



The mission of the Cato Institute is to increase the understanding of public policies based on the principles of limited government, free markets, individual liberty, and peace. The Institute will use the most effective means to originate, advocate, promote, and disseminate applicable policy proposals that create free, open, and civil societies in the United States and throughout the world. **Mission Statement adopted by the Cato Board, December 16, 1992**

2004 Annual Report



The Cato Institute is named for *Cato's Letters*, a series of 18th-century essays that warned the British people of the dangers of unlimited power and advanced a revolutionary vision of a free society. That vision inspired Thomas Jefferson in crafting the Declaration of Independence, and it was foremost in the minds of the framers of the Constitution, a radical blueprint for limited government and individual liberty.

In the 19th century, that same vision inspired American abolitionists, whose agitation helped to overcome the glaring contradiction between the Declaration's soaring rhetoric of equality and the crime of slavery. It inspired campaigners for free trade, the essential ingredient in lifting millions out of poverty, as well as movements to eliminate the subjugation of women. And it motivated brave opponents of war, collectivist totalitarianism, and tyrannical socialism in the 20th century.

Since its founding in 1977, the Cato Institute has helped to spark a rebirth of that Jeffersonian vision. As you will see in the pages that follow, the Cato Institute is on the front lines in the battle of ideas, exposing policymakers and the educated lay public to the timeless principles of liberty and proposing timely and concrete policy solutions to realize those principles. To ensure that their work has an impact outside the ivory tower, members of Cato's policy staff are both scholars and communicators. Their efforts in 2004 have made the principles of the American Founding once again an important part of the political debate in Washington, across the country, and around the world.

MESSAGE FROM THE PRESIDENT AND THE CHAIRMAN

As is the case every year, 2004 witnessed a mixture of gains and losses in the never-ending battle to preserve and extend the freedoms that are our heritage as Americans. It is a sad but true state of affairs that “eternal vigilance” is required to defend our liberties from the seemingly insatiable efforts of the political establishment to extend the tendrils of the state into every corner of civil society.

For many of our supporters Cato is their vehicle for staying vigilant. We believe the Institute’s efforts during 2004 justified that trust. We are proud of our colleagues’ achievements in terms of both the quantity and quality of their work. On issues ranging from Social Security reform to protecting our civil liberties to defending our nation in the face of terrorism, Cato had a prominent place at the table of national policy debate.

Our scholars published 14 books, 48 policy studies, 8 Supreme Court amicus briefs, and hundreds of op-eds and magazine articles. We were, once again, one of the most quoted think tanks in America. Our periodicals included six issues of *Cato Policy Report* under the editorship of executive vice president David Boaz; three editions of the 24th volume of the *Cato Journal*, edited by vice president for academic affairs James Dorn; four editions of the 27th volume

of *Regulation*, edited by Peter Van Doren; and the third annual *Cato Supreme Court Review*, under the new editorship of Mark Moller.

In addition, thousands of new subscribers were attracted to our two online newsletters, *Tech-Knowledge*, edited by Adam Thierer, and the *Tax and Budget Bulletin*, edited by Chris Edwards. Our free periodical, *Cato’s Letter*, is now sent to about 112,000 readers four times a year. Cato’s award-winning website, www.cato.org, had a record 26,000 individual visitors per day toward the end of the year. We hosted 194 events in Washington, across the country, and in Moscow and St. Petersburg. And, of course, our scholars were ubiquitous on radio and television programs as guest policy experts. All in all, Cato had an active, high-profile year.

BUSH’S BIG GOVERNMENT

From a classical liberal or libertarian perspective, the first term of George W. Bush’s presidency was more than a little disappointing. Spending increased dramatically, with no apparent interest in reining it in by either the administration or Congress, giving drunken sailors a bad name. Civil liberties were under siege as the administration attempted to claim the authority to arrest and detain indefinitely, with no charges and no access to an attorney, an American citizen on the say-so of the president. The war in Iraq was tragically conducted on the basis of false information and poor planning. It has proven enormously costly in terms of lives, money, and diplomatic capital. For transparently political reasons, the administration betrayed its free trade rhetoric to place burdensome tariffs on imported steel. It threw billions in subsidies to agribusinesses in key farm belt states. It created a nearly \$1 trillion “entitlement” to prescription drugs through the already



Edward H. Crane

bankrupt Medicare system. The administration continues its efforts to federalize education with its No Child Left Behind program. Not a good record.

To those who point to tax cuts as a positive in the first Bush administration, we say, fine, we're all for tax cuts, but they should be accompanied by spending cuts. Milton Friedman, our good friend for whom our Milton Friedman Prize for Advancing Liberty is named, always reminds us that the true burden on the private sector is the resources extracted from it and employed in the inevitably inefficient public sector. Whether that extraction is financed by taxes, borrowing, or regulation is less important than the fact that these resources are being taken from private citizens by the government. As we have mentioned in past reports, neoconservatives in the administration are leading the fight for a bigger, stronger national government. From where we sit, "compassionate conservatism" seems to mean never having to say "no." Not a good record.

THE OWNERSHIP SOCIETY

We are, however, encouraged by Bush's second-term economic agenda. His "Ownership Society" initiative underscores the importance of issues the Cato Institute has been working on for decades. To us, the essence of America is a respect for the dignity of the individual. It seems axiomatic that such dignity is enhanced to the extent one has control over one's own life. Ownership is the key to that. Personal accounts within Social Security, something Cato first brought into the national dialogue in 1980, will clearly give Americans more control over their retirement. Expanded Health Savings Accounts, first promoted in 1992 in Cato's book *Patient Power*, by John Goodman and Gerald Musgrave, will just as clearly give Americans more power over their health care by eliminating some element of third-party payers.

Fundamental tax reform is also something we've worked on from near the beginning. Steve Moore took a leave of absence from Cato in the mid-1990s to write Rep. Dick Armey's flat tax proposal. Again, getting rid of the social engineering contained in the 60,000-page tax code will give Americans more control over how they spend the money they earn. And we have long supported the case for tort reform and immigration reform.

So, we are cautiously optimistic as we enter 2005. Our talented and committed staff and the loyalty and generosity of many thousands of Cato Sponsors around the nation give us further reason for optimism. Because of them, we will continue to be vigilant in the pursuit of liberty. We trust this *Annual Report* will confirm that commitment.



Edward H. Crane



William A. Niskanen

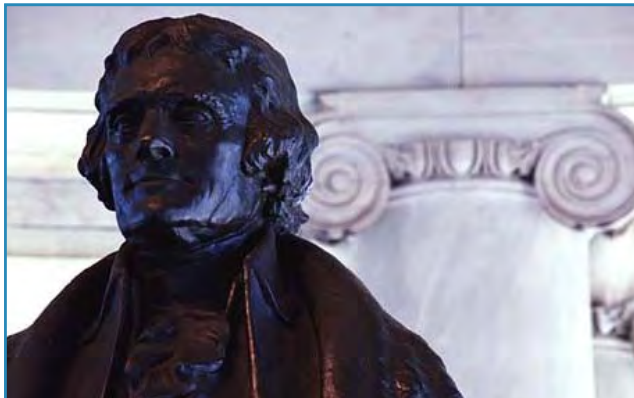


William A. Niskanen



THE ISSUES

The Cato Institute has been in the thick of the public debate, producing authoritative research and practical policy proposals on a wide range of public policy issues. The Institute has broadened the terms of debate by raising issues that would otherwise be ignored or forgotten by politicians and pundits focused on the presidential horse race. The diversity and timeliness of Cato's research program are a testament to the versatility and vitality of the classical liberal tradition.



ADVOCATING FIRST PRINCIPLES

PAGE 6

Policymakers and the public must be constantly reminded of America's heritage of liberty and the Constitution's limits on government power.



AVERTING FISCAL CATASTROPHE

PAGE 10

Reckless spending and out-of-control entitlements have put us on a path toward fiscal crisis. We will need to make tough choices to restore the nation to fiscal health.



DEFENDING AMERICA

PAGE 14

We must hunt down the people responsible for terrorist attacks against innocent Americans while strengthening homeland security and avoiding unnecessary military interventions.



PROMOTING A DYNAMIC ECONOMY

PAGE 18

America's dynamic economy continues to generate unprecedented prosperity. By removing regulatory barriers to innovation and entrepreneurship, we can generate even greater and more widespread wealth and opportunity.



EMPOWERING THE POOR

PAGE 25

The poor are often the greatest victims of the welfare state. Policies such as school choice, welfare reform, and a more equitable immigration system can bring the American dream within reach of everyone.



PROTECTING CIVIL LIBERTIES

PAGE 26

Many observers claim that the protections of the Bill of Rights must be weakened in order to fight terrorism, reduce corruption, ensure decency on the airwaves, and more. But liberty is too important to be sacrificed for political expediency.



ADVANCING THE WORLDWIDE LIBERAL REVOLUTION

PAGE 30

Freedom is on the rise around the world, as nations embrace free markets, private property, and the rule of law. Those reforms must continue so that the world's poorest citizens can enjoy the prosperity most Americans take for granted.

ADVOCATING FIRST PRINCIPLES

“Freedom in America rests upon a framework of checks and balances that was designed by men who were steeped in history and political philosophy. If that framework is neglected, constitutional guarantees will become nothing more than hollow promises on pieces of paper.” Tim Lynch, *Wall Street Journal*, 4.23.04

America was founded by visionaries steeped in a rich tradition of **individual rights** and **limited government**. The American Founders were wary of concentrated government power and unchecked majorities, so they created a limited federal republic that—they hoped—would leave most decisions in the hands of individuals or their locally elected governments. The federal government, in the Founders’ conception, has only those very limited powers delegated to it by the Constitution. All other powers (as the Tenth Amendment makes explicit) are “reserved to the States respectively, or to the people.”

America has become unmoored from those founding principles. As Cato’s scholars have pointed out repeatedly over the years, today’s **federal government is anything but limited**. In 2004 Cato’s Center for Constitutional Studies continued to focus attention on the questions that most policymakers ignore: Where in the Constitution is the federal government empowered to meddle in every aspect of our lives? By what right do federal officials presume to make so many of our decisions for us, from how to spend trillions of dollars, to the size of our toilets and the width of the hallways in our homes?

In February Cato senior fellow Randy Barnett published an important new work of constitutional scholarship, *Restoring the Lost Constitution*. In it, Barnett argues that the Constitution enforced by today’s courts bears little resemblance to the Constitution the Founding Fathers crafted two centuries ago. By adopting an implausibly broad interpretation of the Commerce Clause and ignoring the Ninth and Tenth Amendments, the courts have given Congress essentially unlimited powers, checked only by certain of the explicit restrictions on government power found in the Bill of Rights. Barnett promoted his book with a speaking tour to more than 40 colleges around the country.

That originalist, limited government perspective on the law continued to inform Cato’s work throughout the year. For the third year running, Cato held a major conference to mark Constitution Day, September 17, featuring analysis

of the just-completed Supreme Court term by leading constitutional experts. Constitution Day was the occasion for the unveiling of the third annual *Cato Supreme Court Review*. In the *Review*, George Washington University law professor Jonathan Turley labels the Court’s major war power rulings “judicial impressionism.” Like the impressionist paintings you might find in a freshman art class, he writes, the year’s major decisions eschewed clarity in favor of vague, multifaceted opinions that look different to each interpreter. As Cato vice president for legal affairs Roger Pilon wrote after looking at other decisions, “If a cardinal purpose of law is to give notice about what is permitted and prohibited, we are without law on this matter.”

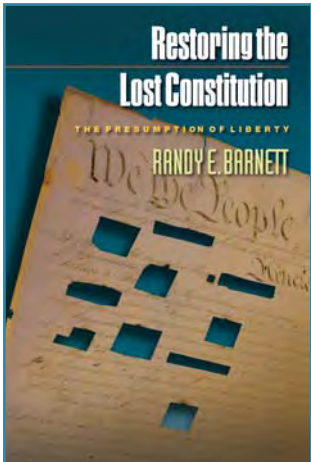
The *Review* is edited by Mark Moller, who joined Cato as a senior fellow in 2004. Cato will soon publish a paper by Moller on class action reform, a subject now squarely before Congress.

Cato continued its campaign to ensure wide distribution of America’s founding documents, selling 23,000 copies of its pocket Constitution and Declaration of Independence and distributing 34,000 more copies by direct mail. Cato’s Constitution was mentioned in the November issue of *Vanity Fair*. More than four million are now in circulation.

