Cato expansion to be completed in 2012
Message from THE PRESIDENT AND THE CHAIRMAN

Our regulatory and redistributive state is flourishing, unrivaled since Lyndon Johnson’s Great Society and FDR’s New Deal. Trillions in unfunded state and federal pension and health benefits, feckless stimulus packages, monstrous bailouts, booming public sector employment and salaries, exploding taxes, an avalanche of domestic spending, foreign interventionism, and a Constitution routinely ignored—indica of an out-of-control federal establishment. Recent polls suggest that more than three-fourths of Americans do not trust the politicians in Washington, D.C. No wonder the Tea Party movement has gained traction with millions of vocal adherents, loyal to neither Republicans nor Democrats, but profoundly alienated and determined to restore a semblance of limited government.

Enter the Cato Institute. No other organization has been more vigorous and consistent in embracing limited government and individual liberty under the rule of law. Our tightly constrained view of government power is our defining characteristic: Federal authority may not exceed constitutionally prescribed limits. Powers must be divided among three branches of government, then checked and balanced by dual national-state sovereignty.

Our expansive view of rights is similarly straightforward: Government’s primary task is to secure our rights to life, liberty, and the pursuit of happiness. The key word is “secure” not “grant.” We had those rights before our government was formed. We did not get them from government. Some were later codified in our Constitution. Others remain unenumerated, but nonetheless protected.

At Cato, we operate from this premise: Members of Congress are elected and reelected for delivering benefits to their constituents, not for telling constituents that benefits cannot be delivered because they are not constitutionally authorized. That’s why our Center for Constitutional Studies (see page 21) has been aggressive in advocating an engaged judiciary, charged with overturning unconstitutional legislative acts. Since 1789, the Supreme Court has invalidated roughly 150 acts of Congress and 1,200 state and municipal laws. On balance, libertarians and classical liberals have been well served by the Court’s rejection of (mostly) oppressive laws.

Naturally, the courts sometimes get it wrong. But the answer to bad judging is good judging. And that recognition, in turn, has driven Cato to get involved in the judicial confirmation process—by endorsing an interpretation of the Constitution anchored by the original meaning of the written text. We have forcefully opposed the notion of a living Constitution that can be bent by empathetic judges with a social conscience. And we have promoted better understanding of our founding documents by distributing more than 5 million copies of Cato’s pocket Constitution and Declaration of Independence.

On the health care front (see page 11), our scholars are leading the fight against the individual insurance mandate, an unprecedented requirement that everyone purchase a product from a private company as a condition of living in the United States. That directive would extend the dominion of the federal government to virtually all manner of human conduct—including non-conduct—by establishing a police power that is nowhere authorized in the Constitution. Congress’s attempt to punish a non-act that harms no one is an intolerable affront to liberty and personal autonomy.

For years, Cato’s specialists have proposed pro-liberty solutions to our health care dilemma—including interstate sales of health insurance, expansion of health savings accounts, state reforms of medical malpractice and, most important, tax code revisions that re-establish a market relationship between consumers and suppliers of medical care. Our current system allows businesses but not individuals to deduct the cost of health insurance expenses as a business expense.
against taxable income. For that reason, it’s more economical for individuals to acquire insurance through their employers. Thus, consumers of health care typically pay neither medical fees nor insurance premiums. That means patients seldom monitor the cost of their health care, and regularly demand non-essential services with price escalation as the ineluctable consequence. The answer, which Cato will energetically promote, is tax reform.

In fact, tax reform might also have mitigated the 2008–09 financial meltdown. By taxing capital gains and double-taxing dividends, our federal policymakers increased the cost of equity financing and triggered greater use of debt and leverage. Compounding that problem, Alan Greenspan’s Federal Reserve fueled the credit crisis with artificially low interest rates. Tack on implicit taxpayer guarantees for Fannie Mae and Freddie Mac, political pressure for affordable housing, and huge reductions in FHA-required down payments. Predictably, we experienced a surge in sub-prime lending, high-risk securitized mortgages, and complex derivatives—all of that despite a 12-fold real-dollar increase in government outlays for bank and financial regulation over the past half-century.

Cato’s ubiquitous and influential team of economists and financial experts (see page 17) has been outspoken in debunking the conventional wisdom that more government is the solution to our financial crisis. Indeed, government policies are the cause, not the cure: privatized profits and socialized losses; heads the banks and car companies win, tails the taxpayers lose. Institutions deemed too big to fail take on excessive risk without market-imposed discipline because losses and bailouts are taxpayer subsidized. Fannie and Freddie, with projected deficits of $350 billion through 2020, are at the root of the problem; yet proposed financial re-regulation does little if anything to address that debacle. Instead, the response of the past two administrations has been to reallocate resources from taxpayers to individuals and businesses that made bad decisions, substitute politicians for shareholders in running financial institutions, and prevent capitalism from performing its periodic restorative function, which is to purge inefficient businesses.

Meanwhile, both liberals and conservatives take comfort in the unfounded belief that legislatures respond to the will of the public and make informed policy decisions that can be altered as public sentiment dictates. That may be appealing in principle, but libertarians understand that wholesale reliance on the democratic process ignores the realities of governmental institutions. First, through gerrymandering, elected representatives are increasingly insulated from the voters. Second, notwithstanding constitutional proscriptions on the delegation of legislative power, important policies are often set and enforced by unelected, unaccountable agencies and commissions. Third, politically powerful special interests marshal their resources to collect government largesse. The burdens are transferred to taxpayers, who do not fully recognize the cumulative cost of multiple programs, each of which has a seemingly inconsequential price tag.

What can be done about our federal juggernaut? Advocacy is a slow, difficult, expensive, and highly specialized process. With your help, the Cato Institute has made, and will continue to make, significant strides toward containing leviathan. Soon we will be embarking on a major expansion of our physical facilities. That project—appropriately named “Liberating the Future” (see page 7)—will double our Washington, D.C. office space and add much needed professional staff. We will supplement the critical work of scholars such as our Patrick Michaels (page 14), who successfully challenged global warming alarmists despite their attempts—we now know from “Climate-gate” disclosures—to exclude him from mainstream scientific literature.

Along with our work on environmental and energy issues, we are planning to increase our involvement in the areas of money and banking, regulatory affairs, labor and employment policy, communications, bioethics, science and risk studies, drug policy, and penal code reform. We will be detailing those ideas and many others over the coming months. No time is more vital than now for an enlargement of Cato’s activities. And no public policy institute is better able to advance the goals of limited government and individual liberty. We depend, of course, on your generous support, for which we are unreservedly grateful.
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WITH LIBERTY AND JUSTICE FOR ALL
“Anyone who fights for the future, lives in it today.”

—AYN RAND
With the new year comes an exciting opportunity for increasing the impact of the Cato Institute, a think tank devoted to advancing civil society and, thus, to reducing the role of government in our lives—the organization that George F. Will called “the foremost upholder of the idea of liberty in the nation that is the foremost upholder of the idea of liberty.”

