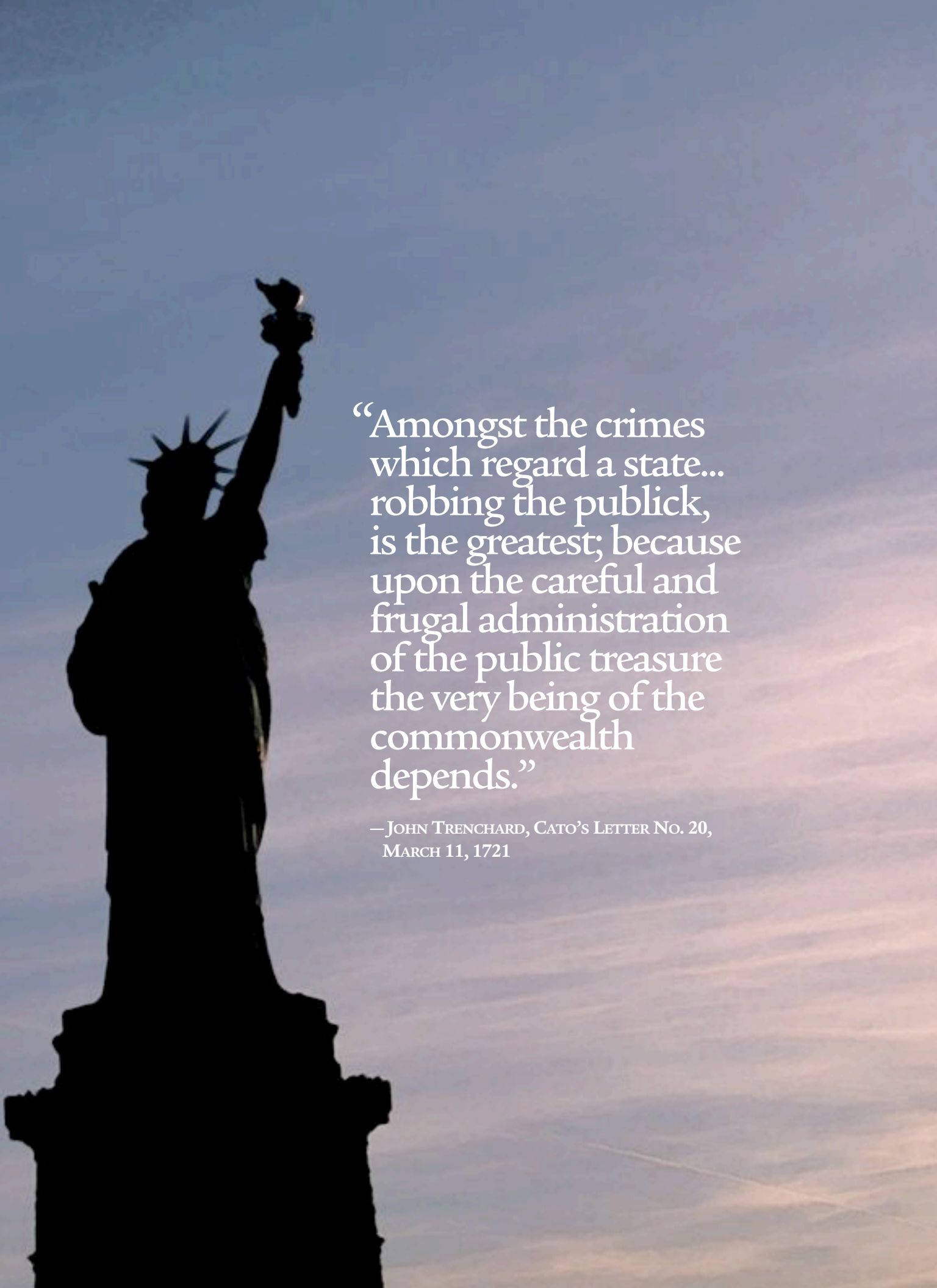




CATO INSTITUTE

2005 Annual Report

The image features a silhouette of the Statue of Liberty on the left side, set against a background of a sunset or sunrise sky with soft, horizontal cloud bands. The statue is shown from the waist up, holding a torch aloft in its right hand. The overall mood is contemplative and patriotic.