Few people in history have done more for the cause of limited government than F. A. Hayek, Nobel prize winner and author of *The Road to Serfdom*. Cato held a pair of winter Book Forums to celebrate the 60th anniversary of the publication of *The Road to Serfdom*. Published at a time when virtually all Western intellectuals were socialists, *The Road to Serfdom* sparked a debate over the feasibility of the socialist project that raged until the collapse of the Soviet Union in 1991. A February Book Forum featured the authors of two major studies of Hayek’s work, with commentary from former House majority leader Dick Armey, who praised Hayek’s intellectual courage in standing against the collectivist ideological currents of his era. The second forum, held in March, featured Cato president Ed Crane, Nobel laureate James Buchanan, and Daniel Yergin, coauthor of *The Commanding*



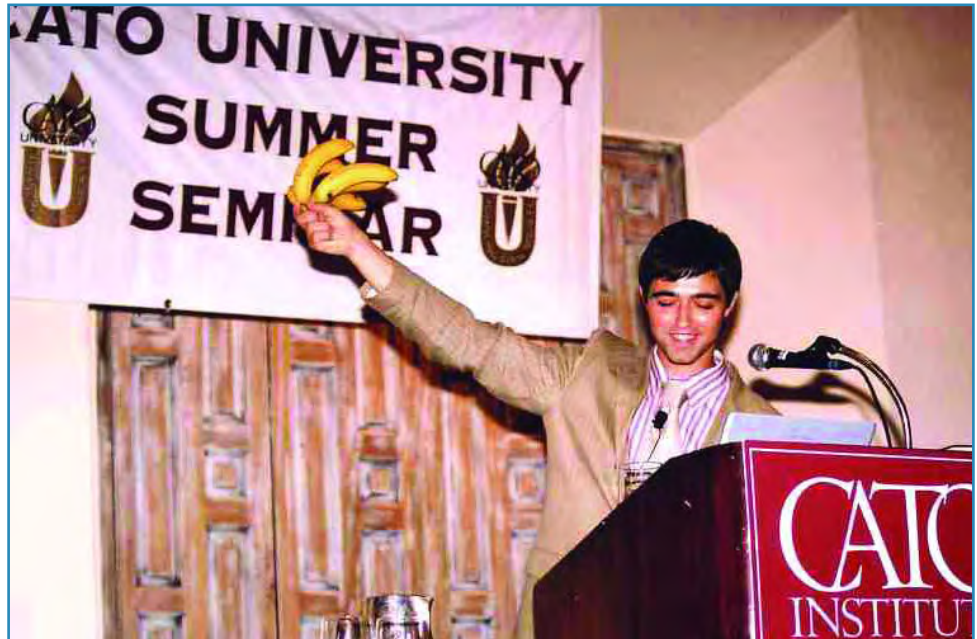
Nina Totenberg and other reporters interview Cato senior fellow **Randy Barnett**, author of *Restoring the Lost Constitution*, outside the Supreme Court after he argued the case of *Raich v. Ashcroft*, dealing with medical marijuana and federalism.



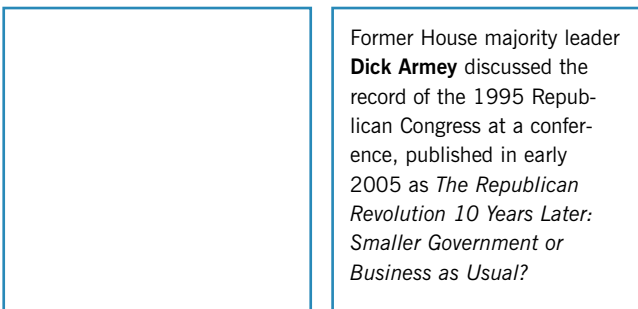
Senior fellow **Tom G. Palmer** leads a seminar for interns and research staff on the ideas found in John Locke and the Declaration of Independence.



Piotr Kaznacheev, an economic adviser to Russian president Vladimir Putin, tells Cato University attendees that bananas were so rare under communism that they became a symbol of freedom after the end of the Soviet Union.



Walter Dellinger, a senior member of President Clinton's Justice Department, contributed "The Indivisibility of Economic Rights and Personal Liberty" to the third annual *Cato Supreme Court Review*.



Former House majority leader **Dick Armey** discussed the record of the 1995 Republican Congress at a conference, published in early 2005 as *The Republican Revolution 10 Years Later: Smaller Government or Business as Usual?*



Heights: The Battle for the World Economy, a book that was later made into a PBS documentary.

America's electorate reaffirmed its heritage of limited government in 1994 when it swept into power a Republican Congress pledged to reducing the size of government. At a May conference marking the 10th anniversary of the so-called Republican Revolution, Armey and former House speaker Newt Gingrich described their decade-long struggle to win a congressional majority. Thomas Edsall of the *Washington Post* charged that the Republican Congress has abandoned its principles over the last decade, pointing to rising spending and the passage of campaign finance restrictions as major retreats. Ed Crane traced the ideological decline of the Republican Party much further back than the 104th Congress. The substance-free Reagan reelection campaign of 1984 and the decision to nominate George H. W. Bush—a man not known for his commitment to the Goldwater tradition of limited government—in 1988 were major missed opportunities, he said.

Federalism was a major issue in 2004. In November senior fellow Randy Barnett argued before the Supreme Court in the case of *Raich v. Ashcroft* that Congress exceeded its power under the Commerce Clause when it authorized federal agents to arrest patients using marijuana under California's Compassionate Use Act. Barnett argued that allowing federal agents to arrest patients who grow medical cannabis for personal use would amount to abandoning the modest limits on federal power revived by the 1995 case of *United States v. Lopez*.

Federalism was also under attack in Congress, where a constitutional amendment was proposed that would ban same-sex marriages and prevent state and federal governments from providing "the incidents of marriage" to gay couples. In September Cato published a White Paper by law professor Dale Carpenter of the University of Minnesota arguing that the amendment was "unnecessary, anti-federalist, and anti-democratic": unnecessary because the federal Defense of Marriage Act gives states the right to refuse to recognize gay marriages performed in other states and anti-federalist because it nationalizes an area of law traditionally reserved to the states.

In December Cato submitted an amicus brief by distinguished constitutional scholar Richard A. Epstein in the pending Supreme Court case of *Kelo v. New London*. The brief challenges the practice whereby governments take private land, only to transfer it to private developers for vaguely defined "economic development" purposes. A ruling striking down the practice would shore up property rights that have suffered decades of neglect by the courts.

In addition to reminding elected officials and members of the judiciary of America's founding principles, Cato seeks

to broaden and deepen the understanding of those principles among the general public. The foremost vehicle for doing that is **Cato University**, directed by senior fellow Tom G. Palmer, which encompasses both a home-study course and a series of seminars. Participants include students, working adults, and retirees. In 2004 Cato held two Cato University seminars. The week-long August seminar, held in San Diego, featured Stanford law professor Marcus Cole, psychologist Nathaniel Branden, Richard Stroup and Jane Shaw of the Property and Environment Research Center, Moscow political scientist Piotr Kaznacheev, and other favorites. More than 100 people attended. The October weekend seminar was held in Quebec City, Canada. Speakers such as Palmer, Canadian MP Monte Solberg, and Cato senior editor Gene Healy led workshops on writing and public speaking to communicate the ideas of liberty to friends, family, and fellow citizens. Participants leave Cato University with a renewed appreciation for the principles that made Western civilization possible and a commitment to ensuring that our heritage of liberty is passed on, intact, to the next generation.

Palmer is also one of the world's most energetic emissaries of liberty. He gave speeches to numerous organizations and made regular appearances on college campuses across the country. In February he participated in a conference in Baghdad, where he assisted with the founding of an Iraqi libertarian think tank and commissioned the translation of the Declaration of Independence into Arabic.

Cato's legal scholars—Roger Pilon, Mark Moller, Robert A. Levy, and Timothy Lynch—are highly visible in the legal community. In 2004 they appeared at dozens of law schools giving speeches or participating in debates on current legal controversies. Pilon frequently spoke about and debated constitutional law, judicial nominations, drug reimportation, same-sex marriage, and property rights at the law schools at Harvard, Yale, Chicago, Georgetown, Northwestern, the University of Pennsylvania, and elsewhere. Levy made similar appearances on tort reform, federalism, and the Second Amendment. Such exposure ensures that students at many of the nation's top law schools have the opportunity to hear the Madisonian vision of the Constitution that is so often absent from their classrooms.

AVERTING FISCAL CATASTROPHE

“Under the current system, you pay in and the politicians in Washington decide how much you’re going to get in the end. Under individual accounts, you own and control that money. It belongs to you.” Mike Tanner, *New York Times*, 9.18.04

The U.S. government is facing serious fiscal strains in the decades ahead. But elected officials continue to make the problems worse. During President Bush’s first term, **federal spending rose at the fastest rate** since Lyndon Johnson’s Great Society. As if that weren’t enough, the 108th Congress added a half-trillion dollar prescription drug benefit to Medicare—the largest new entitlement program since the 1960s.

Meanwhile, the Social Security Administration predicts that **Social Security will go into deficit within 15 years**. In early 2004 Cato introduced a plan to fix Social Security by allowing workers to divert their share of the payroll tax to a personal account that they would own and control. The plan, which was unveiled at a January Capitol Hill Briefing, would give workers true ownership in and legal rights to their Social Security retirement benefits, restore the Social Security system to permanent solvency, increase the rate of return for younger workers, and avoid raising taxes or cutting benefits for those at or near retirement. Michael Tanner, director of Cato’s Project on Social Security Choice, laid out the details of the plan in a February paper.

Support and enthusiasm for the idea grew steadily during the course of 2004. In March, Tanner and William Shipman, co-chairman of the Project on Social Security Choice, reprised Cato’s annual “**Social Security University**,” a three-day series of lunchtime lectures on Capitol Hill that gave congressional staffers, lobbyists, and journalists background information on the case for privatization. Also in March, Cato published *Social Security and Its Discontents: Perspectives on Choice*, edited by Michael Tanner and featuring essays by **Milton Friedman, Martin Feldstein, June O’Neill, John Zogby**, and others. The book was named an “Outstanding Academic Title” of 2004 by *Choice*, the leading magazine for academic librarians. Former Cato vice president Leanne Abdnor, a member of the president’s Commission to Strengthen Social Security, published a paper arguing that Social Security is stuck in the 1930s when it comes to its treatment of women, as it discriminates against two-earner couples.

Jagadeesh Gokhale, one of the nation’s leading economists and an expert on entitlement reform, joined Cato as a senior fellow at the beginning of 2004. Since then, he has **testified twice before the Senate Special Committee on Aging about the future of retirement** in the United States. Financial services analyst Jacobo Rodríguez testified before the same committee in May on the Chilean experience with social security privatization. In the *Wall Street Journal*, Gokhale criticized Sen. John F. Kerry for his do-nothing position on Social Security. By ruling out personal accounts and benefit cuts, Gokhale argued, Kerry was effectively committing the nation to massive tax increases.

In July Rep. Sam Johnson (R-TX) introduced legislation based on the Cato plan. Initially cosponsored by Reps. Pat Toomey (R-PA) and Jeff Flake (R-AZ), the legislation had 19 cosponsors by the end of 2004—the most of any personal accounts legislation.

Cato spent the fall of 2004 building broader support for Social Security reform. *A Community Leader’s Guide to Social Security Choice* was sent to all Cato Sponsors and thousands of other influential Americans around the country. Tanner and Susan Chamberlin, vice president for government affairs, embarked on a fall tour of six cities to educate financial professionals at more than three dozen leading financial institutions about Cato’s work on the issue. Tanner gave dozens of speeches to organizations around the country in support of Social Security privatization. Cato also maintains the Web’s best site on Social Security reform at www.socialsecurity.org.

The drumbeat for Social Security choice intensified with the reelection of President Bush, who has said that Social Security is his top domestic priority for 2005, and Cato was widely recognized by the media as the original author and advocate of private accounts. A *Time* magazine article prominently featured Cato’s work on the issue and dubbed Tanner an architect of the privatization concept. Ed Crane appeared on *NBC Nightly News*, Cato executive vice president David Boaz appeared on the *CBS Evening News*, and Tanner appeared

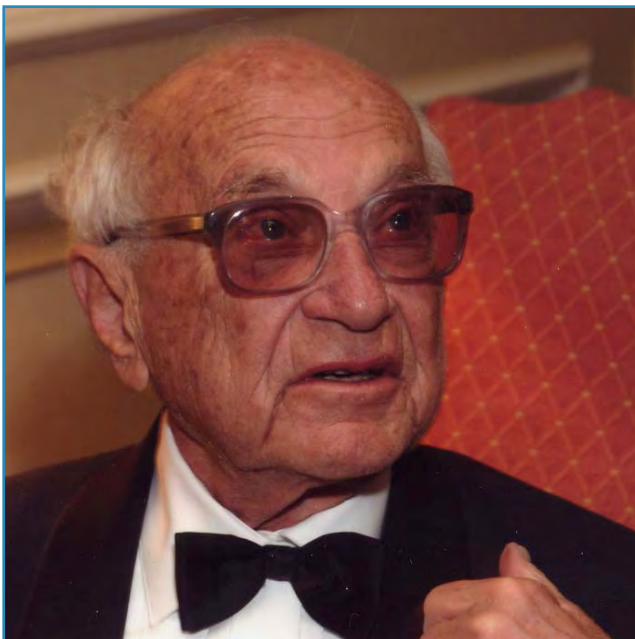


Reps. **Pat Toomey**, **Sam Johnson**, and **Jeff Flake**, lead sponsors of the Individual Social Security Investment Program Act, listen as Cato president **Ed Crane** discusses the bill at a Capitol Hill news conference.



Cato Institute scholars frequently publish their research results in leading journals and newspapers.

Michael Tanner, director of Cato's Project on Social Security Choice, unveils a plan to give American workers the option to put their entire 6.2 percent share of the payroll tax into a private account.



Nobel laureate **Milton Friedman**, shown at the Milton Friedman Prize for Advancing Liberty dinner, is one of the contributors to *Social Security and Its Discontents*, which also includes José Piñera and June O'Neill.



Cato scholars published 48 studies and briefing papers in 2004, along with 14 books and 8 amicus curiae briefs filed with the Supreme Court.

on *Good Morning America*, *ABC World News Tonight*, and the *NewsHour with Jim Lehrer* to discuss the issue. Tanner and other Cato scholars were frequent guests on the Fox News Channel, CNN, NPR, and other networks. Tanner appeared as a guest on the *Rush Limbaugh Show*. The *New York Times* asked Cato distinguished senior fellow José Piñera to pen a nearly full-page op-ed on his successful reform of Chile's social security system. A December 10 *Washington Times* story described Cato as “the libertarian think tank that has helped the White House hammer out its reform plans.”

As Social Security reform moves to the top of the congressional agenda next year, Cato's scholars will be working at a fever pitch to provide authoritative analysis and information on the case for personal accounts. A major conference in February will include heavyweights in the privatization debate, including Edward Prescott, who received the 2004 Nobel Prize in economics, and Martin Feldstein of Harvard University. Cato will again hold Social Security University on Capitol Hill.