We’ve named this effort “Liberating the Future,” because no organization is more committed to the principles of freedom that made America a beacon for the world—and more necessary to their preservation and expansion. Although our heritage of liberty is under assault as never before, we believe that Americans have not yet abandoned the values that animated the American Experiment: skepticism toward power and a reverence for the dignity of the individual. Indeed, we are witnessing today an astounding groundswell of support for freedom from overweening government. What Americans need, now more than ever, is principled intellectual leadership dedicated to fending off assaults on our liberties and rolling back state power.

To provide this, however, Cato needs to add to its existing capabilities—to build the infrastructure necessary to bring on board highly qualified analysts who can address issues we haven’t had the resources to cover in the past and to expand in fields in which we already have a presence but could do additional meaningful work.

Our plan calls for an expanded F. A. Hayek Auditorium, a unique policy amphitheater, a 200-seat conference center, one of the nation’s leading libertarian libraries, and a state-of-the-art multimedia center. “Liberating the Future” will
also include several new program areas, injecting the libertarian perspective into the public debate in important issue areas the Institute is not currently staffed to handle. Among these will be centers on money and banking, drug policy, labor and employment policy studies, environmental and energy policy, government transparency, the defense budget, bioethics, science and risk studies, and regulatory policy reform. We will expand the Young Leaders Program Fund because liberating the future depends on convincing the next generation of the importance of limited government, peace, and free enterprise. Cato also plans to intensify its efforts to recruit leading thinkers to affiliate with us as Cato Fellows, strengthening the Institute’s reputation as the institutional center of the libertarian vision.

But our goal is not simply to have more staff or a bigger institute. It is to make Cato an even more effective institution for the diagnosis of political, economic, and social problems—and for the advancement of limited government. It is time to build on our existing strengths, because Cato’s message is more necessary today than ever before.

The last decade amply demonstrated the harmful effects of runaway government. With the scholars and resources the Cato Institute will gain through our “Liberating the Future” capital campaign, we will be better able to forge a new path to limited, constitutional government and the triumph of freedom that has been our mission—and our passion—for more than 30 years.
A key benefit of the improved building is an expansion of Cato’s educational role. *Left:* The old F. A. Hayek Auditorium will be remodeled into a state-of-the-art amphitheater, where student groups and Cato interns can attend classes in libertarian thought, economic theory, the U.S. Constitution, and other important topics. *Top right:* Students whose interests are sparked by those lectures will be able to study the ideas further in Cato’s library, a major collection of libertarian history and thought. *Bottom right:* Cato scholars and guests can serenely explore the ideas of liberty from our new rooftop garden donated by Ken and Frayda Levy.
"Everyone wants to live at the expense of the State. They forget that the State lives at the expense of everyone."

—FRÉDÉRIC BASTIAT
The past decade was not a high water mark for liberty and limited government. And the first year of the new administration did nothing to roll back the surging government of the Bush years. President Obama embraced the progressivism his supporters had long clamored for and moved to expand the role of the state in nearly every aspect of life. The Cato Institute and its scholars stood strong on the front lines, combating every stumbling misstep of a federal government seemingly intoxicated by its own power.

**THE HEALTH CARE JUGGERNAUT**

Perhaps no other policy would do more long-term harm to the life of every American than the government’s crusade to take over health care. Fortunately, the Cato Institute has Michael Cannon and Michael Tanner, tireless defenders of the ideas, sadly forgotten in Washington, that individuals can make better choices about their health than bureaucrats and that the market can provide better services at less cost than central planners.

The particular form this message of liberty took changed as the health care battle unfolded. Initially, Cato scholars argued against the “public option,” the plan for socialized medicine in all but name. Once this policy fell from favor, the next bad idea from Congress took the form of individual mandates. While Cannon and Tanner maintained that mandates were little more than the public option relabeled, some market supporters were fooled by the fact that the private sector would be providing the insurance we’d all be forced to buy. It was only through concerted campaigning that these Cato scholars helped to make people aware of this problem. And throughout,
they drew attention to the budgetary tricks Congress used to hide the true cost of the legislation.

June saw the launch of a new Cato website devoted to this important issue at healthcare.cato.org. The site was accompanied by a large media campaign, made possible by the support of our Sponsors, meant to bring the dangers of the government’s plans to the attention of the general public. Full-page ads ran in more than a dozen newspapers and magazines nationwide, including the New York Times, Washington Post, Wall Street Journal, and Los Angeles Times. As these ads ran, polls showed opposition to the plan rising sharply. Cato scholars offered solutions, in addition to critiques, including a groundbreaking paper by John H. Cochrane in February, “Health-Status Insurance: How Markets Can Provide Health Security,” which outlined a novel plan to “give us both completely portable, lifetime health insurance and great individual freedom of choice in a deregulated, competitive—and hence—efficient and innovated market.”

Cannon and Tanner had a major media presence throughout the extended battle over health care. With his 44 op-eds in 72 outlets, including newspapers, magazines, and websites, Michael Tanner kept up the pressure on the bad ideas of the central planners and the industry heavyweights, who would use the force of legislation to shift one-sixth of the nation’s economy in their favor. Opinion pieces by Tanner appeared 16 times in the New York Post, twice in USA Today, as well as in the Los Angeles Times, U.S. News and World Report, the Chicago Tribune, and the Houston Chronicle. He testified before Congress and the Kansas state legislature, wrote three studies, conducted half a dozen Capitol Hill briefings and policy forums, and appeared on nearly 100 radio and television programs. Even with all that, he managed to find time to travel more than 100,000 miles, delivering 41 speeches and presentations in 19 states and the District of Columbia. Michael Cannon was mentioned in nearly 300 print and internet articles, and cited by Sarah Palin, Sen. Jon Kyl (R-AZ), and almost a dozen newspaper editorial boards. He made 48 television and 63 radio appearances. He was featured on both the ABC and CBS evening news and multiple times on Glenn Beck.
He appeared on several of the nation’s biggest talk radio shows, including Laura Ingraham, Lou Dobbs, Fred Thompson, and Diane Rehm. His op-eds ran in the *New York Post*, *Philadelphia Inquirer*, *National Review*, and *Los Angeles Times*.

In June, as the health care battle was becoming most heated, the Cato Institute hosted a day-long conference on health care reform, taking the opportunity to present both its critique of the interventionist proposals from the president and Congress, and to offer its vision for a better, free-market future. Cato also conducted seminars for representatives from state think tanks nationwide, providing them with crucial information and free-market perspectives on health care reform at the state level.

**PRIVATE MARKETS WORK!**

The future of a nation is its children, and how those children are educated determines what sort of future they will create. Andrew Coulson, Neal McCluskey, and Adam B. Schaeffer at Cato’s Center for Educational Freedom worked throughout 2009 to promote market reforms in a school system suffocating under government control.

One of the most popular books Cato released in 2009 was *The Beautiful Tree: A Personal Journey into How the World’s Poorest People Are Educating Themselves*. James Tooley’s enchanting and encouraging story of how the poorest people in the poorest nations are voluntarily coming together to educate their children outside of failing state systems, shocked those accustomed to seeing education as the government’s domain. The simple message—that these private schools work remarkably well and that they do so at a profit—breathes hope into third-world educational reform. And the message is being heard. In December, *The Beautiful Tree* became the best-selling nonfiction book in India.

In the peer-reviewed *Journal of School Choice*, Coulson published the most comprehensive review to date
of evidence comparing markets and monopolies in education, finding that true market-based education has an even larger margin of success over government schooling than do more typical “private” schools.