“Amongst the crimes
which regard a state...
robbing the publick,
is the greatest; because
upon the careful and
frugal administration
of the public treasure
the very being of the
commonwealth
depends.”

— JOHN TRENCHARD, CATO’S LETTER NO. 20,
MARCH 11, 1721



The Cato Institute

owes its name to *Cato's Letters*, a series of essays published in 18th century Great Britain that presented a vision of a society free from the tyranny of excessive government power. Those same ideals inspired the architects of the American Revolution and continue to inspire the work of the Cato Institute today. The Cato Institute's core mission is to advocate policies that preserve and expand individual sovereignty while decreasing the power of government to interfere with the lives and activities of peaceful individuals.

Today many American political leaders, elected to be good stewards of public monies and protectors of freedom, instead have endangered the very essence of America with policies that destroy liberty, stifle the economy, and waste billions of dollars.

Cato's work to restore the vision of our nation's founders is more important than ever.

America's founding generation created a new kind of nation, based on individual sovereignty, limited government, free commerce, and peace. In 2005 Cato continued to be a critical voice in the struggle to protect and advance these values, putting forward timely and practical policy proposals centered on our nation's first principles.



Message

from the President and the Chairman

The Cato Institute enjoyed unprecedented financial success in 2005. With revenues in excess of \$22 million, the Institute was able to erase the difficulties we and so many nonprofits had experienced in the wake of September 11, 2001. A special \$1 million gift to our Project on Global Economic Liberty under the direction of Ian Vasquez will allow us to expand that effort, which now includes websites in Spanish, Russian, and Arabic. Each of those sites has its own webmaster, is updated daily, and affords readers a wide array of classical liberal, free-market thinkers. Arab speakers, in particular, are able to read for the first time classic writings from such giants of freedom as John Locke, Thomas Jefferson, F. A. Hayek, Ludwig von Mises, Milton Friedman, and many others. The conflict in the Middle East will ultimately be resolved with enlightened discourse, not bullets.

We're proud of our colleague Tom Palmer, who has been a driving force behind the Arabic and Russian websites, along with Vasquez, who oversees the popular Spanish site, elcato.org. Palmer visited Baghdad twice and has been to several countries in the Middle East, South Asia, and Eastern Europe to promote liberty and work with like-minded scholars and activists. Vasquez and Palmer work closely with our long-time Russian friend Andrei Illarionov, former top economic adviser to President Vladimir Putin. Illarionov quit his job at the Kremlin in protest of its policies of curtailing both economic and political liberties.

The Cato Institute's international reputation has never been greater. We hope to create a Center for Global

Liberty sometime in 2006. Of course, bullets and weapons are still part of the fight against Islamic extremism, but so, too, is a thoughtful foreign policy that recognizes the limits, not to say counterproductivity, of an overly aggressive military posture around the world. Hopefully, the influence of neo-conservatives in the foreign policy world has waned in the wake of its failed predictions concerning military intervention in Iraq. The growing reputation of Cato's foreign policy scholars—Ted Galen Carpenter, Chris Preble, and most recently, Justin Logan—will help light the way to a more peaceful international regime, one in which America is held in the high esteem it deserves.

One concern we share is the growing assault on free trade. The Democratic Party, once a bastion of free trade, appears ready to capitulate to organized labor's demand that American consumers be denied inexpensive products from abroad. At a time of growing international tensions, protectionism is precisely the wrong approach. Under the guise of national security, some in Congress appear prepared to use the 12-agency Committee on Foreign Investments in the United States to block foreign investment. This is a dangerous development. Dan Griswold, director of Cato's Center for Trade Policy Studies, and his colleague Dan Ikenson are leading the battle to protect free trade. Vice President Brink Lindsey has a book coming out in 2006 that will help move the debate in the right direction, as well.

On more positive notes, Dan Griswold's study of immigration policy has been the basis for the adminis-

tration's enlightened approach in that area. The idea of marginalizing 11 million immigrants (in the manner of Muslims in France), much less criminalizing them, is exceedingly short sighted. We need to provide them with temporary worker status and an eventual road to citizenship. Only then will we be in a position to secure our borders and assimilate our immigrants. In the health policy field, we are pleased with the increasing recognition that third-party payers are a major source of escalating medical care costs and deteriorating service. The concept of Health Savings Accounts, first promoted in a Cato book, is the solution, and we're pleased that the administration is moving forward with efforts to expand the current system of HSAs. *Healthy Competition*, by Cato's health policy experts Michael Cannon and Michael Tanner, was well received in 2005.