While praising the president's commitment to reform Social Security, Cato scholars have been fiercely critical of the administration's lack of fiscal discipline in other areas. In January testimony before the Senate and a February *Wall Street Journal* op-ed, director of fiscal policy studies Chris Edwards argued that federal spending should be cut to reduce the deficit. In March policy analyst Veronique de Rugy published “The Republican Spending Explosion,” which exposes the dismal fiscal record of Republicans in Congress and the White House during the first three years of the Bush administration. In June Edwards published “Downsizing the Federal Government,” a detailed and comprehensive plan for cutting wasteful and unnecessary federal government programs by privatizing them or devolving some of their functions to state and local government. In all, Edwards's proposal would save taxpayers more than \$300 billion per year in federal taxes. Policy analyst Neal McCluskey criticized federal education spending in a June Policy Analysis that argues that state and local governments and the private sector are better able to spend education dollars effectively.

Perhaps the most daunting fiscal challenge facing the United States is the **tremendous growth of Medicare spending**. Gokhale wrote in the *Wall Street Journal* in April that the \$22 trillion projected shortfall in the Medicare program actually understates the problem, which could be as high as \$62 trillion. Future Cato research will develop proposals to ensure that the program does not bankrupt the country.

Cato was among the first to predict the savings-and-loan crisis in the 1980s. Alarming, the federal government seems not to have learned the lessons of that debacle. Two potential trouble spots are Freddie Mac and Fannie Mae, the “government-sponsored entities” that resell home mortgages.

An October Policy Analysis by former Freddie Mac board member Lawrence J. White argues that the two companies' quasi-public status allows them to borrow money at a lower interest rate, on the expectation that the federal government will bail them out in the event of a crisis. That expectation, White argues, represents a serious threat to taxpayers, because it creates a moral hazard problem that could lead the companies to take the same kinds of foolish risks that many savings and loans took in the 1980s.

Another area of concern is the Pension Benefit Guaranty Corporation, which guarantees the pensions of private-sector employees when their employers are unable to provide the promised benefits. If a market downturn caused a rash of corporate bankruptcies, the federal government could be on the hook for tens of billions of dollars. An August study by Richard Ippolito, the former chief economist of the PBGC, advocates that the PBGC be privatized and its liabilities made the joint financial responsibility of the companies whose pensions it insures.

Cato scholars criticized reckless fiscal policies at the local level as well. Two papers by Raymond Keating, chief economist of the Small Business Survival Committee—“Cleaning Up New York State's Budget Mess” in January and “Budget Reforms to Solve New York City's High-Tax Crisis” in August—blame overspending for New York's perpetual budget crises and propose spending cuts and budgetary reforms to deal with the problem. Cato also struck a blow for fiscal sanity in its own backyard, publishing a briefing paper in October that debunked the case for a publicly funded baseball stadium in the District of Columbia.

Cato's efforts on behalf of limited government will continue in 2005. Stephen Slivinski, who joined Cato in 2004 as director of budget studies, will publish a study criticizing corporate welfare in early 2005 and examine the federal transportation budget with an eye to saving taxpayers money. Also on tap for 2005 is Cato's biennial **fiscal report card on America's governors**. President Bush has promised deficit reduction and entitlement reform in his second term. Cato scholars will keep up the pressure for those badly needed changes in the coming year.

DEFENDING AMERICA

“This has become a terribly messy, difficult situation, and the United States does not have a clear exit strategy.”

Ted Galen Carpenter, *USA Today*, 3.19.04

For more than a quarter century, Cato scholars have advocated a **strong national defense** to deter aggression coupled with a **restrained foreign policy** to avoid entangling Americans in peripheral conflicts that have little or no bearing on America’s security.

Cato foreign policy scholars have been consistently ahead of the curve on foreign policy issues, especially on the issue of terrorism. In the 1997 edition of the *Cato Handbook for Congress*, Ted Galen Carpenter, vice president for defense and foreign policy, warned that “Americans have become **targets of international terrorism**.” “The potential for thousands, rather than dozens or hundreds, of casualties in any single incident is also rising,” he wrote. In 1998 Ivan Eland wrote a Cato Foreign Policy Briefing warning that international resentment of America’s promiscuous interventionism could lead to “devastating, and potentially catastrophic, terrorist attacks.” Eland’s and Carpenter’s predictions proved all too prescient.

Sadly, Cato scholars’ predictions about the Iraq war proved accurate as well. In the months leading up to the Iraq war, they warned that a war with Iraq would be neither quick nor painless and would instead become, as senior fellow Doug Bandow put it, an “urban conflict that will be costly in human and political terms.” As the situation in Iraq deteriorated, Christopher Preble, director of foreign policy studies, assembled a task force to consider how to deal with the problem. They released their report, titled *Exiting Iraq: Why the U.S. Must End the Occupation and Renew the War against Al Qaeda*, in July. It argues that the war is going badly and that the situation will only get worse. Moreover, continuing to pour lives and resources into Iraq endangers American national security by diverting resources from the ongoing fight against Al Qaeda in Afghanistan and elsewhere.

Cato’s scholars were ubiquitous in the media supporting the task force’s recommendations, appearing regularly on such television programs as *The O’Reilly Factor*, *Lou Dobbs Tonight*, and *Newsnight with Aaron Brown*; such radio programs as *The Radio Factor with Bill O’Reilly* and NPR’s

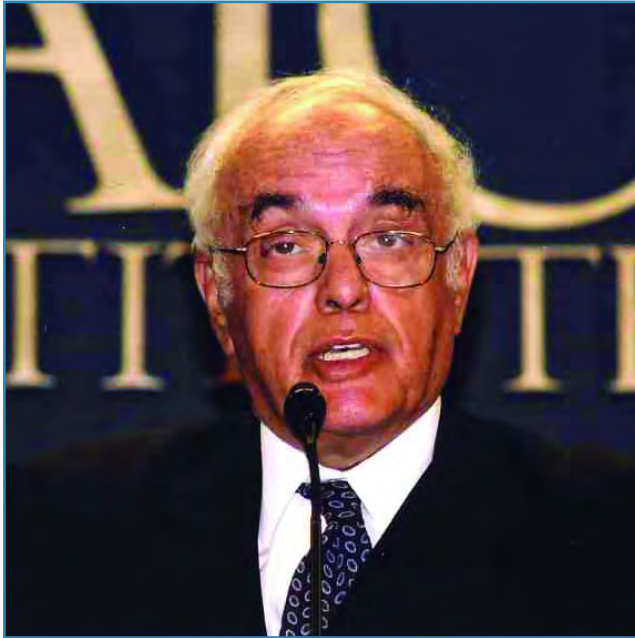
Morning Edition; and in the op-ed pages of *USA Today* and the *Chicago Sun-Times*. Chuck Peña, Cato’s director of defense policy studies, was named an MSNBC **terrorism analyst** in 2003 and continued to appear frequently on the network throughout 2004.

When it was released in July, *Exiting Iraq*’s recommendation for a 2005 pullout was viewed by some as radical. But as the crisis has deepened, it has increasingly become a subject of debate. The *Boston Globe* reported in November that *Exiting Iraq* had “struck a chord” with many experts, and it was featured in a *New York Review of Books* essay by Harvard’s Stanley Hoffman.

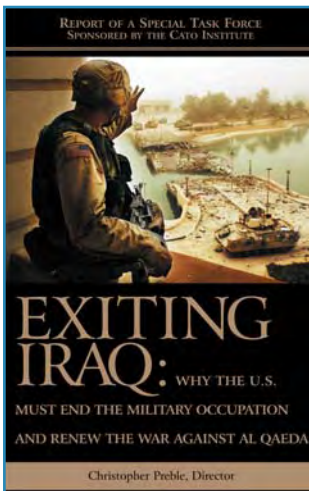
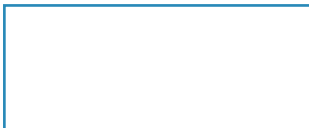
In discussing the near-term prospects for liberal democracy in Iraq, the task force drew on the work of Cato senior fellow Patrick Basham, who published a study in January titled “Can Iraq Be Democratic?” He argues that the building blocks of democracy “are not elections, parties, and legislatures. Rather, **the building blocks of democracy are supportive cultural values**.” Iraq—like most Muslim and Arab nations—currently lacks such a supportive culture, he concluded.

Cato research fellow Jonathan Clarke charges that the Iraq war represents a radical departure from the traditional principles of the Republican Party in *America Alone: The Neo-Conservatives and the Global Order*, coauthored with Stefan Halper. The neoconservative agenda, they charge, threatens American security by stirring up hornets’ nests around the world while overstressing military resources. It also endangers liberty at home, as the demands of constant warfare eat away at the constraints of limited government.

Despite Cato scholars’ reservations over the Iraq war, some of Cato’s traditional allies were supporters of the invasion. Seeking to improve understanding of the issue on both sides of the debate, Cato assembled leading libertarians both for and against the Iraq war for an October conference, “Lessons from the Iraq War: Reconciling Liberty and Security.” Reason’s Ron Bailey advocated a return of the Reagan Doctrine under which the United States armed local



Columnist and television host **Robert Novak** comments on the book *America Alone: The Neo-Conservatives and the Global Order*, by Stefan Halper and Cato research fellow Jonathan Clarke.



"[*Exiting Iraq*] convincingly argues [that] the prolonged occupation is an open invitation for a steady buildup of grassroots Muslim anger, and a breeding ground for terrorism."

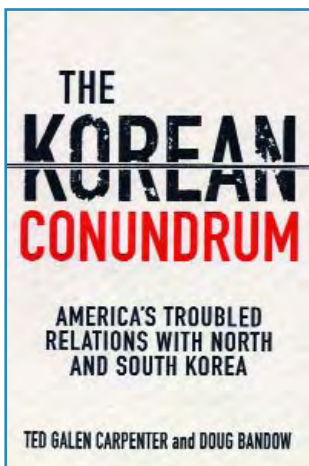
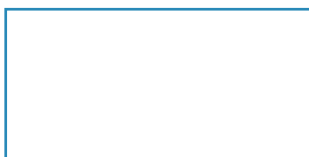
—*The New York Review of Books*

Dan Griswold, director of Cato's Center for Trade Policy Studies, lays out the facts at a Cato Capitol Hill Briefing, "The Truth about Job Losses and Free Trade."

Amb. Edward Peck, former chief of the U.S. mission in Baghdad, tells a Policy Forum audience that democracy is not like a cellphone; it doesn't come with a manual.



Charles Peña, director of defense policy studies, listens as **Irshad Manji** discusses her book, *The Trouble with Islam: A Muslim's Call for Reform in Her Faith*, calling for a revival of moderation and critical thinking within Islam.



During 2004 **Ted Galen Carpenter**, vice president for defense and foreign policy studies, published studies on Korea, Taiwan, and Iran, as well as Iraq and the threat of terrorism.



insurgents in oppressed countries. Cato's Ted Galen Carpenter and Christopher Preble argued that a **commitment to limited government at home** should translate into skepticism about adventurism abroad.

A September Policy Analysis argues that because most of Iraq's debts were acquired by Saddam Hussein for the purpose of oppressing his own people, those debts are "odious" under international law and can be legally repudiated. Given that any new Iraqi government will be struggling to establish legitimacy and financial solvency, economist Patricia Adams argues, it would be both immoral and irresponsible for the Iraqi people to pay off creditors who helped finance their oppression.

The war in Iraq isn't the only distraction from the war against Al Qaeda. A November Foreign Policy Briefing by Carpenter argues that recent attempts to stamp out the opium trade in Afghanistan will alienate local warlords as well as vast numbers of farmers whose support is critical in the war against terrorism.

Cato scholars have emphasized that fighting terrorism requires more than killing those plotting terrorist acts. To *win* the war on terrorism, the United States must deter future generations of Muslims from joining the terrorist cause. One way to do that is by **creating economic opportunities in the Muslim world**. In a January Trade Policy Briefing, "Trading Tyranny for Freedom: How Open Markets Till the Soil for Democracy," Dan Griswold, director of Cato's Center for Trade Policy Studies, argues that by concluding trade deals with developing nations in troubled areas, the United States can spur economic growth and strengthen democratic and liberal forces within those nations. Terrorism experts speaking at a Cato Policy Forum in September agreed that more must be done to bridge the cultural gap between the United States and the Islamic world, but warned that U.S. foreign policy often undermines that broader goal by contributing to the misperception that the United States is waging war on Islam.

Cato published a paper in March by Andrew Coulson, author of *Market Education: The Unknown History*, that examines the state of education in the Muslim world and argues that reducing the influence of extremist Islamist schools is critical to preventing another generation of young Muslims from becoming terrorists. Strengthening fee-charging private schools is the most promising alternative, he argues. To ensure that parents in Muslim countries have the resources to send their children to such schools, he advocates expanding free trade and focusing private foreign aid in the region on the private education sector.

Port security is vital to defending America. An April paper by Trade Policy Analyst Aaron Lukas proposes that the government set general standards and monitor private ship-

ping companies to ensure compliance. Wherever possible, he argues, **government should not mandate specific technologies or tactics**, leaving implementation details to the private sector. Since security is a necessary cost of doing business internationally, he argues, businesses and their customers should bear the costs.

Cato also kept a close eye on other gathering threats to national security. At an October Policy Forum, experts considered the prospects of deterring Iran's alleged nuclear program and the consequences if deterrence fails. Ted Galen Carpenter published an article on North Korean nuclear proliferation in the *National Interest*. In December Palgrave/Macmillan published *The Korean Conundrum: America's Troubled Relations with North and South Korea* by Carpenter and Bandow. It examines the standoff on the Korean peninsula and recommends that the United States lower its own profile in the region. That will force China and South Korea to take the lead in dealing with the rogue state. Cato also won major grants from the Ford Foundation and the New-Land Foundation to study how to strengthen nonproliferation efforts and explore how best to deal with the problem if nonproliferation efforts fail.