Cato also took the lead in opposing the expansion of public preschooling. In a Policy Analysis, “The Poverty of Preschool Promises: Saving Children and Money with the Early Education Tax Credit,” Adam Schaeffer exposed the shoddy thinking and paucity of evidence behind those policies.

THE NEW FUNDAMENTALISM

One of President Obama’s three targeted areas for expanding federal control was environmental regulation, which gave rise to a sizable push in the House and Senate for cap-and-trade legislation, nominally designed to limit greenhouse gas emissions, but in reality a political boondoggle and public choice nightmare. Senior fellow Jerry Taylor, in articles, op-eds, and media appearances, argued that environmentalism is best left to the free market. He showed how the so-called “green economy” is little more than a huge giveaway of taxpayer dollars to politically connected businesses, a point he made as the featured guest on the first episode of John Stossel’s new show on the Fox Business Network in December.

One segment of this green economy popular with progressives is high-speed rail. The Obama administration has called for massive spending on new rail lines, which Cato senior fellow Randal O’Toole says will only reduce Americans’ mobility without improving the environment. He published several papers on mobility in 2009 and offered genuine solutions in his new book, Gridlock: Why We’re Stuck in Traffic and What to Do About It. Transportation impacts lives as much as health care, O’Toole said. With federal transportation reauthorization scheduled for 2011, this is a message he will continue to promote.

The scandal that came to be known as “Climate-gate” brought a rush of media attention to senior fellow Patrick J. Michaels, one of the nation’s top climatologists and a leading critic of global warming alarmism. The fact that one of the scientists at the heart of the controversy said he was “tempted to beat” up Michaels spoke to Michaels’s effectiveness in keeping pressure on the scientific community. But the broader and more troubling finding in the e-mails was the focused effort to exclude skeptics from the mainstream scientific literature. This was the issue Michaels made the focus of his many media appearances, saying it was particularly important coming so close to the climate change negotiations in Copenhagen.
Above: Cato senior fellow Michael Tanner spent 2009 on the front lines of the battle against President Obama’s radical takeover of the nation’s health care. He wrote nearly 50 op-eds, including 16 in the New York Post and 2 in USA Today. Center: At an April 30 Cato seminar in New York, an overflow crowd of more than 300 people heard from an all-star lineup of speakers. Freeman Dyson, best known for his work in quantum electrodynamics and “applied elegant mathematics,” offered some “heretical” thoughts on global warming and the dangers of nuclear weapons. Below: Michael Cannon, Cato’s director of health policy studies made over 100 television and radio appearances. At the 21st Annual Benefactor Summit in March, Cannon showed off a T-shirt—which attendees received—featuring Cato’s anti-stimulus bill ad during his talk on Obama’s health care plans. The Cato Institute’s full-page ad galvanized opposition when it was published in the New York Times, the Wall Street Journal, the Washington Post, and other newspapers nationwide. Similar ads on climate change and health care ran in newspapers in the Spring of 2009.
“The more corrupt the state, the more it legislates.”

—TACITUS
he government’s profligate response to the financial crisis—a band-aid at best and at worst a catalyst for future economic catastrophe—was criticized by Cato scholars throughout 2009. Whether it was the economically unsound and irresponsible “stimulus,” the bailout of “too big to fail” banks, or the public takeover of General Motors and Chrysler, Cato constantly reminded politicians and their allies that the power of the federal government is limited by the Constitution with good reason, and that a crisis brought about by bad economics will not be solved by more of the same.

ORIGINS OF THE CRISIS

Understanding how the financial meltdown began is crucial to preventing it from happening again. The wrong narrative will lead to the wrong conclusions—and the wrong policies. Director of financial regulation studies Mark Calabria spent much of the year, his first with Cato, battling to correct the common tale of the crash as a failure of laissez-faire. The crisis was not one of free markets gone wild, Calabria told members of Congress at Capitol Hill testimonies and reiterated in op-eds and speeches. Nor was it a result of deregulation. Rather, seven factors, all related to government actions, caused the crisis, particularly the manipulation of the price of credit. Calabria warns that attempts to “correct” financial markets, when based on a mistaken narrative, will lead only to ineluctable bailouts, an extension of “too big to fail” to many other industries, and even more unwarranted discretion for regulators.

Synthesizing this narrative into a single, accurate, and accessible explanation of the financial crisis—and the path
out of it—is no easy task. Thus the Cato Institute was proud to publish senior fellow Johan Norberg’s *Financial Fiasco: How America’s Infatuation with Home Ownership and Easy Money Created the Economic Crisis*. The book presents the complete story of the financial collapse, including the government’s inept and troubling response. “After government authorities had helped create the worst financial crisis in generations,” Norberg writes, “the climate of ideas has now shifted dramatically in the direction of bigger and more active government.”

**FISCAL MADNESS**

Senior fellow Daniel J. Mitchell was kept busy analyzing a changing array of bad fiscal policies throughout the year. He began 2009 fighting the massive stimulus plan, testifying on Capitol Hill, and explaining the harm this misguided policy would do to the nation’s long-term economic health. He also appeared in three popular YouTube videos, summarizing the errors in the Keynesian thinking so popular with politicians looking for any excuse to milk the taxpayer for the benefit of favored interests.

Congress failed to listen to economic reason, however, and the stimulus stumbled forward. Mitchell shifted his attention to government spending in general, appearing numerous times in the media to alert Americans about the threat of government grown too big. While many people were rightfully concerned with skyrocketing debt, Mitchell reminded us that debt is only a symptom of the government-spending disease. He closed the year by organizing an international conference on tax competition. “You want politicians to be afraid,” Mitchell said, “that geese that lay golden eggs will fly across the border.”

The theme of runaway government spending and what to do about it was brought to a larger audience in October, when Chris Edwards, director of tax policy studies, and budget analyst Tad DeHaven launched...
downsizinggovernment.org. The site examines the federal budget department-by-department to see which agencies can be reformed or terminated, and describes which programs are wasteful, damaging, and obsolete in an era of trillion-dollar deficits. Providing just one example of why this kind of scrutiny is necessary, DeHaven published “Three Decades of Politics and Failed Policies at HUD,” a Policy Analysis that showed how officials at the Department of Housing and Urban Development “have enriched themselves or conferred benefits on people with political and financial connections.”

A NEW PRIVILEGED CLASS

The financial crisis was more than just grist for policy debate. The recession had a very real and immediate effect on everyday Americans, who had to tighten their belts and carefully plan their spending—everyday Americans, that is, who weren’t employees of government. Director of tax policy studies Chris Edwards brought this to the attention of a shocked public in 2009 and earned the righteous ire of state workers feeling happily entitled to their high salaries, generous benefits, and easy hours. Edwards’s analysis quickly gained much attention in the media, including two editorials in the Investors Business Daily, an excerpt in the Wall Street Journal, an excerpt in Forbes, and a USA Today story. It was the topic of a CNN Lou Dobbs segment and a commentary by talk show host Mark Levin. Edwards’s inbox nearly burst with often irate feedback, including one federal employee who, after attacking Cato’s “ivory pedestal,” lamented that “capitalism is founded on abuses of labor, and on quasi criminal activity.” All this for simply pointing out that federal employees make more than they’d like you to think.