We have always believed in Lord Acton's dictum that "Power tends to corrupt, and absolute power corrupts absolutely." That is particularly true in the kind of philosophical vacuum that Cato senior fellow and Nobel laureate James Buchanan has warned of. Absent the principles of individual liberty to guide policymakers, power becomes an end unto itself, and corruption inevitably will follow. From the pathetic case of Rep. "Duke" Cunningham, to the scandalized GOP in Ohio, to the bipartisan scandals in Congress related to the Jack Abramoff affair, corruption in politics appears endemic. America deserves much better, particularly with the enormous problems facing our great nation.

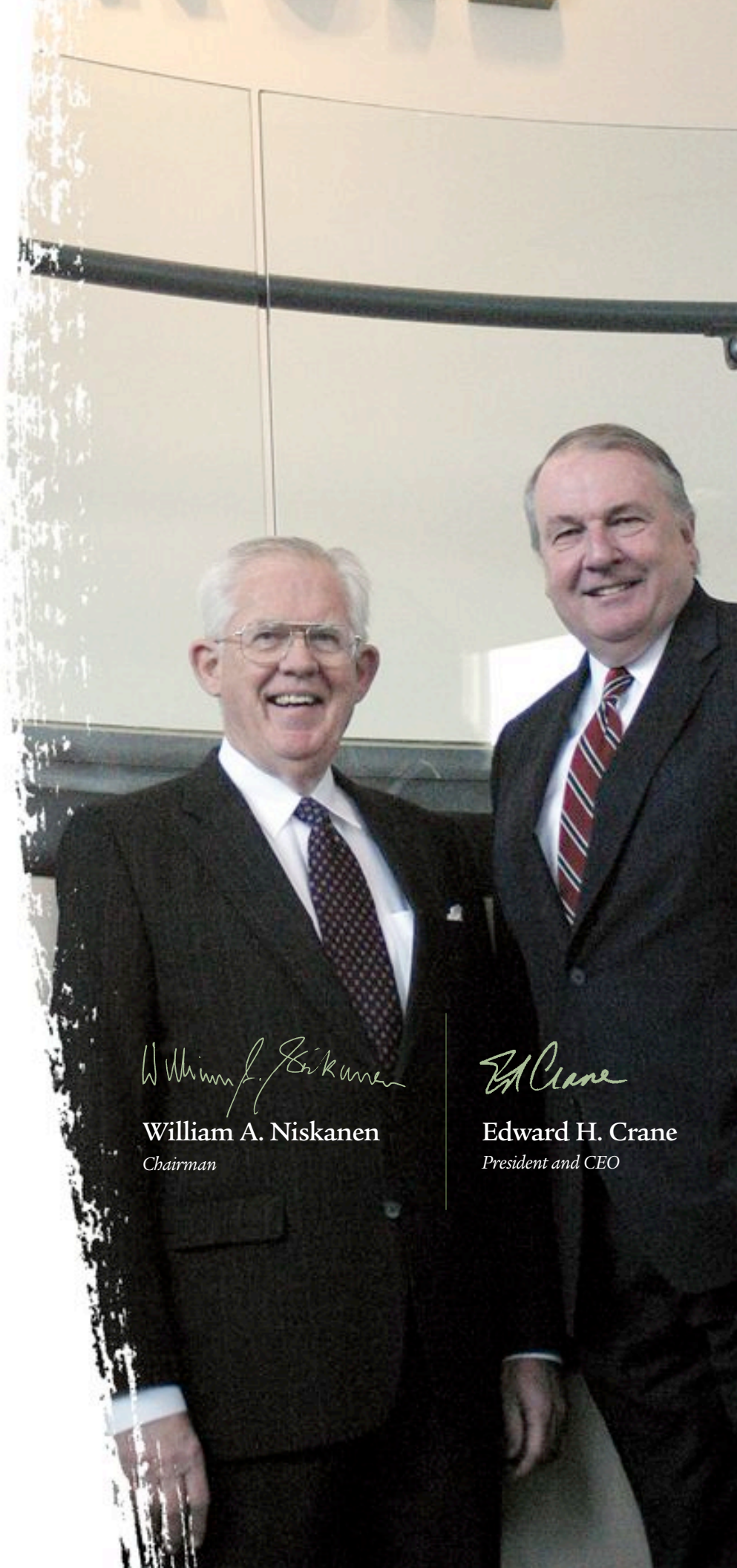
The failure of Congress to reform

the bankrupt and demeaning Social Security system and the utterly irresponsible addition of prescription drug “benefits” to a hopelessly unfunded Medicare program are remarkable examples of politicians being more concerned about reelection than doing what is right for this country. Something must be done about the vast incumbent protection system—from campaign finance laws to cooperative gerrymandering—to shake up America’s political system.

We were pleased to receive a major grant from Gordon and Helen Smith to support an expanded senior fellow and visiting fellow program at Cato. We also made two significant additions to our staff: Andrew Coulson, director of our Center for Educational Freedom, and Bob Garber, director of marketing. Coulson is widely regarded as one of the leading advocates of freeing the educational system from politics and unions, and Garber was for the past six years in charge of marketing and public information for Washington’s Holocaust Memorial Museum. We welcome them both.

Finally, we are pleased to have launched *Cato Unbound* under the editorship of Brink Lindsey and managing editor Will Wilkinson. *Cato Unbound* is “a state-of-the-art virtual trading floor in the intellectual marketplace.” It reflects our increasing commitment to using the Internet in the public policy arena.