America's implicit security commitment to Taiwan is another source of danger to American security. At a July Capitol Hill Briefing, Carpenter said that both Taiwan and China have become increasingly belligerent in recent years. Taiwan, he said, has grown used to de facto independence from China, and there are growing pressures to declare formal independence. China, on the other hand, has become increasingly impatient with the status quo and has been rapidly expanding its military. The United States would do best to clearly distance itself from any commitment to defend Taiwan before it gets caught in a war that could kill hundreds of thousands of Americans, Carpenter concluded.

With the situation in Iraq showing mixed signs of improvement, Cato's stature on foreign policy issues can only increase. Its analysts will continue to develop **compelling alternatives to the failed interventionist policies of recent administrations**. The lessons of the Iraq war should lend those proposals an increased urgency in the coming year.

PROMOTING A DYNAMIC ECONOMY

“The last thing patients need is for the government to inject more socialism into their health care in the name of expanding coverage. To borrow a phrase from President Reagan, government is not the solution to U.S. health care problems. It is the problem.”

Michael Cannon, *USA Today*, 6.15.04

America's economy is the envy of the world. During the last quarter century, the United States has not only been the richest nation on earth; it has also been growing faster than most other rich countries, widening its lead over the sclerotic economies of Western Europe. Still, the American economy can do much better in the years ahead. Cato's scholars are at the forefront of the effort to build the freest, most dynamic, and most entrepreneurial economy the world has ever seen.

In almost every sector of the economy, Cato scholars identify government-imposed barriers to innovation and suggest ways to dismantle those barriers. Cato published studies proposing reforms in such industries as health care, energy, telecommunications, and pharmaceuticals. Cato scholars advocated tax cuts and the simplification of America's byzantine income tax system. They demonstrated the dramatic economic benefits of “outsourcing” service jobs to low-wage countries like China and India—and the closely related “insourcing” of jobs to the United States. And they criticized recent abuses of the legal system that threaten to stifle innovation.

In September Cato published a book that clearly illustrates the advantages of America's dynamic economy, *Cowboy Capitalism: European Myths, American Realities* by Olaf Gersemann. Gersemann, the Washington reporter for Germany's leading business weekly, demonstrates that the greater dynamism of the American economy was the driving force behind its impressive record of wealth creation. The book made a big impact, receiving prominent coverage in the *Washington Post*, the *Wall Street Journal*, and the *International Herald Tribune*. Nobel laureate Milton Friedman called it a “devastating rejection of common European fallacies about the American economy. A real treasure trove of thoughtful analysis.”

Few economic trends generated more controversy in 2004 than the growing trade in services. Hyperbolic and misleading media coverage of the “outsourcing” trend gave the impression that America's economic vitality was

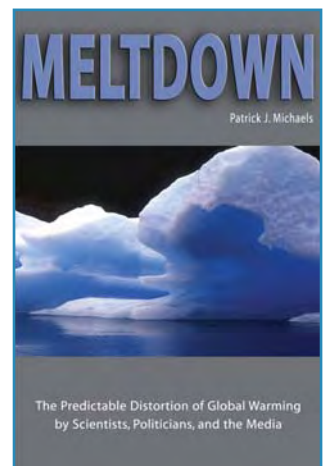
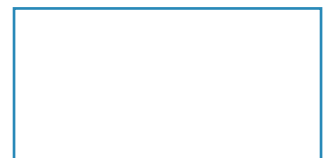
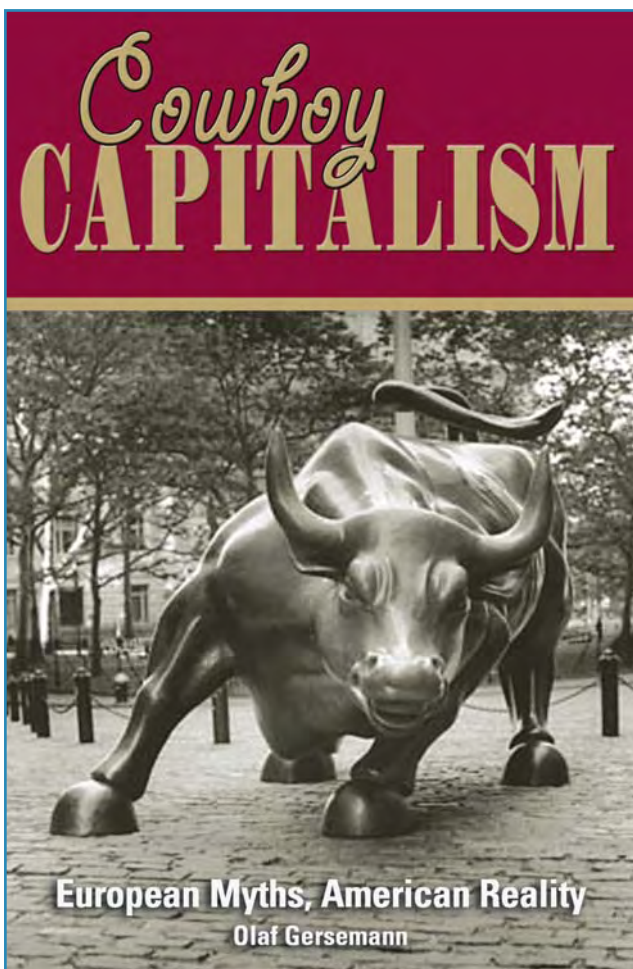
slipping and that millions of American workers would soon find themselves out on the street.

Throughout the year, Cato's Center for Trade Policy Studies provided a much-needed counterpoint to the scaremongers. In March Brink Lindsey, Cato's vice president for research, wrote a Trade Briefing Paper, “Job Losses and Trade: A Reality Check.” He argues that job churn is a stressful but necessary part of a dynamic economy. Technological progress has been destroying jobs for decades, he notes, yet there are more jobs today than ever before. Dan Griswold, director of the Center for Trade Policy Studies, spoke out regularly on the subject, appearing at events on Capitol Hill and on national television, including two spots on *Lou Dobbs Tonight*. He published a cover story in *National Review*, and Lindsey published a cover story in *Reason*.

In October Cato held a major conference on jobs and trade featuring such key figures as Sen. Chuck Hagel (R-NE); Greg Mankiw, chairman of the president's Council of Economic Advisers; Martin Baily, Mankiw's predecessor under President Clinton; and Roger Ferguson, vice chairman of the Federal Reserve Board. Panelists discussed the impact of the rising trade in services and emphasized that the short-term dislocations caused by “outsourcing” will pay handsome dividends as they increase the productivity of the American economy, creating new, higher-paying jobs and lowering prices for American consumers. C-SPAN covered the conference live and later rebroadcast six hours of the proceedings.

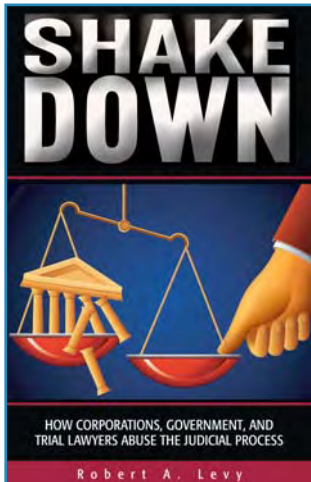
Free trade was also an important issue in the controversy over drug “reimportation.” Roger Pilon, Cato's vice president for legal affairs, made a splash with the August publication of “Drug Reimportation: The Free Market Solution,” which argues that Congress should lift the ban on drug reimportation and allow the free market to sort out the consequences. The study was covered on page two of the *Washington Post* and mentioned in a *USA Today* editorial. Pilon promoted his views in an October op-ed in the *Wall Street Journal*.

At Cato's 22nd Annual Monetary Conference—cosponsored with *The Economist*—**Kristin Forbes** of the Council of Economic Advisers argues that capital controls amount to “mud in the wheels of market efficiency.”

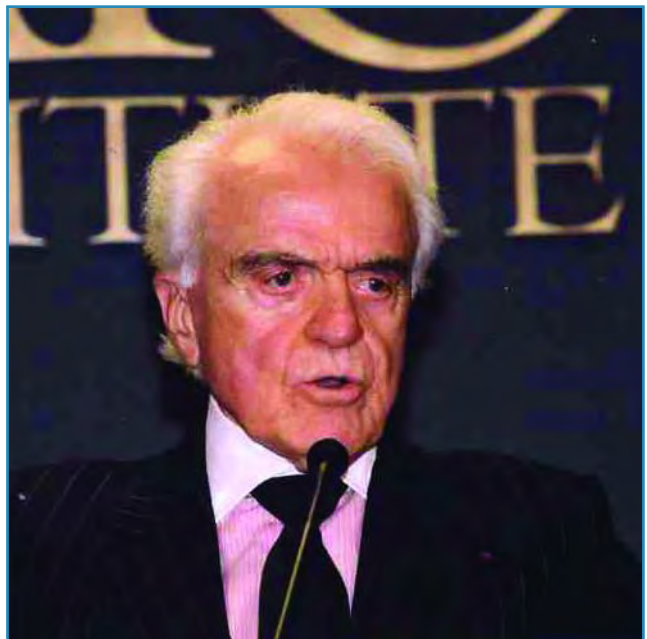


Milton Friedman calls **Cowboy Capitalism** “a comprehensive, indeed truly encyclopedic, comparison of economic conditions and policies in the United States with those in Germany, France, and Italy.”





Jack Valenti, longtime head of the Motion Picture Association of America, tells a Cato conference that property rights are fundamental and that young people should be discouraged from pirating music and movies using the Internet.



At Cato's conference on "Trade and the Future of American Workers," **Roger Ferguson**, vice chairman of the Federal Reserve Board, argues that economists must do a better job of clearly communicating the benefits of trade to a skeptical public.



Corporate tax reform was a hot issue in the presidential campaign. A September issue of *Cato's Tax and Budget Bulletin* by Chris Edwards, director of tax policy studies, examined Senator Kerry's reform proposal and found it lacking. Throughout the year, Edwards emphasized that corporate taxes are too high and too complicated. With President Bush's reelection, fundamental reform of the personal income tax will be a major issue in the coming year. Edwards will publish a study in early 2005 reviewing the benefits of the leading alternatives, the flat tax and the national sales tax, as well as proposing new alternatives. An October study by senior fellow Stephen Moore and Phil Kerpen of the Club for Growth showed the positive impact of President Bush's dividend tax cuts on corporate dividends.

Health care was another major issue in the 2004 campaign, and Cato scholars provided a wealth of research emphasizing the benefits of markets, choice, and competition in the health care field. Health Savings Accounts—a concept that Cato has promoted for more than a decade—came into their own in 2004. HSAs give control over health care decisions to patients instead of health care bureaucrats. The accounts were first proposed in the 1992 book *Patient Power*, published by Cato. Congress introduced the accounts in 1997 and dramatically expanded them in the 2003 Medicare reform bill. By the end of 2004, more than 70 insurance companies had announced plans to introduce HSA products. Surveys estimate that as many as **73 percent of employers plan to offer HSAs by 2006**. As more and more patients get HSAs, they will become more savvy consumers, putting downward pressure on health care costs for everyone.

In October Cato published a Policy Analysis by Christopher Conover of Duke University that calculated the cost of regulations in the health care field at a whopping \$169 billion annually. Conover concludes that that hidden tax on health care services puts health insurance out of reach for seven million Americans—one-sixth of the total number of uninsured Americans. Conover suggests that tort reform, FDA reforms, and deregulation of health insurance and the accreditation and licensure of medical professionals offer the most promise for health savings.

Cato scholars sharply criticized proposals to increase government control over health care. In a February Policy Analysis, health policy studies director Michael Cannon demonstrated how the plans of Senator Kerry and other Democrats would lead to exploding health care costs and transfer power over health care decisions from patients and their doctors to government bureaucrats. Cannon's June op-ed in *USA Today* argued that greater government intervention in the health care market was the wrong way to help the uninsured. Cannon criticized socialized medicine in a

September appearance on *The O'Reilly Factor*. At a September Policy Forum, John Goodman, president of the National Center for Policy Analysis and coauthor of *Patient Power*, promoted his new book, *Lives at Risk: Single-Payer National Health Insurance around the World*, and detailed the often deadly consequences of giving government bureaucrats control over the health care industry. His remarks were published in *Cato's Letter*, a free publication that is sent to 112,000 people every quarter.

Government meddling in health care kills people in more direct ways as well. Cato held Policy Forums to highlight two particularly shocking examples of lethal government regulations. A May Forum featuring University of Chicago law professor Richard Epstein examined how government rules against selling organs have led to a critical shortage of organs, causing thousands of people every year to die on waiting lists. A June Forum focused on the FDA's policy of refusing possibly life-saving medication to terminally ill patients. Shockingly, the FDA requires that drugs meet the "safe and effective" standard even for patients who are likely to die before the completion of clinical trials. The leaders of Abigail Alliance, an organization of terminally ill people and their families, told about the FDA's callous response to their pleas for access to possibly lifesaving medicine.

A commonly heard excuse for restricting economic liberty is the supposed threat of global warming. But as Cato senior fellow Patrick Michaels documents in his latest book, *Meltdown: The Predictable Distortion of Global Warming by Scientists, Politicians, and the Media*, the media too often fail to perform elementary fact checking when reporting on future catastrophes. *Meltdown* was Amazon.com's number-one bestseller on global warming, and Michaels had even more impact when his work formed the scientific basis for Michael Crichton's latest thriller, *State of Fear*.