THE END OF CAPITALISM?

The financial collapse led many observers to declare “the end of American capitalism” or at least the end of a supposed era of libertarian deregulation. The new Obama administration moved quickly to expand government in this atmosphere of hostility toward capitalism. But as David Boaz wrote in the Cato Handbook for Policymakers:

If this crisis leads us to question “American-style capitalism”—the kind in which a central monetary authority manipulates money and credit, the central government taxes and redistributes $3 trillion a year, huge government-sponsored enterprises create a taxpayer-backed duopoly in the mortgage business, tax laws encourage excessive use of debt financing, and government pressures banks to make bad loans—well, it might be a good thing to reconsider that “American-style capitalism.”
The strength of the Constitution, lies in the will of the people to defend it.

—THOMAS EDISON
WITH LIBERTY
AND JUSTICE
FOR ALL

SWAYING THE COURT

In 2009, the Supreme Court heard a lot from Cato. Thanks to the addition of senior fellow Ilya Shapiro, Cato filed 26 amicus briefs, a record for the institute and a testament to the richness of libertarian legal thought. With one of these briefs cited during oral argument, and another vigorously attacked by the solicitor general, it was clear they had a significant impact, too.

Among the most notable briefs were two on McDonald v. City of Chicago, arguing that the Supreme Court should extend the constitutional right to bear arms it upheld in District of Columbia v. Heller to the states, and that it should do so through a rebirth of the Constitution’s Privileges or Immunities Clause, which Shapiro called a “cornerstone of the libertarian legal movement.”

The nomination of Justice Sonia Sotomayor provided an opportunity for Cato to remind the public about the importance of a Madisonian reading of the Constitution and a judiciary bound to the letter of the law—and not to the whims of interest groups and the fashions of politics. Ilya Shapiro bore the distinction of being one of the few Spanish-speaking constitutional law scholars opposing Sotomayor’s nomination, which led to frequent appearances in the Spanish language media.

Both Shapiro and Roger Pilon, Cato’s vice president for legal affairs, toured the country throughout 2009, speaking at Federalist Society events at law schools nationwide.

The year saw the release of another issue of the Cato Supreme Court Review, which SCOTUSblog founder Tom Goldstein called “unquestionably, the definitive volume on the Supreme Court’s term.” The new issue featured more than 350 pages of insightful analysis, including Roger
Clegg on disparate voting rights and Kenneth L. Marcus discussing the conundrums of equal protection. With the Review came the 8th annual Constitution Day symposium, capped by a speech from Judge Michael McConnell.

**BRINGING SANITY TO CRIMINAL LAW**

The criminal justice highlight of the year was the release of “Drug Decriminalization in Portugal: Lessons for Creating Fair and Successful Drug Policies,” a landmark study authored by Glenn Greenwald, a constitutional lawyer and a contributing writer at Salon.com, of that country’s experiment in ending their drug war. The study gained widespread media attention, including lengthy coverage in The Economist and Time. “Judging by every metric, decriminalization in Portugal has been a resounding success,” said Greenwald, who was contacted by officials from countries across the world to discuss ways they might follow Portugal’s pro-freedom example. Tim Lynch, director of the Cato Institute Project on Criminal Justice, called the study “one of the biggest impact reports in Cato history.”

In addition to promoting his recent book, *In the Name of Justice: Leading Experts Reexamine the Classic Article “The Aims of the Criminal Law,”* Lynch continued, in 2009, to be a strong advocate for reforming United States criminal law and procedure, and for ending the misguided and destructive war on drugs. His book, *In the Name of Justice: Leading Experts Reexamine the Classic Article “The Aims of the Criminal Law,”* received glowing reviews, including one in the Loyola Law Review, which called Lynch’s book “the perfect manner to explore the journey of understanding and applying our criminal laws.”
which brought together former Congressman Bob Barr, Mayor Cheye Calvo, and the Prison Fellowship’s Pat Nolan, who lamented that “prisons are for people we’re afraid of, but we fill them with people we’re mad at.”

**CIVIL LIBERTIES AT RISK**

Julian Sanchez, who joined Cato as a research fellow in 2009, quickly established himself as a major voice on the nexus of surveillance and civil liberties, with a focus on the Patriot Act. In October, he had six op-eds published on the topic, including three in the *Los Angeles Times*. And research fellow Jason Kuznicki published an important policy paper, “Attack of the Utility Monsters: The New Threats to Free Speech,” highlighting the rise of cost-benefit analysis as a justification for undermining First Amendment rights.

Vice President for Research Brink Lindsey took on those who long to go back to an imagined golden age of America, when financial stability reigned, everyone had a high-paying job, and economic inequality was negligible. He debunked this yearned-for past of the 1950s in “Paul Krugman’s Nostalgianomics: Economic Policies, Social Norms, and Income Inequality,” published in February. He argued that “a gauzy sentimentalism about the lost world of one’s childhood is an understandable temptation as we age—but it has no place in sound social science or policy analysis.”
“Of all the enemies to public liberty, war is, perhaps, the most to be dreaded because it comprises and develops the germ of every other.”

—James Madison
RIPPLES AROUND THE WORLD

The growth of the state in America brings repercussions worldwide. While providing keen insight on domestic issues, Cato has not neglected an outward focus, offering a consistent, pro-freedom perspective on foreign policy. Vice President for Defense and Foreign Policy Studies Ted Galen Carpenter and Foreign Policy Analyst Malou Innocent spent much of the year addressing the war in Afghanistan. In a white paper published in September, “Escaping the ‘Graveyard of Empires’: A Strategy to Exit Afghanistan,” they argued that it is impossible for Washington to realize its ambition for the nation because policymakers have failed “to reconcile the imbalance between what Afghanistan is—a complex tapestry of traditional tribal structures—and what we want it to be—a stable, modern nation-state governed centrally from Kabul.”


COUNTERTERRORISM

Counterterrorism continues to be a crucial element of foreign policy, not only as a means to protect Americans from attack, but also as a justification for the two wars the United States currently wages in the Middle East. With a new administration in 2009 and a new opportunity for
reforming counterterrorism, Cato began the year with a two-day conference on the topic. Cato scholars Tim Lynch and Jim Harper organized the event, which attracted a record number of attendees, from across the ideological spectrum. Harper maintains that practical and effective counterterrorism policies must be in effect if we are to protect civil liberties. As he put it, “We can’t defend civil liberties while people still overestimate the terrorist threat.”

TOUR FOR GLOBAL PEACE

Promoting peace both at home and abroad has long been a goal of the Cato Institute, and two recent speaking tours, made possible by grants from the Ploughshares Fund and the Open Society Institute, have provided an opportunity for Cato scholars to spread this important message in person.