As always, we express our gratitude to our dedicated colleagues and our loyal Sponsors who share Cato’s commitment to liberty.



William A. Niskanen

William A. Niskanen
Chairman

Ed Crane

Edward H. Crane
President and CEO

Contents



PAGE 6
ADVANCING
FIRST
PRINCIPLES



PAGE 10
PROTECTING
CONSTITUTIONAL
LIBERTIES



PAGE 14
REFORMING
THE POLITICAL
PROCESS



PAGE 18
ROLLING
BACK THE
ENTITLEMENT
STATE



PAGE 22
DEFENDING
AMERICA,
PROMOTING
WORLD PEACE



PAGE 26
FREING
THE WORLD
ECONOMY



PAGE 32
TAKING ON BIG
GOVERNMENT
CONSERVATIVES

PAGE 36
EXPANDING
LIBERTY'S
MESSAGE

PAGE 38
EVENTS

PAGE 40
PUBLICATIONS

PAGE 42
CATO STAFF

PAGE 44
FELLOWS
AND ADJUNCT
SCHOLARS

PAGE 46
FINANCES

PAGE 47
INSTITUTIONAL
SUPPORT

PAGE 48
CATO CLUB 200

INSIDE BACK
COVER
BOARD OF
DIRECTORS



**ADVANCING
FIRST
PRINCIPLES**

“We hold these Truths to be self-evident, that all Men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty, and the Pursuit of Happiness—That to secure these Rights, Governments are instituted among Men, deriving their just Powers from the Consent of the Governed.”

—DECLARATION OF
INDEPENDENCE

America's

Founders were inspired by the principles of individual liberty, free enterprise, and a healthy skepticism of government power. They created a Constitution of enumerated powers designed to leave most decisions in the hands of individuals and their local representatives. The federal government was limited to those few powers necessary to protect the basic rights of the people and unite the new nation.

Today, Americans have forgotten many of those core principles. The federal government is involved in every area of American life, and every social problem provokes a public cry for more government involvement. At the Cato Institute, scholars work to show that government intervention is not only ineffective and inefficient but that unwarranted government power poses a threat to the cherished rights of life, liberty, and property.