Economic dynamism has been under particular attack in the energy sector. Jerry Taylor, director of natural resource studies, was ubiquitous in the media in 2004. He published a trio of op-eds in the *Wall Street Journal*. An April op-ed, coauthored with *Regulation* editor Peter Van Doren, pointed out that, after adjusting for inflation, gas prices were not especially high in historical terms. In July Taylor wrote that the common perception that Enron's activities in the electricity business were an emblem of free markets run amok was backwards—after California's electricity "deregulation," the state was more heavily involved in the electricity market than ever. Enron, he argued, merely took advantage of the incentives created by California's byzantine regulatory system. Taylor and Van Doren also contributed an August op-ed on the first anniversary of 2003's Northeast power blackout that argued that that blackout's causes were more prosaic than is assumed by those who advocate sweeping

regulatory changes—poor tree maintenance near power lines was the initial cause of the blackout, they write.

Telecommunications is the nervous system of a dynamic economy, and Adam Thierer, Cato's director of telecommunication studies, was a prominent voice on behalf of a innovative and competitive telecom sector. At the invitation of chairman John McCain, Thierer testified twice before the Senate Commerce Committee. In April he argued that the 1996 Telecom Act, while a step in the right direction, had not gone far enough in freeing the telecom industry from regulatory meddling. At a March Capitol Hill Briefing, former attorney general Bill Barr argued that the FCC had turned the intent of the 1996 Telecom Act on its head, using the law as an excuse for imposing a raft of new regulations on service providers.

In September Thierer was again asked to testify before Congress. He spoke in favor of loosening media ownership restrictions, noting that the explosion of media diversity made the already flimsy rationale for such regulations completely outdated. Throughout the year, Thierer appeared on many media outlets, including the *NewsHour with Jim Lehrer* and National Public Radio, to promote media deregulation.

A June conference examined the controversy over online file-swapping networks, which are commonly used to illegally trade copyrighted music. Speakers included Rep. Rick Boucher (D-VA) and Motion Picture Association of America president Jack Valenti. A December seminar in Silicon Valley focused on the technology options before Congress in the next session.

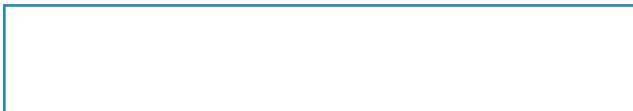
With spyware, identity theft, and new privacy-threatening technologies becoming almost daily news, Cato hired Jim Harper as director of information policy studies in September. As editor of *Privacilla.org*, Harper is a nationally known expert on privacy issues. In an August Policy Analysis, he urges lawmakers to focus on reducing government-created threats to privacy, such as comprehensive national databases and pervasive government surveillance. Attempts to heavily regulate privacy in the private sector, Harper writes, deprive consumers of the freedom to decide how much personal information they want to share with others.

Cato publishes the quarterly *Regulation* magazine, a leading review of government regulations and their impact on economic dynamism. *Regulation* bridges the gap between academia and the world of public policy, giving economists the opportunity to reach an audience that would otherwise not be exposed to their work. The Spring issue criticized Europe's highly restrictive biotechnology regulations and proposals to require corporations to expense stock options. Contributors to the Summer issue debated the competitiveness of the market for legal services and the advantages

and disadvantages of local zoning laws. The Fall issue examined the evolution of antitrust law, the interstate market for wine, and the advantages of state-based, rather than federal, regulation.

An out-of-control tort system and expansive antitrust law also threaten economic dynamism, as Robert A. Levy documents in *Shakedown: How Corporations, Government, and Trial Lawyers Abuse the Judicial Process*. Lawsuits against tobacco, gun, and fast food manufacturers threaten to drive up costs and take choices away from consumers, he argues. And market losers too often wield antitrust law as a club against their more successful competitors. He proposes procedural reforms that will make it harder for plaintiffs to inflict abusive state tort laws on citizens of other states but argues that substantive tort reform must take place at the state level. Congress should repeal antitrust law, he writes.

Cato scholars strive to remind policymakers that every tax, regulation, and government program comes with an implicit cost to innovation and competition. In the coming year they will press the case for reducing the government burden on the economy to ensure that America's economy continues to produce ever greater wealth for decades to come.

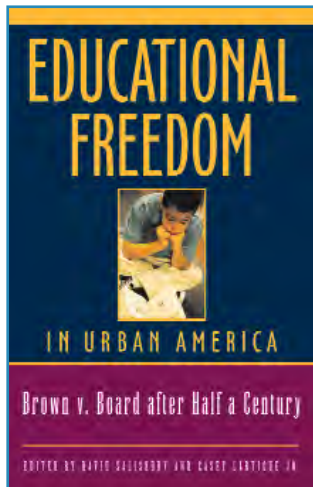


At Cato's trade conference, **Sen. Chuck Hagel** stresses not only that trade is good for American consumers but that it promotes economic stability and democracy abroad.

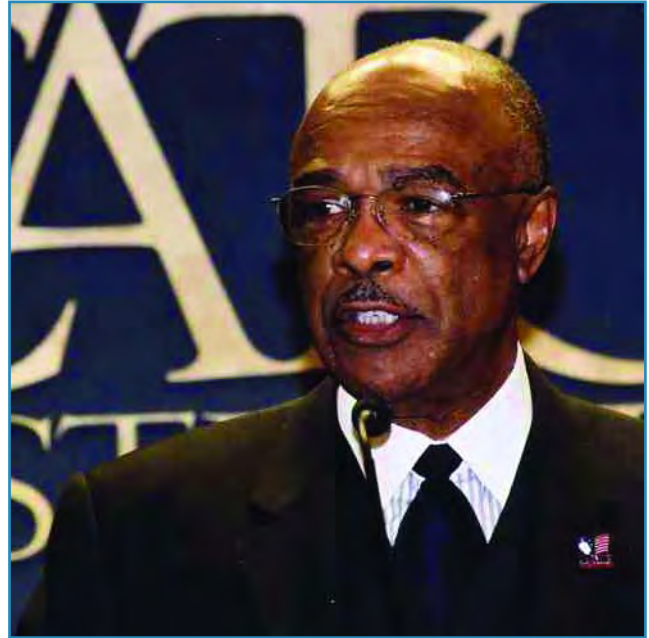


Under the editorship of Peter Van Doren, such distinguished scholars as Richard Epstein, Lawrence Lessig, John Mueller, M. A. Adelman, William Fischel, Daniel Shaviro, and Lawrence J. White wrote for *Regulation* in 2004.





Secretary of Education **Rod Paige** tells a Cato Book Forum audience that school choice would help fulfill the promise of *Brown v. Board of Education*.



White House domestic policy chief **Margaret Spellings**, later named secretary of education, discusses President Bush's immigration reform at a Cato Policy Forum.

Diane Ravitch, author of *The Language Police*, discusses political pressures from right and left on the textbook adoption process at a Policy Forum televised by C-SPAN.



EMPOWERING THE POOR

“We have no legal channel for peaceful, hard-working people to come into the United States and fill the jobs that most Americans don’t want. And the result is that you have illegal immigration.”

Dan Griswold on *Lou Dobbs*, 11.17.04

The welfare state hurts all taxpayers, but—because their opportunities are already limited—it hurts the poor the most. High taxes make it hard to make ends meet. Regulations stifle small business creation and destroy entry-level jobs. And government monopolies cost too much and deliver too little for the money they receive.

As scholars in Cato’s Center for Educational Freedom have shown, nowhere is that last tendency more obvious than in inner-city schools. Those government schools have some of the nation’s highest per pupil budgets and produce some of its worst educational outcomes. The parents of the children attending those schools often feel trapped—powerless to change how the school is run and unable to afford better alternatives.

Fortunately, there is an alternative: school choice. America’s schoolchildren got a late Christmas present in January when President Bush signed into law a pilot school voucher program for the nation’s capital. The signing capped a year of hard work by Cato policy analyst Casey Lartigue, who spoke and wrote tirelessly in support of school choice throughout 2003.

In April Cato published a book that illustrated just how badly school choice was needed in the inner cities. *Educational Freedom in Urban America: Brown v. Board after Half a Century* demonstrates that America has failed to close the racial achievement gap that has dogged America’s education system since the Supreme Court ordered the desegregation of schools in 1954. The contributors argue that only school choice will give parents the authority they need to ensure that their children receive a high-quality education.

At a May conference, experts discussed the wide range of school choice experiments going on around the world, from Chile to Sweden. In the keynote address, James Tooley of the University of Newcastle described how private schools were successfully educating poor children in the world’s most squalid slums. The conference papers will form the basis of a book to be published in 2005.

Studies have shown that the surest ticket out of poverty is a steady job, and Cato has strongly supported the national

effort to move welfare recipients to work. Policy analyst Jenifer Zeigler published “Implementing Welfare Reform: A State Report Card” in October. She gave each state a letter grade from A to F based on its success in reducing caseloads, imposing meaningful work requirements, reducing poverty rates, and other factors. The report got widespread coverage across the country, including more than two dozen radio stations and 30 newspapers.

One group that is especially harmed by the welfare state is immigrants. Because voters suspect immigrants of coming to America to go on the dole, immigration is severely restricted and immigrants—most of whom are eager to work—often experience an unfair stigma. Dan Griswold, Cato’s director for trade policy studies, has long studied ways to help immigrants come to work in the United States legally. In late 2002 he published a Trade Policy Analysis calling for a temporary worker program to allow those who wanted to take jobs in the United States to do so. The paper struck a chord. In January 2004 President Bush proposed a reform plan of his own that drew on Griswold’s proposal.

Griswold received an avalanche of media coverage. In January alone, he appeared on *Lou Dobbs Tonight*, *CNBC’s Capital Report*, *CNN’s American Morning*, *PBS’s Nightly Business Report*, the Fox News Channel’s *Fox and Friends*, and other national television programs. He was cited in the *Washington Post*, the *New York Times*, the *San Francisco Chronicle*, and other major papers. He appeared on *Lou Dobbs Tonight* again in March. In April he testified before the Senate Immigration Subcommittee.

With his reelection secured, President Bush is expected to push his immigration proposal forward in 2005. A forthcoming Cato study will focus on the economic need for increased immigration. As Congress and state legislatures debate immigration reform, welfare reform, school choice, and other issues affecting the working poor, Cato scholars will promote policies that maximize all persons’ opportunity to earn a living for themselves and their families.

PROTECTING CIVIL LIBERTIES

“Whether it was intentional or not, (the law’s authors) staggered into a clear threat to core political rights.”

John Samples on McCain-Feingold, *Investor’s Business Daily*, 6.25.04

America’s Bill of Rights is the strongest document in defense of individual liberty in the world. Its protections include the **freedom of speech and religion, the right to a jury trial, and guarantees against unreasonable searches and seizures**. But those rights have been under attack in recent years, as government officials have found them increasingly inconvenient to accomplishing their policy objectives. Cato scholars spent 2004 reminding policymakers that not only is the Bill of Rights the law of the land; it also contains guiding principles that should be embraced by elected officials and judges, not cynically ignored and evaded.

Sadly, politicians and the courts haven’t always taken that message to heart. When the Bush administration declared two American citizens, Yaser Hamdi and José Padilla, “unlawful enemy combatants” and imprisoned them indefinitely without trial or access to counsel, Timothy Lynch, director of Cato’s Project on Criminal Justice, was an early and vocal critic of the administration’s actions. In 2004 Cato filed friend-of-the-court briefs in both cases, arguing that **every U.S. citizen has the right to appear before a civilian judge** to contest the grounds for his detention. The Supreme Court agreed in both cases, requiring that the administration justify its decisions to hold Hamdi and Padilla before a “neutral decisionmaker.” Lynch published an op-ed in the *Wall Street Journal* demonstrating that the *Hamdi* case involved much more fundamental issues than the fate of one suspected terrorist.

A major defeat for free speech came in the case of *McConnell v. Federal Election Commission*, in which the Court held that restrictions on political advertising did not violate the First Amendment. During 2004, Cato’s analysts highlighted the troubling consequences of that decision. Two incidents in the heat of the 2004 presidential campaign illustrated the perils of government regulation of political speech. In a September edition of *60 Minutes II*, CBS anchor Dan Rather showed documents purporting to cast doubt on President Bush’s military record. Those documents turned out to be forgeries. But when some Republicans called for

congressional investigations of Rather’s reporting, Adam Thierer, director of telecommunications studies, cried foul. In *TechKnowledge*, Cato’s technology policy newsletter, Thierer emphasized that—regardless of the merits of Rather’s reporting—CBS was protected by the First Amendment from government interference.

Democrats, in contrast, were incensed by an October documentary attacking Sen. John F. Kerry for his record in Vietnam. Seventeen senators signed a letter to the Federal Communications Commission asking for an investigation of the propriety of airing *Stolen Honor: Wounds That Never Heal* on Sinclair Broadcast stations, charging that the proposed broadcast would violate the 2003 McCain-Feingold bill. Here again, **Cato analysts defended the right to free speech**. In an October column for Fox News, John Samples, director of Cato’s Center for Representative Government, argued that it was precisely that kind of political speech that the First Amendment was designed to protect. Moreover, he noted, **the problem of politicians suppressing citizen speech is bipartisan**: Republicans made similar threats when Michael Moore proposed to air his documentary *Fahrenheit 9/11* on broadcast TV prior to the election.

Janet Jackson’s February “wardrobe malfunction” set off a flurry of new proposals to censor not only broadcast television but cable and satellite television as well. Adam Thierer was a prominent opponent of new “indecentcy” regulations. In op-eds, issues of *TechKnowledge*, and television appearances, he pointed out that the rationales generally used to justify censorship of broadcast television do not apply to subscription services, which consumers must specifically choose to order and install in their homes. At a September Cato seminar in Beverly Hills, Penn Jillette of the comedy duo Penn and Teller warned that recent congressional and regulatory attempts to limit freedom of expression on the airwaves threaten artistic freedom and creativity.