The first tour, sponsored by Ploughshares, featured Christopher A. Preble; Ted Galen Carpenter, vice president for defense and foreign policy studies; senior fellow Doug Bandow; and Associate Director of Foreign Policy Studies Justin Logan, discussing the nuclear programs of Iran and North Korea. The talks ranged from Cato Policy Forums and Hill Briefings to presentations at the World Affairs Council of Oregon, the Utah Council for Citizen Diplomacy, Texas A&M University, and Northern Michigan College, to name just a few of the venues. Their goal was to draw out the lessons of Iraq as they apply to Iran and North Korea. With that war as a model, Preble said that the costs of a conflict with the latter two countries would “likely be enormous.” Carpenter, in a speech in Colorado, criticized the strategy of isolating Iran and North Korea, saying that it would create incentives for those countries to sell their nuclear technology to the highest bidder.

Carpenter and Bandow were joined on the second tour, sponsored by the Open Society Institute, by Ian Vásquez, director of the Center for Global Liberty and Prosperity; and Juan Carlos Hidalgo, project coordinator for Latin America. They spoke about the tragic human cost of the international War on Drugs. At a speech at the World Affairs Council in Indianapolis in October, Vásquez discussed the benefits of drug legalization with close to 100 participants, including professors and students from local colleges. Vásquez and Carpenter spoke together at a Cato Institute Capitol Hill Briefing in May, and Hidalgo gave three lectures in Michigan, including one to an audience of more than 200 people at the Dennos Museum Center at Northwestern Michigan College.
Top left: CHRISTOPHER A. PREBLE, director of foreign policy studies, speaks at a May Capitol Hill Briefing on the dangers of U.S. military dominance. Preble argued that a reduction in military power will make America “richer, freer, and safer.”

Center: TED GALEN CARPENTER, vice president for defense and foreign policy studies at the Cato Institute, speaks at a Capitol Hill Briefing in September. Carpenter, co-author of “Escaping the ‘Graveyard of Empires’: A Strategy to Exit Afghanistan,” raised important questions about America’s increasingly unproductive war.

Bottom left: At a Capitol Hill Briefing in November, JUSTIN LOGAN, associate director of foreign policy studies at the Cato Institute, described the negative interaction between efforts to impose unilateral U.S. sanctions and the prospect of international sanctions against Iran, and outlined his reasons for skepticism that either approach would resolve the dispute over Iran’s nuclear program.

Above: Director of Information Policy Studies JIM HARPER at a Cato book forum for David Post’s In Search of Jefferson’s Moose: Notes on the State of Cyberspace in February. Throughout the year, Harper worked not only on Internet policy, but also fought against national ID legislation and advocated for more sensible anti-terrorist security measures.
Chávez supporters protest outside a Cato event in Venezuela.
CATO’S GLOBAL PRESENCE

he struggle for freedom is not limited to American soil. While promoting limited government in the United States remains its key concern, the Cato Institute also emphasized the need to advance libertarianism around the world.

Cato’s Center for Global Liberty and Prosperity and its director, Ian Vásquez, maintained this international focus throughout 2009, promoting liberty and limited government on nearly every continent. On the Latin American front, January saw a successful Cato University, co-sponsored with Francisco Marroquin University, in Guatemala. A similar event in May, this time in Venezuela, became the target of a government crackdown, with Hugo Chávez’s National Guard disrupting scholars as they spoke about free markets and individual rights.

Juan Carlos Hidalgo, project coordinator for Latin America, published a significant study of El Salvador, a country that is, he wrote, “showing the world that, despite difficult conditions and a tumultuous past, the road to development and a better standard of living is opened by economic liberty and the opportunities created by globalization.” The paper was a media sensation.

Across the Atlantic, the continent of Africa continues to lag behind much of the rest of the world in progress toward liberty and functioning markets. April’s book forum for Dead Aid: Why Aid Is Not Working and How There Is a Better Way for Africa was typical of the emerging message about how not to move Africa on the path to prosperity. The event featured Zambian author Dambisa Moyo, who calls aid an “unmitigated economic, political, and humanitarian disaster.” The release of the newest Economic Freedom of the World report, co-published by Cato with the Fraser Institute, highlighted this conclu-
sion. Perhaps nowhere in Africa are markets and their supportive institutions more under assault than in Zimbabwe, the topic of a May paper entitled “The Cost of Zimbabwe’s Continuing Farm Invasions,” by Eddie Cross, a member of parliament of Zimbabwe for the Movement for Democratic Change. Zimbabwean dissident-turned-prime-minister Morgan Tsvangirai visited Cato for a breakfast discussion with scholars.

Cato research fellow Swaminathan S. Anklesaria Aiyar published an important paper on the impact of socialism in India. “Socialism Kills: The Human Cost of Delayed Economic Reform in India” presents the startling conclusion that, had economic reform begun earlier in that massive country, 14.5 million more children would have survived, 261 million more Indians would have become literate, and 109 million more people would have risen above the poverty line. Rarely are the meaningful benefits of free markets painted more clearly.

Cato commemorated the 20th anniversary of the fall of the Berlin Wall with two major events. The first, a day-long conference “Freedom and Prosperity in Central and Eastern Europe,” brought together a distinguished group of speakers, including Václav Klaus, president of the Czech Republic. The second was a Distinguished Lecture by Vladimir Bukovsky, author and former Soviet political dissident, on “The Power of Memory and Acknowledgement.”

Cato senior fellow Tom Palmer published his first book, Realizing Freedom: Libertarian Theory, History, and Practice, an integrated view of libertarianism, covering both historical and economic perspectives, as well as personal stories of global activism. Not only is Realizing Freedom a robust statement of liberty, but it is also a strong and thorough response to critics. Palmer assured the book a worldwide audience in 2009, taking it with him to 27 countries while giving speeches on liberty and limited government to student groups and politicians at think tanks and universities.

**THE PATH TO THE FUTURE**

The best way to improve the quality of life and liberty for people everywhere, regardless of country, is
to encourage the flow of goods and people through free trade and liberal immigration. Both of these were the subject of much work in 2009 by Cato’s Center for Trade Policy Studies.

The center’s major publication for the year was director Daniel Griswold’s well reviewed Mad About Trade: Why Main Street America Should Embrace Globalization. Griswold toured the country speaking about the book to audiences all along the west coast, in North and South Carolina, New England, New York City, and many other venues.

Daniel J. Ikenson, associate director of the center, published a major policy analysis, “Made on Earth: How Global Economic Integration Renders Trade Policy Obsolete.” The study charted a new way of thinking about trade that transcends the old “us vs. them” debate. He presented the paper at both a Capitol Hill Briefing and a Policy Forum.

Trade Policy Analyst Sallie James wrote “A Harsh Climate for Trade: How Climate Change Proposals Threaten Global Commerce,” bringing together analysis of commerce and climate change and warning about policies that would harm both.

When it came to guiding U.S. trade policy, the Center encouraged President Obama with publications like “Audaciously Hopeful: How President Obama Can Help Restore the Pro-Trade Consensus,” by Ikenson and Scott Lincicome, while chastising him for such blunders as the auto industry bailout and the imposition of tariffs on Chinese tires.

On the immigration front, Cato published a major study, “Restriction or Legalization? Measuring the Economic Benefits of Immigration Reform,” by Peter B. Dixon and Maureen T. Rimmer, both from the Centre of Policy Studies at Monash University in Australia. It showed the massive economic benefits to be had by allowing more immigrants into the country. The study, the subject of a Capitol Hill briefing in August, gained widespread media attention, including coverage in Newsweek and the Wall Street Journal and on C-SPAN.
"There is no disagreement that we need action by our government, a recovery plan that will help to jumpstart the economy."