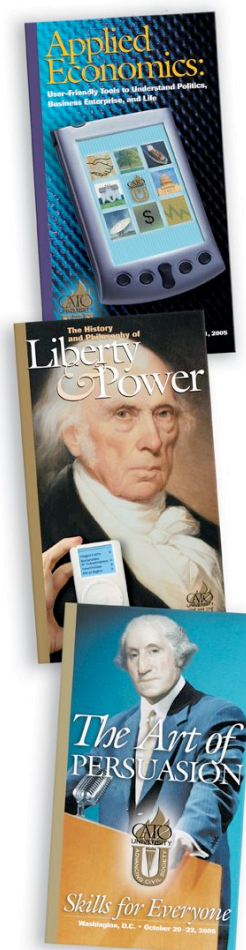
Throughout the year, Cato hosts seminars and forums to increase awareness of America's rich history and to bring the ideas of liberty to the public. Cato's central educational program is Cato University, directed by senior fellow Tom G. Palmer. Cato University consists of a home-study course—a series of audio recordings and readings designed to provide an introduction to libertarian ideas—and annual seminars around the country.

Cato hosted three Cato University seminars in 2005. In April Rep. Edward Royce (R-CA), Duke University economist Michael Munger, and other faculty taught “Applied Economics: User Friendly Tools to Understand Politics, Business Enterprise,

and Life.” In June Anne Applebaum of the *Washington Post*, Jeffrey Hummel of San José State University, Steve Davies of Manchester Metropolitan University, and others taught “The History and Philosophy of Liberty and Power.” And in October, at “The Art of Persuasion: Skills for Everyone,” *Reason* magazine's Nick Gillespie, the *National Review*'s Deroy Murdock, and several Cato scholars gave participants tools for convincing friends, strangers, and politicians of the value of liberty.

Senior fellow and director of Cato University, Tom Palmer is one of Cato's most active ambassadors of liberty. In 2005, he lectured and debated at Yale University, Duke University, Georgetown University, and other colleges, educating students on globalization, free trade, and the history of liberty. He gave a public lecture in Moscow on the origins of European liberalism, sponsored by Cato's Russian language website, Cato.ru, and traveled to Iraq twice to address groups of Iraqi citizens and government officials about how to foster a culture of freedom in their new democracy. Palmer discussed the role of property rights in free markets and the disastrous consequences of price controls with reporters from *Voice of Kurdistan* and other Iraqi media.

Cato legal scholars Roger Pilon, Mark Moller, Timothy Lynch, and Robert A. Levy are respected lecturers at the nation's top law schools. Pilon spoke about constitutional law, the judicial nomination process, religious liberty, and property rights at Harvard's Kennedy School of Government, the Aspen Institute, and law schools at



At Cato University, participants heard speeches on liberty from **Deroy Murdock** of the *National Review*, Pulitzer Prize-winning author **Anne Applebaum**, and Cato scholars including **David Boaz**, **Ed Crane**, **Dan Griswold**, and **Tom Palmer**.



ACLU President **Nadine Strossen** addresses the importance of freedom of religion during the B. Kenneth Simon lecture at Cato's Constitution Day conference. **Deroy Murdock** tells a Cato University audience how to use "The Art of Persuasion." **Nick Gillespie** of *Reason* extols the virtues of choice at a Cato University seminar.

Columbia, NYU, and elsewhere. Levy debated terrorism and civil liberties at Harvard Law School and discussed gun rights litigation and federalism in other appearances. Cato scholars continue to help ensure that law students receive a Madisonian perspective to provide balance to their law school educations.

After more than a decade without a Supreme Court vacancy, the nation saw three nominations to fill the seats opened by Justice O'Connor's retirement in July and the death of Chief Justice Rehnquist in September. Cato's legal experts weighed in on the nominees in appearances on PBS, MSNBC, Court TV, and CNN. In the *Wall Street Journal*, Cato senior fellow Randy E. Barnett characterized the nomination of Harriet Miers to the Court as "cronyism," and Cato's director of constitutional studies Roger Pilon told the *Washington Post*, "I know of nothing in Harriet Miers's background that would qualify her for an appointment to the Supreme Court." At a December Hill Briefing, "What to Look for in the Alito Hearings," Pilon cautioned that the nominee might be too deferential to executive power.

Roger Pilon testified before a subcommittee of the Senate Committee on Homeland Security and Government Affairs in October about the abuse of federal power: "Search the Constitution as you will, you will find no authority for Congress to appropriate and spend federal funds on agriculture, disaster relief, retirement programs, housing, health care, day care, the arts, public broadcasting—the list is endless." Pilon's

opinions on the Constitution and the judicial nomination process were read by millions this year in the *Wall Street Journal*, *Legal Times*, and the *New York Post*.