Civil liberties also took a hit in the case of *Hiibel v. Nevada*. Nevada resident Larry Hiibel was arrested after refusing to identify himself as required under state law.



Judge Andrew Napolitano, senior judicial analyst for Fox News and author of *Constitutional Chaos: What Happens When the Government Breaks Its Own Laws*, discusses civil liberties in wartime.

THE WALL STREET JOURNAL.

Friday, April 23, 2004

Hamdi and Habeas Corpus

By Timothy Lynch

The Supreme Court is set to consider the most important constitutional question since 9/11: Can the president suspend the writ of habeas corpus for a citizen? The question is whether the president can suspend the writ of habeas corpus for a citizen who is not an enemy combatant.

On April 23, the U.S. Supreme Court will hear the case of *Yusuf Hamdi v. Rumsfeld*. Hamdi is a U.S. citizen who was captured in a military zone in Afghanistan, taken to Guantanamo Bay, and held in custody for two years.

On the surface, the Hamdi case appears to be a no-brainer. Hamdi was apparently not an enemy combatant. He was captured in a military zone in Afghanistan, taken to Guantanamo Bay, and held in custody for two years.

A close examination of the Hamdi case, however, shows that the constitutional stakes could not be higher. That's because the Bush administration has been using the Hamdi case as a vehicle to sweep away the writ of habeas corpus for all citizens.

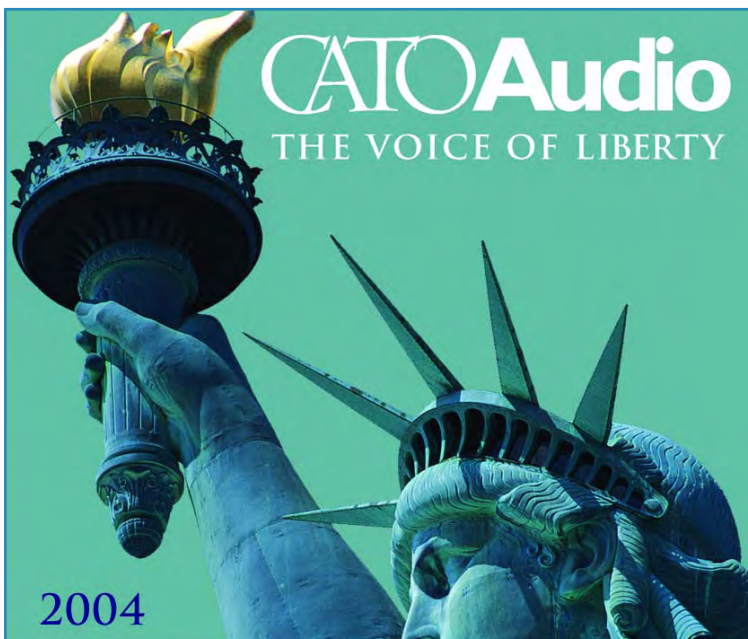
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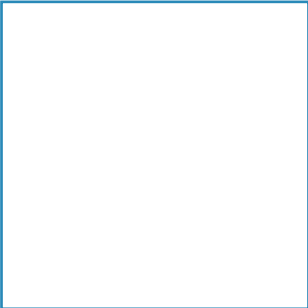
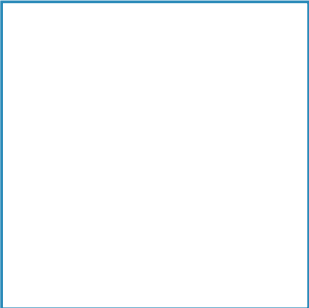
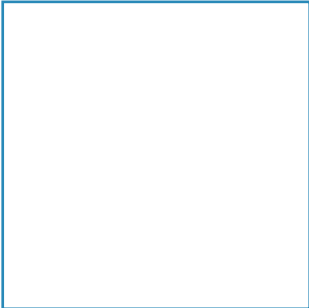
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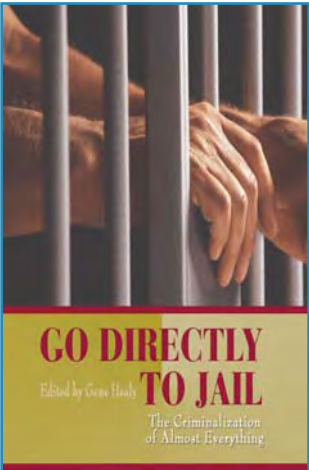
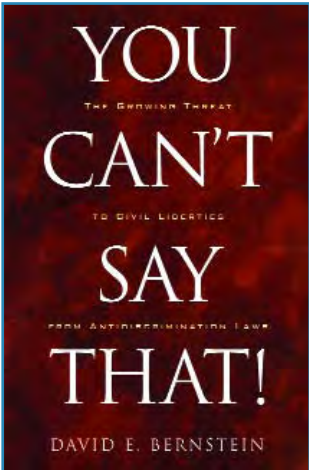
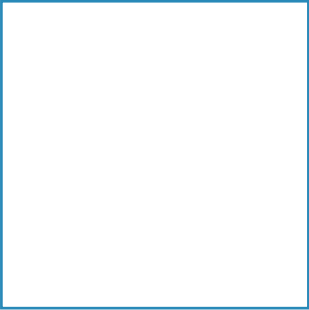
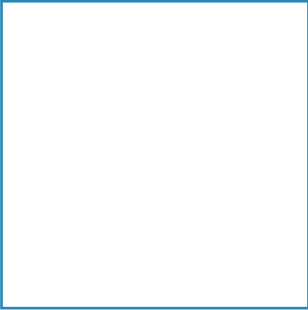
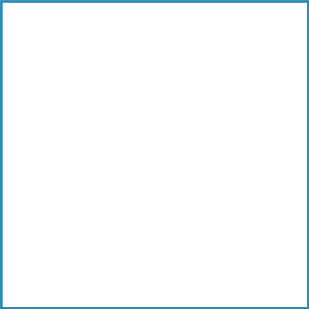
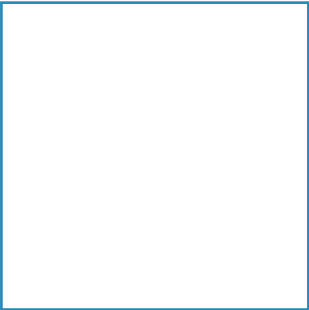
The Supreme Court is set to consider the most important constitutional question since 9/11: Can the president suspend the writ of habeas corpus for a citizen?

The Supreme Court is set to consider the most important constitutional question since 9/11: Can the president suspend the writ of habeas corpus for a citizen?

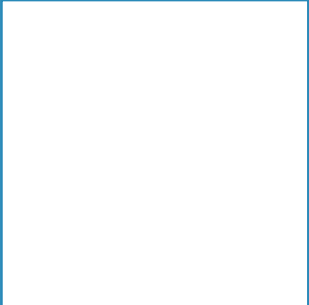




Cato's **Adam Thierer** and magician **Penn Jillette**, a Mencken Research Fellow at Cato, discuss new congressional and regulatory threats to free speech on the airwaves at a Cato Seminar in Los Angeles.



These books offer timely warnings about growing threats to free speech from anti-discrimination laws and the increasing criminalization of more and more peaceful activity.



He challenged the law on the basis of his Fifth Amendment privilege against self-incrimination, and Cato submitted a **brief arguing that the state could not criminalize the simple silence of a citizen.** In a 5-4 decision, the Court held that the Fifth Amendment did not protect a right to anonymity. Despite that setback, Cato's brief generated significant press attention, including citations in the *New York Times*, the Associated Press, and elsewhere. Timothy Lynch and other Cato experts were sought out for dozens of radio and television interviews.

The Bill of Rights protects religious liberty too. Cato submitted an amicus brief in the case of *Locke v. Davey*, arguing that the state of Washington may not single out students pursuing religious instruction for exclusion from its otherwise open-ended scholarship program.

In 2004 Cato scholars also continued to defend the right to trial by jury. In 2002 Cato published a sweeping indictment of the present system of judicial sentencing guidelines, which requires judges to enhance defendants' sentences on the basis of conduct never brought before a jury. In a landmark decision in June 2004, the Supreme Court ruled that such **enhanced sentences violate the Sixth Amendment's guarantee of a jury trial.** At an August Policy Forum, William Young, chief judge of the U.S. District Court in Massachusetts, who had anticipated the high court's ruling with a similar decision earlier in the year, emphasized that juries anchor the judicial system by providing a check on the unbridled discretion of judges. At the same event, Cato author Erik Luna argued that by taking discretion away from both the judge and the jury, federal sentencing guidelines give de facto sentencing powers to prosecutors, who have wide discretion about the charges to bring against a defendant.

Cato senior editor Gene Healy exposes another worrying legal trend in *Go Directly to Jail: The Criminalization of Almost Everything*. Congress, he writes, has developed a bad habit of criminalizing minor infractions of the law to score political points. *Go Directly to Jail* received favorable coverage in *Business Week*, and its associated Cato Book Forum was broadcast multiple times on C-SPAN. Healy's February Policy Forum on the militarization of law enforcement was also broadcast by C-SPAN.

The success of the 2003 title *You Can't Say That!*—which demonstrated how **anti-discrimination law run amok** has begun to clash with civil liberties—prompted Cato to release a paperback edition of the book in 2004. It was reviewed in the *Baltimore Sun*, the *New York Post*, and *U.S. News and World Report*.

Radley Balko joined Cato's policy staff in April to focus on the growing trend of government meddling in our personal lives. Through lawsuits, regulation, and government-funded propaganda campaigns, an army of busy-bodies has sought

to dictate what we eat, what we drink, what we smoke, how often we exercise, and many other decisions properly left to individuals.

Balko has hit the ground running. A packed Policy Forum in June focused on the growing movement to restrict advertising to children. Also in June, Balko was featured in a *Time* magazine cover story on the rising obesity rate and penned an op-ed in the *Washington Post* on the crusade to ban smoking in D.C. bars. In July the *Los Angeles Times* published a Balko commentary criticizing Medicare's decision to cover obesity treatments without the explicit approval of Congress. With director of health policy studies Michael Cannon, Balko wrote an October column for the *Washington Times*, urging the federal government to make it easier for health insurance companies to give preferential rates to customers with good eating habits.

Balko has rapidly become **one of the nation's most prominent opponents of the trend toward a "nanny state."** In early 2005 Balko will publish an article in *Playboy* magazine and a major paper on obesity. Balko is also editing a forthcoming paper by the University of North Florida's Ron Libby criticizing federal regulators who have wasted law enforcement resources penalizing doctors who prescribe pain killers liberally.

In 2004 civil liberties were a major theme in *CatoAudio*, Cato's monthly audio magazine. The January issue featured Rep. Barney Frank (D-MA) criticizing his fellow liberals for supporting gambling bans. The April issue featured critiques by Cato senior editor Gene Healy and former representative Bob Barr (R-GA) of the increasing militarization of law enforcement. In the October edition, Erik Luna highlighted the injustice of the present system of federal sentencing guidelines. And Federal Election Commissioner Brad Smith warned in the November issue that campaign finance restrictions threatened freedom of speech.

ADVANCING THE WORLDWIDE LIBERAL REVOLUTION

“I see the IMF as being a burdensome third party which delays resolution of debt crises and creates uncertainty. It has become more and more evident that it has no role in an increasingly liberal world economy.” Ian Vásquez, *National Post*, 7.22.04

The last quarter century has been a heady era for lovers of liberty. Around the world, countries unleashed market forces to improve the lot of their citizens. Rich countries cut taxes, privatized and deregulated industries, trimmed their welfare states, and reined in inflation. Poor countries saw even more dramatic gains. The Soviet Union crumbled, democracy took root in Latin America and Southeast Asia, South Africa ended apartheid, and China and India began to liberalize their socialist economies. The results have been stunning: creativity and innovation have flourished, the world has become more connected, and hundreds of millions of people have been lifted out of poverty.

But that liberal revolution is far from finished. Developing countries still have far too many barriers to entrepreneurship and wealth creation. And some nations—especially in Africa—missed the boat entirely, leaving them mired in poverty. Seeking to add momentum to liberal reforms, the Cato Institute brought together some of the world's leading market liberals for a major conference in Russia. Leaders who had successfully implemented reforms in their own countries, including Estonian prime minister Mart Laar, Cato senior fellow José Piñera, former Polish finance minister Leszek Balcerowicz, former New Zealand finance minister Ruth Richardson, and Kazakhstan deputy prime minister Grigori Marchenko, explained how they produced rapid economic growth through aggressive reductions in the size of government and strengthening market institutions. Nearly 500 people attended the conference, including participants from more than a dozen former communist nations.

The conference was organized by Ian Vásquez, director of Cato's Project on Global Economic Liberty, and cosponsored by the Institute of Economic Analysis and the Russian Union of Industrialists and Entrepreneurs. It received a blizzard of international press coverage, especially in Russia, where it was front-page news. The conference was capped by a four-hour meeting with Russian president Vladimir Putin, arranged by conference organizer and senior Kremlin adviser

Andrei Illarionov. Putin met with Cato president Ed Crane and other leading conference participants to discuss market reforms in Russia. José Piñera, the architect of Chile's successful pension reforms, urged Putin to modernize Russia's pension system, and Crane stressed the importance for Russia's future of free and independent media.