—President-elect Barack Obama, January 8, 2009

With all due respect Mr. President, that is not true.

Notwithstanding reports that all economists are now Keynesians and that we all support a big increase in the deficit of government, we the undersigned do not believe that more government spending is a way to improve economic performance. More government spending by Hoover and Roosevelt did not pull the United States economy out of the Great Depression in the 1930s. Most government spending did not solve Japan’s “lost decade” in the 1990s. Nor, as it is a triumph of hope over experience to believe that more government spending will help the U.S. today. To improve the economy, policymakers should focus on reforms that remove impediments to work, saving, investment and production. Lower tax rates and a reduction in the burden of government are the best ways of using fiscal policy to boost growth.

With all due respect President, the undersigned scientists, maintain that the care for severe weather changes over the past century have occurred a decade ago. After controlling for future changes, from severe weather-related research,

YOUR NEW DOCTOR?

When it comes to health care, what really matters is who decides. Under reform proposals before Congress, government would take over more and more of your health care decisions. Whatever it’s called—socialized medicine, government-run health care, “a public plan” or individual employer mandates—it’s bad medicine.

In a recent national survey, 4 out of 5 Americans were concerned that government-run health care would:

- Reduce health care quality
- Increase costs
- Limit choices of doctors
- Increase the federal deficit

There is a better, uniquely American solution: freedom. Freedom to choose your doctor and health plan. Freedom to spend your health care dollars as you choose. Freedom to make your own medical decisions. Freedom to keep a health plan you are satisfied with.

Health care reform is needed. But a government takeover is not the answer.

Visit healthcare.cato.org

Paid for by the CATO INSTITUTE
WWW.CATO.ORG

In 2009 Cato energetically expanded its outreach capabilities and stands at the forefront of organizations incorporating new and emerging communication and education resources. The Cato Institute was rated number five in a rating of “Top Think Tanks—Worldwide” in the 2009 edition of “Global Go-To Think Tank Rankings,” compiled by James G. McGann of the University of Pennsylvania. McGann asked some 300 experts worldwide to rate 6,300 think tanks. From its own broadcast studio, podcasts, blogs, and e-newsletters, to online features, event simulcasts, Facebook, and Twitter, Cato’s innovative use of new and enhanced communication tools—in conjunction with well-established outreach initiatives—has been prescient. In 2009 Cato’s scholars were instantly accessible to a wide range of outside media outlets and internal programming initiatives, and were some of the most insightful and frequently cited experts in the country. As a result, their perspectives on the economy, health care, a new presidential administration, foreign policy, Congress, climate change, big government, and more, reached the largest national and global audiences in Cato’s history.

2009 Media Overview

Major Television Appearances: 814
Major Radio Interviews: 506
Major Op-Ed Placements: 601
Citations in Print Articles: 2,631
STUDIO CAPABILITIES
The Cato Institute’s own television studio was fully operational and received several enhancements in 2009. This immediate broadcast capability enables Cato experts to provide instant, on-the-spot commentary and analysis for cable, network, international, and local news programs on fast-breaking issues, larger stories, commentary broadcasts, and investigative programs.

NEW MEDIA
Growing at a rapid, exponential rate, new media is a vital conduit for Cato’s national and worldwide outreach. Cato’s award-winning website attracts 40,000 visits a day. In 2009, a large and growing number of external blogs and websites established key associations with Cato’s acclaimed blog, Cato@Liberty. Links from these sites account for nearly 60 percent of visitors to Cato’s blog. Further, over 35,000 monthly visits to Cato’s website content pages now originate from social media contacts, with Cato’s Facebook community tripling in size in 2009 and Cato’s Twitter site—still one of the newest social media avenues for directly connecting policy, media and general audiences—growing six-fold. The number of regular subscribers to Cato’s video channel on YouTube—youtube.com/catoinstitutevideo—increased five-fold in 2009, with Cato’s channel now one of the top 25 for nonprofit organizations on YouTube in overall viewers.

NEWSPAPERS
In 2009, 601 op-eds by Cato experts appeared in major newspapers across the United States and overseas. In a year of extraordinary political and policy turbulence they were a critical component of Cato’s commitment to offering clear, sensible perspectives on pressing issues. Highlights included

- Dan Mitchell on why the death tax should be abolished, USA Today, April 23
David Boaz on the nationalization of General Motors and Chrysler, *Philadelphia Inquirer*, November 8
Jeffrey A. Miron on overspending at the state level, *Boston Herald*, May 6
Mike Tanner on health care and the need for competition, *USA Today*, May 29
Alan Reynolds on big government and the recession, *Wall Street Journal*, August 21
Timothy Lynch and Juan Carlos Hidalgo on decriminalizing drugs, *San Jose Mercury News*, September 29
Christopher Preble on the necessity of leaving Afghanistan, *USA Today*, December 2
Andrew Coulson on charter schools holding the key to minimizing state education spending, *Detroit News*, December 17
Pat Michaels on the politicization of climate data, *Wall Street Journal*, December 18
Sallie James on the weakness of Obama’s first trade initiatives, *Investors’ Business Daily*, December 29

**FULL PAGE ADS**

In 2009, the Cato Institute launched a series of full-page ads in major newspapers nationwide. The first of the ads declared, “With all due respect, Mr. President, that is not true,” referring to President Obama’s claim that all economists agreed on the need for a stimulus package. As it turned out, more than 300 economists, including Nobel laureates Edward Prescott, Vernon Smith, and James Buchanan, were willing to be listed as opponents. “Our full-page ads against the stimulus bill, in my humble opinion, told the small-government movement that, after eight years of slumber and six months of horror, it
was time to get up off the canvas and start fighting back,” said Cato executive vice president David Boaz.

The second ad responded to calls to socialize large swathes of the economy under the banner of counteracting climate change. Declaring once again, “With all due respect, Mr. President, that is not true,” the ad countered President Obama’s claim that the science of climate change “is beyond dispute and the facts are clear.” It was signed by more than 100 climatologists who begged to differ.

The third full-page ad warned about the government’s impending takeover of the nation’s health care. “Health care reform is needed,” it said, “but a government takeover is not the answer.” As the ad ran, polls showed opposition to the President’s plan rising sharply.


TELEVISION AND RADIO HIGHLIGHTS INCLUDE

- Dan Mitchell on NBC Nightly News and ABC’s 20/20 on President Obama’s economic policies (January 5 and 20)
- Chris Edwards on PBS’s Nightly Business Report on President Obama’s stimulus plan (January 2)
- Jerry Taylor on NPR’s Diane Rehm Show on vehicle emission standards (January 27)
- Dan Ikenson on The Laura Ingraham Show on trade policy and “buy American” provisions (February 2)
- Ben Friedman on CNBC’s Street Signs on the exploding defense budget (March 26)
- Pat Michaels on ABC’s World News Tonight on fuel emission changes (May 18)
- Mike Tanner on the CBS Evening News on the problems with health care legislation (June 16)
- Gene Healy on ABC’s Good Morning America on President Obama and executive power (June 17)
- Mark Calabria on PBS’s NewsHour on federal
reserve policy (June 25)

- Neal McCluskey on C-SPAN’s Washington Journal on President Obama’s speech to school children (September 8)
- Michael Cannon on CNN’s Newsroom on potential costs of healthcare reform (September 29)
- Jeff Miron on Fox News’s Glenn Beck on why the government should not bail out newspapers (November 10)
- Malou Innocent on CNN’s The Situation Room on U. S. policy in Afghanistan (November 18)
- Jerry Taylor on Fox Business Network’s Stossel on global warming (December 10)

CATO ON CAMPUS

Cato on Campus, www.catocampus.org, is both an independent site and an active gateway to Cato’s main site, www.cato.org, connecting students worldwide to the Cato Institute. Amassing and spotlighting resources that are of particular interest to students—including material on individual liberty, limited government, economics, free markets, history, law, philosophy, and political science—Cato on Campus also offers students access to libertarian organizations, scholarships, internships, essay contests, and jobs.

