BE CUT

Every day, teams of technicians at a vast Air Force base in Tucson, Ariz., tend to a fleet of attack jets the Pentagon has been trying to retire for more than a decade. They have picked replacement parts from the base’s famous “Boneyard,” where old military planes go for scrap, which stretches far into the surrounding desert.

The Air Force has said for years that the A-10 jets, nicknamed Warthogs for their bulky silhouette and toughness in a fight, have passed their prime and will be vulnerable in the wars of the future.

Congress has other ideas. Bowing to members whose constituencies are dependent

on the jet for jobs and the flow of federal tax dollars, it has instead insisted nearly all the planes keep flying at a cost of more than \$4 billion over the past 10 years.

This kind of intervention is common.

—*Wall Street Journal*, April 13, 2023

IS THIS CONSTITUTIONALISM?

I am the ranking member on the Senate Commerce Committee, which has jurisdiction over about half of the U.S. economy, including all of telecom and all of broadcast and all of big tech. And in that role I launched an investigation of DirectTV’s decision to deplatform Newsmax. And I made very clear to DirectTV that this investigation would keep going until the only acceptable outcome was allowing Newsmax back on air. And today’y’all are back on air. That’s a great victory... for free speech.

—**Sen. Ted Cruz (R-TX) on Newsmax**, March 23, 2023

REGULATIONS ARE FOR THE LITTLE PEOPLE

Faced with a threat of a lawsuit, Palo Alto administrators have reversed their earlier decision and will now allow the new restaurant that chef José Andrés plans to open at Stanford Shopping Center to use natural gas.

Simon [Property Group, the mall operator,] applied for the project in 2019 and received approvals from the city’s Architectural Review Board and from planning staff. All of these approved plans included a gas line, which the developer installed in 2021.

The situation got thornier earlier this year when planning staff informed Simon that the new restaurant building, known as Building EE, would have to be all-electric. The determination was based on the City Council’s revision to the building code last year, which

included a provision requiring all new buildings to be all-electric.

—*Palo Alto Weekly*, May 16, 2023

BY “HISTORIC” THE SENATOR MEANT “IT HAPPENS FREQUENTLY”

Lawmakers aired fears Tuesday about the potential misuse of generative AI, peppering OpenAI CEO Sam Altman with questions as he repeatedly said he’d welcome legislation in the space.

Altman called for a government agency that would promulgate rules around licensing for certain tiers of AI systems “above a crucial threshold of capabilities.”...

Sen. Dick Durbin (D-Ill.) called it “historic” that a company was coming to Congress pleading for regulation.

—*Axios*, May 16, 2023

WHY CAN'T HE JUST CROWN HIMSELF KING ALREADY?

When Congress declined to forgive student debt, President Biden announced he would do it on his own. When lawmakers balked at extending an eviction moratorium, his administration did so unilaterally. Facing congressional paralysis on immigration, Biden issued a string of executive orders on the issue.

Now, as time grows short for a debt limit deal and progressives call on Biden to sidestep Congress and resolve the standoff via executive action, the longstanding tension in his presidency between traditionalism and presidential power is at a new level. His willingness to push the limits of presidential authority at strategic moments in the past is emboldening liberals to demand that he invoke the Constitution to disregard the debt ceiling.

—*Washington Post*, May 27, 2023