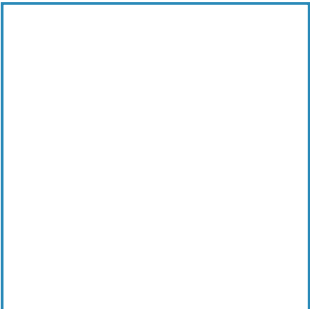
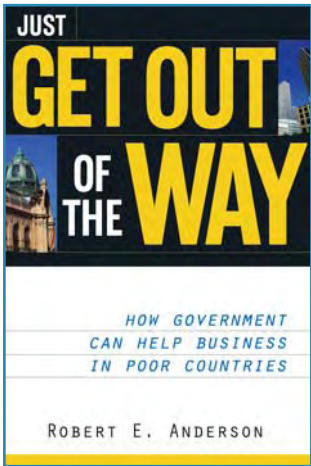
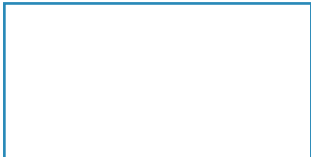
In May the Cato Institute awarded Hernando de Soto its biennial **Milton Friedman Prize for Advancing Liberty**, which includes a \$500,000 grant funded by specially earmarked donations. De Soto was recognized for his lifelong devotion to conquering poverty by giving the poor access to secure private property and the rule of law. In the 1980s de Soto and his colleagues at Peru's Institute for Liberty and Democracy successfully pressured the Peruvian government to enact reforms that, for the first time, gave Peru's poorest citizens strong legal protections for their homes, businesses, and other property. Since then, he has offered advice to leaders around the world on how to enact similar reforms in their countries. Such luminaries as Milton Friedman, **George Shultz**, **Thomas Sowell**, and **Fareed Zakaria** paid tribute to de Soto at a gala dinner in San Francisco.

A 2004 Cato book, *Just Get Out of the Way: How Government Can Help Business in Poor Countries*, emphasized that, too often, Western experts recommend sophisticated policies that governments in poor countries cannot successfully implement. Instead of adopting policies that are common in rich countries, development economist Robert E. Anderson suggests that policymakers take into account the institutional weaknesses typical of developing countries—corruption, deficient rule of law, cronyism, and so on. Simpler, market-oriented policies are more suitable to poor countries' institutional environments and more likely to keep the private and public sectors honest, he argues.

One way to judge the progress of liberal reform is to examine the annual *Economic Freedom of the World* report, which Cato publishes with the Fraser Institute in Canada. It rates countries on their progress on five major facets of economic freedom—limited government, the rule of law,



Newsweek International editor **Fareed Zakaria**, a member of the international selection committee for the Milton Friedman Prize for Advancing Liberty, presents the prize to **Hernando de Soto**.



Cato vice president **James Dorn** (third from left) was a keynote speaker at the International Think Tank Forum in Shenzhen, China, and at the Atlas Economic Research Foundation conference in Hong Kong. His topic was "Why Freedom Matters."





Senior fellow **José Piñera** gives Cato pamphlets on Social Security privatization to Russian president **Vladimir Putin** at a four-hour meeting following Cato's Moscow conference, *A Liberal Agenda for the New Century*.

Kenyan activist **June Arunga** blasts Africa's kleptocratic rulers for destroying hope and opportunity on the continent. She spoke at a March 30 Policy Forum featuring her new BBC documentary, *The Devil's Footpath: A Young Person's Journey through Africa*.



sound money, free trade, and deregulation. In 2004 Hong Kong retained its top ranking, and the United States was ranked the third-freest economy in the world. Overall, the report tells an encouraging story: economic freedom is strongly linked to economic prosperity, and the world's average economic freedom index rose from 5.1 on a 10-point scale in 1980 to 6.5 today. Policymakers find the report invaluable. John B. Taylor, under secretary of the treasury for international affairs, said the economic freedom index has a "direct impact on public policy, including the development policy of the United States."

Sadly, prosperity has passed over some parts of the world. Most tragic is Africa, which largely failed to participate in the liberal revolution. In 2004 Cato highlighted the fact that most African governments ruthlessly exploit their populations, driving them ever deeper into poverty. In a series of Cato Policy Forums, speakers described the devastating economic effects of corruption, violence, and restrictions on trade and travel. In March, 22-year-old Kenyan activist June Arunga screened her new BBC documentary about her travels across Africa, in which she detailed the terrible misgovernment that plagues the continent. George Ayittey, a Ghanaian economist at American University and a well-known critic of despotic African regimes, praised Arunga's work and emphasized that, for the good of the African people, world leaders must condemn the thuggery of Africa's rulers. A June Cato event spotlighted the plight of Zimbabwe, which has seen its economy shrink as President Robert Mugabe has resorted to increasingly drastic measures to preserve his hold on power. At a November event **Robert Guest of *The Economist*** illustrated Africa's plight with a series of stories from his years of reporting from there. He once hitchhiked on an African beer truck that was stopped 47 times by police officers seeking bribes. Little wonder, he said, that Africa has failed to prosper, given that commerce is choked off by violence and corruption.

Cato's **22nd Annual Monetary Conference**, titled "International Monetary Reform and Capital Freedom," focused on the best ways for countries to liberalize their capital markets without precipitating currency crises. Access to foreign capital is crucial to economic growth, as Kristin Forbes, a member of the president's Council of Economic Advisers, argued in the luncheon address. Yet many critics warn that capital liberalization can precipitate currency instability. In the keynote address, **Federal Reserve Board Governor Ben Bernanke** argued that monetary stability is best achieved by choosing one of two extremes: large, stable nations should adopt freely floating exchange rates, while some smaller nations with weak political institutions might benefit from a "hard peg" to a major world currency, such as dollarization or a currency board. Leszek Balcerowicz, now

the head of Poland's central bank, gave the closing address. Cato's monetary conference has become a key venue for high-level discussion of monetary policy and financial services regulations.

Papers from the conference will be published in a forthcoming edition of *Cato Journal*, Cato's interdisciplinary journal of public policy analysis. In 2004 *Cato Journal* included such distinguished contributors as Milton Friedman, Anna Schwartz, Alan Greenspan, and James Buchanan.

In addition to editing *Cato Journal*, Cato's vice president for academic affairs James Dorn promotes market reforms around the world, notably in China. He delivered a keynote address to a major conference of the China Development Institute on the importance of liberalizing capital markets. He also delivered a luncheon talk to the Asian resource bank in Hong Kong and met with members of the Hong Kong cabinet. He edited a Spanish-language collection of Cato writings on the Argentine financial crisis that received widespread press attention in Argentina.

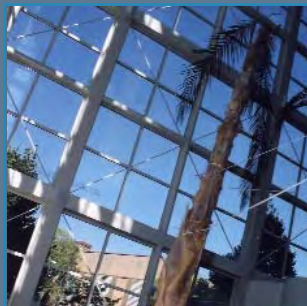
Through papers, editorials, and media appearances, Cato's Center for Trade Policy Studies has highlighted ways in which America's **protectionist policies harm not only American consumers but the world's poorest citizens as well**. At a June Policy Forum, Dan Griswold, director of the center, and Jennifer Brant of Oxfam argued that Western agricultural subsidies depress prices for poor farmers struggling to feed their families. In a pair of July events, the ambassadors of four Central American nations explained how the proposed Central American Free Trade Agreement would spur economic development in their countries. A September Trade Briefing Paper by Griswold and policy analyst Dan Ikenson makes the case for the agreement. Also in September, Ikenson penned a *Wall Street Journal* op-ed warning of the damage antidumping law is doing to U.S. credibility in trade negotiations.

Cato will continue to promote liberal reform in the coming year, bringing the benefits of limited government, private property, free and independent media, and the rule of law to nations around the world.

MAKING THE CASE FOR LIBERTY

As our elected officials debate how best to strengthen national security and reform our entitlement programs, America's founding ideals are at risk of being ignored or forgotten. Fortunately, the Cato Institute exists to ensure that the ideals of limited government, individual liberty, free markets, and peace remain at the center of the policy debate. Cato has nearly 100 employees dedicated to advancing civil society in the policy trenches of our nation's capital. Our scholars regularly appear on television and before congressional committees, but equally important are the support staff who work behind the scenes to publish, disseminate, and promote the scholars' ideas. Their hard work and dedication make possible the steady stream of studies, books, conferences, and Hill Briefings that Cato produces week after week.

None of our efforts would be possible without the financial and moral support of our more than 15,000 individual Sponsors and increasing numbers of foundation and corporate contributors. Many have supported our efforts for years, even decades. The support of so many intelligent, productive Americans and prestigious organizations from coast to coast reminds us that—contrary to the assumptions of the political class—the nation's greatness does not flow from Washington, D.C. And with their financial support, we seek to preserve and expand the liberty that is the source of America's greatness.





OUTREACH

PAGE 36

Cato's scholars are among the most influential voices in the national policy debate. They appear on network television and radio, place op-eds in leading newspapers, and testify before Congress in defense of liberty and limited government.



STAFF

PAGE 40

Each of Cato's nearly 100 associates—who include policy experts, writers and editors, artists and media professionals, programmers and administrators—is vital to the Institute's mission of advancing free markets and individual liberty.



FINANCES

PAGE 46

Cato increased its revenues in 2004, but extraordinary expenses created a challenging fiscal environment. Cato continues to have a strong balance sheet, with net assets of more than \$16 million.



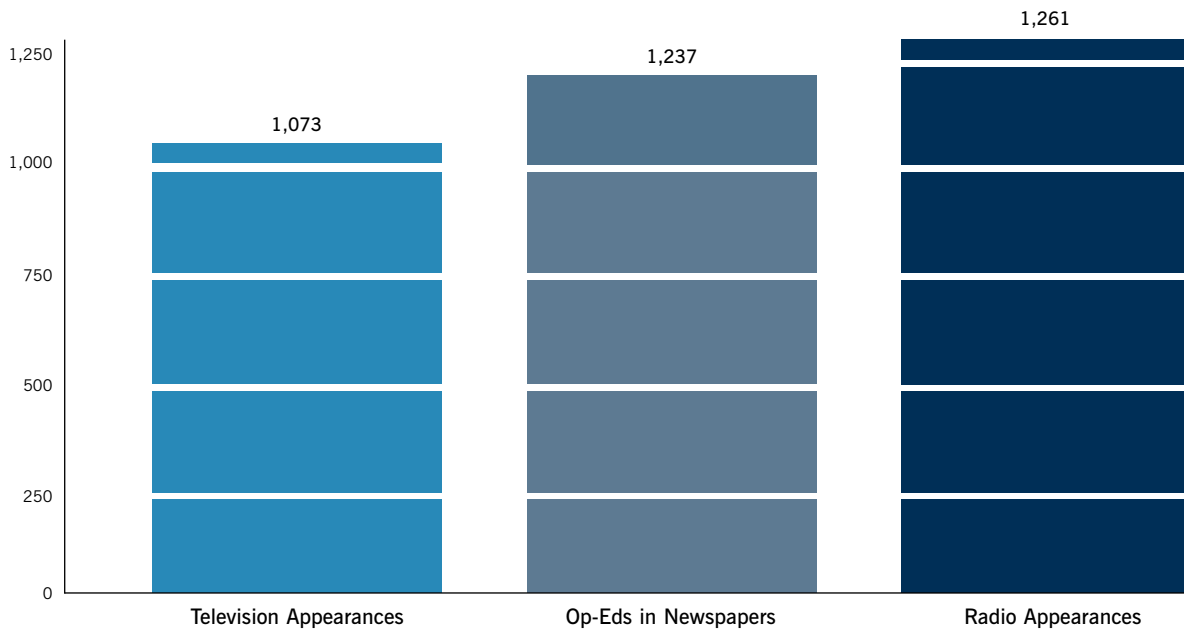
CONTRIBUTORS

PAGE 47

Cato's Sponsors have made a personal commitment to ensuring that liberty and limited government have a champion in Washington, D.C. Their generosity makes the work of the Institute possible.

MEDIA

News Coverage in the Media—2004



Cato's media relations department works to keep the Institute's scholars and ideas in the major national and international media.

THE WALL STREET JOURNAL

Thursday, April 15, 2004

Medicare Math

By Jagadeesh Gokhale

Some economists are suggesting that the Medicare Trustees' report—released recently—reveals just about a third of the truth. It shows that out of Medicare's three subprograms, only one faces a financial shortfall. However, the report could present revenue transfers as dedicated resources for the other two subprograms. This is an accounting exercise, not a policy one. It is an accounting exercise, not a policy one. It is an accounting exercise, not a policy one.

A program's financial health can be neatly summarized in one number—the amount of additional money to be raised before the program runs out of money. Medicare Part C—also called Medicare Advantage—under which retirees can opt to join HMOs, does not have its own trust fund, and its costs and financing are included in Parts B and D.

The Supplemental Medical Insurance program (Medicare Part D) and the new Prescription Drug program (Medicare Part D) receive funding out of general revenues. Medicare Part C—also called Medicare Advantage—under which retirees can opt to join HMOs, does not have its own trust fund, and its costs and financing are included in Parts B and D.

However, economists, including those with the Private Enterprise Research Center run by Thomas Sowell (one of Medicare's public trustees) have released briefing notes suggesting that Medicare's total shortfall is much larger—about \$6 trillion. Unlike the Trustees' report, 2003.

The Washington Post

SUNDAY, FEBRUARY 29, 2004

A DEA Crackdown That's Going to Hurt Those in Pain

By Thomas J. Blackman

The DEA's latest report on drug use in the United States is a sobering one. It shows that the number of people who are addicted to drugs has increased by 50 percent since 1999. The DEA's latest report on drug use in the United States is a sobering one. It shows that the number of people who are addicted to drugs has increased by 50 percent since 1999.

It is, of course, entirely appropriate to include general revenues when estimating the financial health of individual programs. The financial health of individual programs should be estimated on their own merits, not on the basis of general revenues.

TIME

JUNE 7, 2004

Are You Responsible for Your Own Weight?

Absolutely. Government has no business interfering with what you eat.

By Mark J. Rothstein and Mark J. Rothstein

The American Medical Association (AMA) has a new report on obesity. It says that the number of people who are obese has increased by 50 percent since 1999. The AMA's new report on obesity is a sobering one. It says that the number of people who are obese has increased by 50 percent since 1999.