PODCASTS AND MULTIMEDIA RESOURCES

Instantly popular when inaugurated several years ago, in 2009 Cato’s Daily Podcasts were downloaded over 3.2 million times. Presented by Cato policy experts and well-known speakers, Cato’s podcasts, also available on iTunes, offer listeners sharply honed programs on a vast range of subjects. Two thousand nine was also a year of corresponding growth in the variety and popularity of other multimedia resources on cato.org. The increases include 22 percent for Cato’s event podcasts, 35 percent for event videos, 30 percent for posted op-eds, 36 percent for Weekly Dispatch,
33 percent for the Weekly Video series, and a remarkable 100 percent growth in subscribers to Homepage Headlines.

**CATO@LIBERTY AND CATO UNBOUND**

With a flood of blogs clamoring for online attention, Cato’s own blog, Cato@Liberty, energetically ascended in visibility and stature in 2009. Its clarity and commitment to insightful content earned a growing global audience. Technorati, a national authority on blog rankings, placed Cato@Liberty in the top 100 blogs overall and in the top 50 for politics. It is the number one U.S. political blog available on Amazon.com for its Kindle users and was accepted as a news source for Google News. Cato Unbound, the monthly online forum for the exchange of ideas, featured well-known guest essayists creatively addressing topics that included monetary lessons from the Depression, religious tolerance, partisanship, terrorism, and the survival of newspapers.

**NATIONAL OUTREACH AND EDUCATION**

**CATO FORUMS**

Cato’s book and policy forums have become a recognized institution in Washington, D.C. Leading political figures, authors, columnists, scholars, senior officials, and others participated in 66 forums during 2009, drawing nearly 7,000 attendees. In addition to live simulcasts on Cato’s website, many events are broadcast by C-SPAN, news networks, and other U.S. and international media outlets. Speakers in 2009 included Francis Fukuyama, author of *The End of History*; Susette Kelo, plaintiff in the landmark *Kelo v. City of New London* case; Václav Klaus, president of the Czech Republic; Clive Crook of the *Financial Times*; Welile Nhlapo, South African ambassador to the United States; David Bakradze, speaker of the Georgian Parliament; and Abigail Thernstrom,
vice chair of the U.S. Commission on Civil Rights.

CITY SEMINARS
City Seminars in 2009 were presented in New York City; Naples, Florida; Santa Barbara; Los Angeles; and Chicago. With over 1,300 attendees, the events featured presentations by an array of national experts, including John H. Cochrane, professor of finance at the University of Chicago; Leo Melamed, founder of the Chicago Mercantile Exchange; and quantum physicist and “climate change heretic” Freeman Dyson.

CATO UNIVERSITY
Cato University 2009—“Economic Crisis, War, and the Rise of the State”—offered more than 200 attendees an opportunity to explore the past, present, and future of freedom: how the state has expanded during crises; the threats to liberty as the rush for government-imposed solutions and power grows; and how to restrain or reverse its growth. One of the Cato Institute’s premier educational opportunities, Cato University not only offers exceptional programming and speakers, but is a one-of-a-kind chance for participants to meet like-minded individuals from around the world in an idea-rich environment.

CONFERENCES
In addition to these two annual events, the Cato Institute presented a number of other highly attended conferences in 2009, including:

- “State Health Policy Summit”—presented twice in 2009 for state policy organizations throughout the United States.
- “Shaping the Obama Administration’s Counterterrorism Strategy”
- “Freedom and Prosperity in Central and Eastern Europe: 20 Years after the Collapse of Communism”
- “Brother, Can You Spare a Trillion? Lessons from the New Deal and Great Depression”
- “The Case for Tax Competition, Fiscal Sovereignty, and Financial Privacy”

**HILL BRIEFINGS**

With highly charged policy and political issues roiling Capitol Hill throughout 2009, Cato’s respected Hill Briefings are havens of clarity—consistently providing members of Congress, congressional staffers, and decisionmakers, with insightful analysis from Cato scholars on vital subjects. Fifty Briefings were presented in 2009, with more than 3,300 participants. Joining Cato experts in 2009 were a number of prominent speakers, including Sen. Judd Gregg (R-NH), Reps. Paul Ryan (R-WI), Jeff Flake (R-AZ), Henry Cuellar (D-TX), and Scott Garrett (R-NJ); Douglas J. Holtz-Eakin, former director of the Congressional Budget Office, and William A. Reinsch, president of the National Foreign Trade Council.

**THE CATO INSTITUTE’S INTERNSHIP PROGRAM**

Increasingly popular and coveted (only 4 percent of applicants are selected—66 interns each year—from more than 1,500 applicants), the Cato Center at Stanford Law School.

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Internship Program has three class groups per year—each academic semester and over the summer. Interns conduct research; report on congressional hearings; participate in a rigorous series of lectures, discussions, and readings; and assist with forums and events. Cato’s 2009 interns came from colleges and universities across the United States as well as from China, Romania, the Netherlands, Israel, Sweden, Lithuania, Kosovo, Venezuela, Pakistan, Brazil, South Africa, Canada, Costa Rica, Russia, and Argentina.

MAJOR PUBLICATIONS
Cato’s chief print publications provide subscribers, general readers, and researchers superb coverage from a variety of angles—stretching in style from scholarly analysis to personal perspectives. In 2009, Regulation, Cato Journal, Cato Policy Report, Cato’s Letter, and others covered the financial crisis and bailouts, foreign aid, human rights, the auto industry, patents, hospital accountability, Iraq and Afghanistan, gun ownership rights, health care reform, the drug war, global warming, and counterterrorism, among other significant topics.

CATO POLICY STUDIES
Every policy study issued by the Cato Institute offers a sharply focused examination behind and inside the topic covered. Available in print and online, these publications—Policy Analysis, Briefing Papers, Development Policy Analysis, Trade Briefing Papers, Free Trade Bulletin, White Papers, among others—are rigorously fact-checked, verified, and meticulously researched. Fifty-six studies were issued in 2009. The foundation of Cato’s work, they are one-of-a-kind analyses, repeatedly cited and accessed by members of the media, scholars, policymakers, researchers, government officials, students, business leaders, and interested individuals worldwide.
CATO BOOKS

THE BEAUTIFUL TREE: A PERSONAL JOURNEY INTO HOW THE WORLD’S POOREST PEOPLE ARE EDUCATING THEMSELVES
by James Tooley
“Surprising . . . engaging . . . a moving account of how poor parents struggle against great odds to provide a rich educational experience to their children.”
—Publishers Weekly

CATO SUPREME COURT REVIEW: 2008–2009
edited by Ilya Shapiro
Now in its eighth year, this acclaimed annual publication, which comes out every September, brings together leading national scholars to analyze the Supreme Court’s most important decisions from the term just ended and preview the year ahead.