Since its inception, the Cato Institute has made a concerted effort to train and educate promising young scholars and professionals in the ideas of liberty. Cato sponsors more than 60 interns each year who receive hands-on training in research, advocacy, fundraising, and outreach. Cato interns have gone on to full-time jobs at prominent nonprofit organizations and on Capitol Hill, and others continue to lead libertarian organizations at colleges and universities across the country. In November, Cato's intern debate team beat interns from the Heritage Foundation and other public policy organizations in the "Young Professionals Speak" debate competition.

Cato's government relations staff leads a series of seminars each summer for Capitol Hill interns, combining documentary films with lectures by Cato scholars to introduce future Hill staffers to the ideas of liberty. Cato also provides complimentary copies of *Cato Audio*, *Cato Handbook on Policy*, and other publications to congressional offices in an effort to bring the principles of liberty to the halls of Congress.

Cato's international team has made great strides in disseminating the key documents of classical liberal thought to the non-English-speaking world. *Libertarianism: A Primer*, executive vice president David Boaz's 1997 book, has been translated into seven foreign languages, including Rus-

sian, Japanese, and Czech. Arabic, Spanish, and Chinese translations are under way.

ElCato.org, Cato's Spanish language website, continues to garner more than 65,000 hits each month from journalists, academics, and lay readers in Latin America and Europe. Its Spanish translations of Cato studies and special features by Latin American contributors were cited more than 500 times in the Spanish language media in 2005.

Cato launched two other foreign language websites in 2005. In August, Cato.ru began offering Russian language translations of the works of Friedrich Hayek and other timeless documents of freedom. Cato's Arabic website (www.lampofliberty.org) was launched in October as an initiative of Cato's Jack Byrne Project on Middle East Liberty. The website has made the works of Adam Smith, Frederic Bastiat, John Stuart Mill, Hayek, and many others available in Arabic for the first time. Advertisements on Middle Eastern news sites are actively promoting Cato's Arabic website. The Byrne Project will also provide Arabic and Kurdish translations of books by Frederic Bastiat and Hayek to Iraqi libraries.

Cato's web presence was expanded in 2005 with the December launch of *Cato Unbound* (www.cato-unbound.org), a new web magazine featuring monthly debates on important intellectual issues. In the first issue, "The Living Constitution: Amendments for the 21st Century," Nobel Laureate James M. Buchanan proposed amending the U.S. Constitution to limit government spending, prevent

discriminatory lawmaking, and protect the right of voluntary exchange. Akhil Reed Amar, a law professor at Yale and author of *America's Constitution: A Biography*; Judge Alex Kozinski of the U.S. Court of Appeals for the Ninth Circuit; and Cato Institute chairman William A. Niskanen offered their commentary. Future issues of *Cato Unbound* will tackle such questions as "Is 'Old Europe' Doomed?" and "Can There Be a Liberal/Libertarian Alliance?"

For limited government to succeed, the public must understand the principles on which it is based. The Cato Institute continues to educate students, government officials, the legal community, and the general public about the dangers of encroachments on freedom and the advantages that liberty can bring to all people.



"We have allowed [the powers of the federal government] to expand beyond all moral and legal bounds—at the price of our liberty and our well-being. The time has come to return those powers to their proper bounds, to reclaim our liberty, and to enjoy the fruits that follow."

—ROGER PILON'S
TESTIMONY BEFORE THE
SENATE COMMITTEE ON
HOMELAND SECURITY AND
GOVERNMENT AFFAIRS,
OCTOBER 25, 2005

Senior fellow **Tom G. Palmer** discusses effective public speaking in a Cato University talk titled "From Pericles to the Digital Age: Why Liberty Rests on Persuasion." **Roger Pilon**, vice president for legal affairs, testifies before Congress on the constitutional limits of government.



**PROTECTING
CONSTITUTIONAL
LIBERTIES**

“We the People of the United States, in order to form a more perfect Union, establish Justice, insure domestic Tranquility, provide for the common defence, promote the general Welfare, and secure the Blessings of Liberty to ourselves and our Posterity, do ordain and establish this Constitution for the United States of America.”