It is, of course, entirely appropriate to include general revenues when estimating the financial health of individual programs. The financial health of individual programs should be estimated on their own merits, not on the basis of general revenues.



PUBLICATIONS



THE CATO JOURNAL

The Cato Journal is an interdisciplinary journal of public policy analysis. Featured articles include:

Spring/Summer: In a special joint issue, Alan Greenspan analyzes the sustainability of the U.S. trade deficit and Nobel laureate James M. Buchanan examines the constitutional design of the European common currency.

Fall: Leszek Balcerowicz, president of the National Bank of Poland, argues that limited government “provides the best defense of economic liberties and personal freedom.”



REGULATION

Regulation is Cato's quarterly review of business and government. Featured articles include:

Spring: Daniel Shavero writes that cutting taxes while letting spending rage out of control only piles costs onto future taxpayers.

Summer: Stanford's Bruce Owen argues that healthy competition in the market for high-speed Internet access makes government intervention unnecessary.

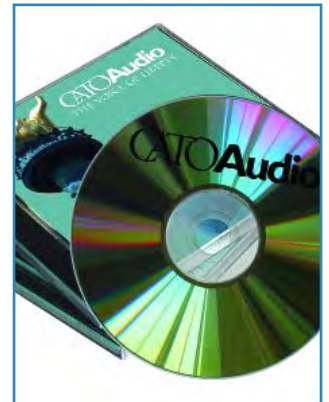
Fall: John Mueller warns that recent media attention to terrorism overestimates the risk that everyday Americans face.



POLICY ANALYSIS

Cato's Policy Analysis and Briefing Paper series provide expert analysis of public policy issues. Highlights from the 48 papers published in 2004 include:

Jenifer Zeigler compiles a survey of state welfare reform efforts titled “Implementing Welfare Reform: A State Report Card.” In “Drug Reimportation: The Free Market Solution,” Roger Pilon argues that free trade principles require allowing the reimportation of prescription drugs. A study by Chris Edwards gives a detailed blueprint for “Downsizing the Federal Government.”



CATOAUDIO

Each edition of *CatoAudio* brings listeners the best analysis and commentary from recent events.

In January, **Ed Crane** traces the Republican Party's abandonment of limited government principles. A special June edition features speakers from the presentation of the second biennial Milton Friedman Prize for Advancing Liberty, including **Thomas Sowell**, **Fareed Zakaria**, and prize winner **Hernando de Soto**. Secretary of Education **Rod Paige** appears in July, and Federal Election Commission chairman **Brad Smith** is featured in November.

BOOKS



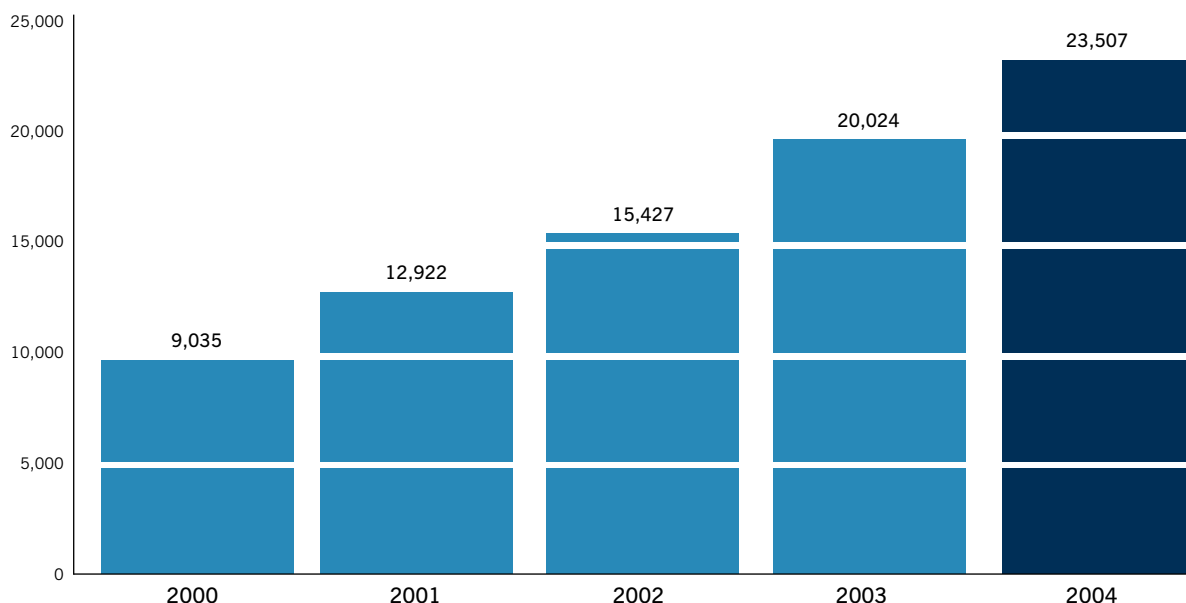
Cato Supreme Court Review 2003–2004, ed. Mark K. Moller
Cowboy Capitalism, Olaf Gersemann
Economic Freedom of the World 2004 Annual Report, James Gwartney and Robert Lawson
Educational Freedom in Urban America, ed. David Salisbury and Casey Lartigue
Exiting Iraq, ed. Christopher Preble
Declaración de Independencia y la Constitución de los Estados Unidos de América

Go Directly to Jail, ed. Gene Healy
Just Get Out of the Way, Robert E. Anderson
Korean Conundrum, Ted Galen Carpenter and Doug Bandow
Meltdown, Pat Michaels
Restoring the Lost Constitution, Randy E. Barnett
Shakedown, Robert A. Levy
Social Security and Its Discontents, ed. Michael D. Tanner
You Can't Say That, David E. Bernstein

ONLINE

www.cato.org

Average Weekday Visitors per Year

**WEBSITES**

The Cato Institute saw strong growth in Web traffic in 2004. In addition to its primary website, www.cato.org, Cato maintains www.socialsecurity.org, with comprehensive information on Social Security reform; www.freetrade.org, which features the work of Cato's prolific Center for Trade Policy Studies; and www.elcato.org, featuring Spanish translations of Cato publications.

Daily Dispatch**techknowledge**
The Cato Institute's Technology Policy Newsletter**SOCIAL SECURITY
THIS WEEK****Free Trade
Listserv****E-NEWSLETTERS**

Tens of thousands of individuals have signed up to receive e-mail updates from Cato. The *Cato Daily Dispatch* features commentary by Cato scholars on the news of the day. Other e-mail newsletters include *TechKnowledge*, *Social Security this Week*, *Tax and Budget Bulletin*, and the *Free Trade Listserv*.

12,000 Subscribers to Daily Dispatch**ONLINE EVENTS**

Website visitors can listen to audio or view video streams of live or archived Cato events.

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POLICY ANALYSIS

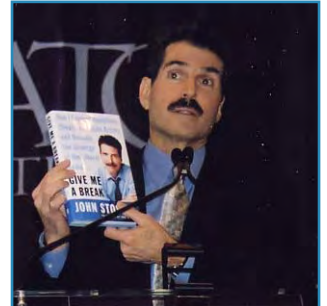
More than 700 studies published by Cato since 1980 are available for on-line viewing or download.

**Over 1.5 Million
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Analysis Online**

CONFERENCES

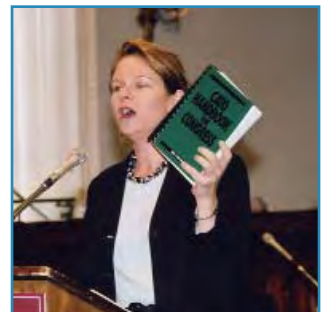
City Seminars

Cato held 10 seminars around the country in 2004, in cities from Boston to Atlanta to Los Angeles. With several thousand attendees, the seminars gave Sponsors and others interested in liberty the opportunity to hear from some of the nation's leading commentators on politics, culture, and society. In New York City, Christopher Hitchens gave a withering critique of Mayor Bloomberg's smoking ban. In Chicago, Charles Murray surveyed human achievement across the centuries and Adrian Wooldridge surveyed America's conservative movement across the decades. And, in Philadelphia, Fox News judicial analyst Andrew Napolitano exposed growing threats to civil liberties.



Hill Briefings

There were 22 Cato Hill Briefings in 2004. They gave congressional staffers up-to-date information on pending legislative issues. In January Mike Tanner unveiled Cato's Social Security reform plan, and Dan Griswold appeared with Rep. Jeff Flake (R-AZ) to highlight the need for a temporary worker visa program. In March Adam Thierer and former attorney general Bill Barr outlined key goals for a new telecom act. In July Ted Galen Carpenter warned of the dangers of a U.S.-China war over Taiwan. And in September Roger Pilon spoke in support of drug reimportation. More than 1,600 people attended Hill Briefings in 2004.



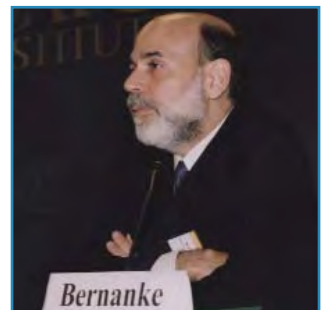
Book/Policy Forums

Cato brings its own scholars and other leading experts together to discuss new books and debate important policy issues in the Cato Book Forum and Cato Policy Forum series. In 2004 Cato held more than one Forum per week—26 Book Forums and 34 Policy Forums. The events were very popular, with nearly 5,000 attendees throughout the year. Speakers included humorist P. J. O'Rourke, Secretary of Education Rod Paige, presidential adviser Margaret Spellings, authors Ron Suskind and David Frum, and former House majority leader Dick Armey.



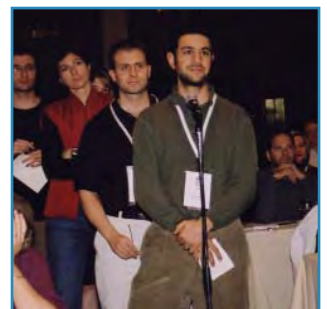
Major Conferences

2004 was a busy year for conferences at Cato. A pair of April events in Moscow and Saint Petersburg drew more than 500 opinion leaders from around the world. Nearly 300 people gathered in San Francisco to see Hernando de Soto receive the second biennial Milton Friedman Prize for Advancing Liberty. With *The Economist* magazine, Cato held two major conferences in October—the 22nd annual monetary conference, "International Monetary Reform and Capital Freedom," and the first annual trade conference, "Trade and the Future of American Workers." Those and six other conferences were held in Cato's F. A. Hayek Auditorium, drawing more than a thousand participants.



Cato University

Cato senior fellow Tom Palmer organized two Cato University seminars in 2004. At the weeklong summer seminar in San Diego, 100 students, working adults, and retirees learned about liberty from distinguished scholars in economics, law, psychology, and history. The October seminar in Quebec City, with 75 attendees, focused on developing skills of persuasion. Gene Healy, Dan Griswold, Monte Solberg, and others offered advice on defending free markets and individual liberty in newspapers, on talk radio, and with family and friends.



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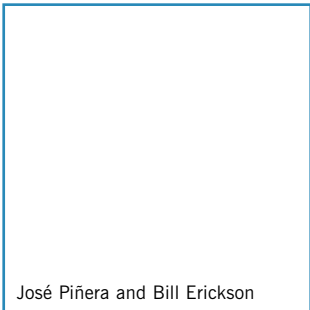
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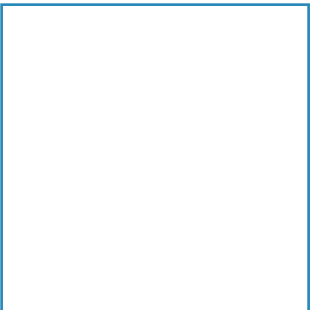
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Expenses in 2004 increased \$1.4 million, contributing to a deficit for the year. However, several extraordinary expenses incurred in 2004 are not anticipated in 2005, which should permit us to replenish our reserves going forward.

Cato, having no significant endowment, relies on annual support to fund its programs. Overall financial strength remains strong, with assets of \$16.8 million, offset by \$557,000 in liabilities.

2004 INCOME

Individuals	\$11,041,000
Foundations	1,830,000
Program Revenue	1,032,000
Corporations843,000
Other Income	177,000

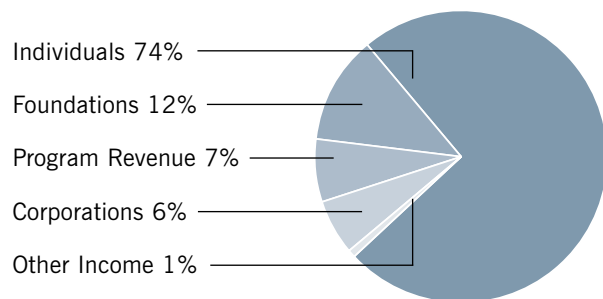
Income **\$14,923,000**

ASSETS AND LIABILITIES

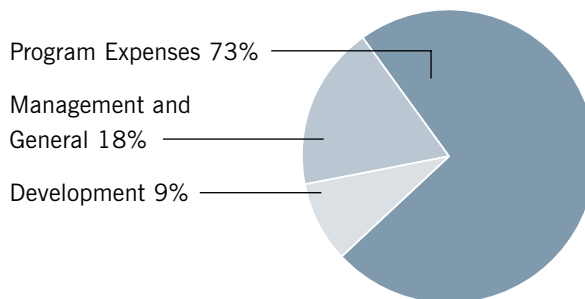
Cash and Equivalents	\$8,466,000
Net Fixed Assets	7,395,000
Other Assets973,000
Liabilities(557,000)

Net Assets **\$16,277,000**

2004 INCOME



2004 EXPENSES



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