ECONOMIC FREEDOM OF THE WORLD: 2009 ANNUAL REPORT
by James Gwartney and Robert Lawson
(co-published with the Fraser Institute)
“The conclusion is abundantly clear: the freer the economy, the higher the growth and the richer the people.”
—The Economist

FINANCIAL FIASCO: HOW AMERICA’S INFATUATION WITH HOMEOWNERSHIP AND EASY MONEY CREATED THE ECONOMIC CRISIS
by Johan Norberg
“Johan Norberg exposes the abiding hypocrisies of policy that generated this crisis far better than an American insider could. A masterwork in miniature.”
MAD ABOUT TRADE: WHY MAIN STREET AMERICA SHOULD EMBRACE GLOBALIZATION
by Daniel Griswold
“There are few subjects so important and so misunderstood as the value of international trade to the American public. Dan Griswold does a masterful job explaining these issues in this highly readable and enjoyable book.”
—Frederick W. Smith, Chairman and CEO, FedEx Corporation

REALIZING FREEDOM: LIBERTARIAN THEORY, HISTORY, AND PRACTICE
by Tom G. Palmer
“Tom Palmer is a valuable resource for journalists and others in search of historical and economic scholarship and philosophical insight, especially about the impact of government intervention and the reasons for respecting the freedom and responsibility of individuals.”
—John Stossel

GRIDLOCK: WHY WE’RE STUCK IN TRAFFIC AND WHAT TO DO ABOUT IT
by Randal O’Toole
“A fascinating compendium that explores the economic and social consequences of high-speed travel—or, in many cases, the search for it.”
—Neil Reynolds, The Globe and Mail

THE POWER PROBLEM: HOW AMERICAN MILITARY DOMINANCE MAKES US LESS SAFE, LESS PROSPEROUS, AND LESS FREE
by Christopher A. Preble
(published by Cornell University Press)
“Christopher Preble has a keen appreciation for the limits of military power, for the consequences of its misuse, and for the dangers of militarization. The Power Problem is simply terrific.”
—Andrew J. Bacevich, author of The Limits of Power: The End of American Exceptionalism
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Louis Fisher
Law Library of Congress
FINANCES

The unaudited financial information below indicates that Cato experienced stable operating revenue in fiscal 2010. The balance sheet remains strong. We also received initial contributions for our capital campaign. As part of our expansion program we purchased the building to our south. During the course of 2010, we plan to demolish the building and begin construction on our expanded headquarters. Cato’s fiscal year runs from April 1 to March 31.

**FISCAL YEAR 2010 OPERATING INCOME**

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**FISCAL YEAR 2010 CAPITAL CAMPAIGN INCOME**

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**FISCAL YEAR 2010 OPERATING EXPENSES**

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<td>MANAGEMENT &amp; GENERAL</td>
<td>$3,007,000</td>
</tr>
<tr>
<td>DEVELOPMENT</td>
<td>$1,748,000</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$21,827,000</strong></td>
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</tbody>
</table>

**ASSETS AND LIABILITIES**

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>CASH AND EQUIVALENTS</td>
<td>$14,102,000</td>
</tr>
<tr>
<td>NET FIXED ASSETS</td>
<td>$7,088,000</td>
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<tr>
<td>1012 10TH ST. BUILDING</td>
<td>$7,151,000</td>
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<td>OTHER ASSETS</td>
<td>$9,165,000</td>
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<tr>
<td>LIABILITIES</td>
<td>($2,189,000)</td>
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<tr>
<td><strong>NET ASSETS</strong></td>
<td><strong>$35,317,000</strong></td>
</tr>
</tbody>
</table>
INSTITUTIONAL SUPPORT

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*CONTRIBUTED $5,000 OR MORE.
Message from THE PRESIDENT AND THE CHAIRMAN

Our regulatory and redistributive state is flourishing, unrivaled since Lyndon Johnson’s Great Society and FDR’s New Deal. Trillions in unfunded state and federal pension and health benefits, feeless stimulus packages, noxious bailouts, booming public sector employment and salaries, exploding taxes, an avalanche of domestic spending, foreign interventionism, and a Constitution routinely ignored—indica of an out-of-control federal establishment. Recent polls suggest that more than three-fourths of Americans do not trust the politicians in Washington, D.C. No wonder the Tea Party movement has gained traction with millions of vocal adherents, loyal to neither Republicans nor Democrats, but profoundly alienated and determined to restore a semblance of limited government.

Enter the Cato Institute. No other organization has been more vigorous and consistent in embracing limited government and individual liberty under the rule of law. Our tightly constrained view of government power is our defining characteristic: Federal authority may not exceed constitutionally prescribed limits. Powers must be divided among three branches of government, then checked and balanced by dual national-state sovereignty.

Our expansive view of rights is similarly straightforward: Government’s primary task is to secure our rights to life, liberty, and the pursuit of happiness. The key word is “secure” not “grant.” We had those rights before our government was formed. We did not get them from government. Some were later codified in our Constitution. Others remain unenumerated, but nonetheless protected.

At Cato, we operate from this premise: Members of Congress are elected and reelected for delivering benefits to their constituents, not for telling constituents that benefits cannot be delivered because they are not constitutionally authorized. That’s why our Center for Constitutional Studies (see page 21) has been aggressive in advancing an engaged judiciary, charged with overturning unconstitutional legislative acts. Since 1789, the Supreme Court has invalidated roughly 150 acts of Congress and 1,200 state and municipal laws. On balance, libertarians and classical liberals have been well served by the Court’s rejection of (mostly) oppressive laws.

Naturally, the courts sometimes get it wrong. But the answer to bad judging is good judging. And that recognition, in turn, has driven Cato to get involved in the judicial confirmation process—by endorsing an interpretation of the Constitution anchored by the original meaning of the written text. We have forcefully opposed the notion of a living Constitution that can be bent by empathetic judges with a social conscience. And we have promoted better understanding of our founding documents by distributing more than 5 million copies of Cato’s pocket Constitution.

On the health care front (see page 11), our scholars are leading the fight against the individual insurance mandate, an unprecedented requirement that everyone purchase a product from a private company as a condition of living in the United States. That directive would extend the dominion of the federal government to virtually all manner of human conduct—including non-conduct—by establishing a policing power that is nowhere authorized in the Constitution. Congress’s attempt to punish a non-act that harms no one is an intolerable affront to liberty and personal autonomy.

For years, Cato’s specialists have proposed pro-liberty solutions to our health care dilemma—including interstate sales of health insurance, expansion of health savings accounts, state reforms of medical malpractice and, most important, tax code revisions that re-establish a market relationship between consumers and suppliers of medical care. Our current system allows businesses but not individuals to deduct the cost of health insurance.

The Wall Street Journal

Robert A. Levy
Chairman