—CONSTITUTION OF
THE UNITED STATES
OF AMERICA

The Constitution

gives the government certain powers to help achieve important national priorities, such as protecting citizens from harm and stimulating economic growth. However, the U.S. government sometimes oversteps its bounds in pursuit of those goals, violating the constitutional protections of some of our most basic rights. Cato scholars have pointed out repeatedly over the years that individual rights are paramount in the Constitution and must be respected in the nation's laws.

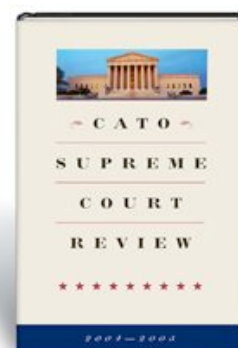
In 2005 the Supreme Court handed down several decisions in key civil liberties cases. In February, Cato filed an amicus brief in the case of *Kelo v. City of New London* in which private homeowners were attempting to stop the city of New London from using eminent domain to condemn their homes and transfer titles to a private development corporation. In a Policy Analysis titled "Robin Hood in Reverse: The Case against Taking Private Property for Economic Development," George Mason University law professor Ilya Somin wrote, "Such takings are usually the product of collusion between large and powerful interests and government officials against comparatively powerless local residents." Somin demonstrated how the harms of such takings to individuals and the institution of property rights far outweigh any economic benefits they promise.

When the Supreme Court ruled in June that the government could seize private property and transfer it to other private parties—not for "public use," as the Constitution requires, but simply for a "public benefit"—the backlash was immediate.

Americans were incensed that their property could be taken from them, and liberals and conservatives alike lined up to denounce the decision. Cato constitutional scholars Roger Pilon and Mark Moller appeared on radio and television, explaining the implications of the decision and urging lawmakers to limit the eminent domain power to its constitutional bounds. Pilon testified before a House committee, demonstrating that *Kelo* was a misreading of the Constitution but adding that Congress could end many of the abuses of eminent domain simply by ending the government-funded projects that lead to the abuses. Federal and state legislation is now in play to better protect private property, as recommended in a December Policy Analysis, "The Birth of the Property Rights Movement."

In a victory for domestic economic liberty, the Supreme Court in May ruled that states could not erect trade barriers against direct-to-consumer shipments of wine from out-of-state wineries. The majority decision in *Granholm v. Heald* cited evidence from "Regulating Wine by Mail," an article from the Fall 2004 issue of *Regulation* magazine, on the economics of wholesale wine sales and the nature of the state law being challenged.

The exercise of many constitutional rights entails a fundamental right to privacy. But the federal War on Drugs seems recently to be a war on the rights of ordinary citizens to be left alone and the authority of states to regulate areas of public life not delegated to the federal government. President Bush, who during the 2000 campaign said



The 2004-2005 *Cato Supreme Court Review* features articles by leading constitutional scholars on the Madisonian legal tradition and analysis of recent Supreme Court cases. Distinguished contributors, including **Richard A. Epstein**, **James W. Ely Jr.**, and **Marci Hamilton** discuss private property rights, the First Amendment, international judicial precedents, and the rights of criminal defendants.

Cato senior fellow **Randy Barnett** recounts how federal constitutional authority has shifted from a small list of enumerated powers to an assumption of nearly unlimited federal power. Other Constitution Day speakers echoed Barnett's call for stricter federalism. Cato senior fellow **Mark Moller** moderates a Constitution Day panel discussion.

“We should not wait until our constitutional levees collapse to appreciate the danger that the ‘laws of war’ pose to freedom in America.”

—TIM LYNCH,
NATIONAL LAW JOURNAL,
OCTOBER 3, 2005



of medicinal marijuana, “I believe each state can choose that decision as they so choose,” directed the Justice Department to assert the federal government’s power to prosecute marijuana patients who produce or use marijuana in accordance with their states’ laws. Despite the efforts of Cato senior fellow Randy E. Barnett, who argued the case before the Supreme Court on behalf of cancer patient Angel Raich, the Court ruled in June that the federal government can go after such patients. The *New York Times* quoted Roger Pilon, director of Cato’s Center for Constitutional Studies, as calling the decision “a disaster” and Justice Antonin Scalia, who supported it, “a fair-weather federalist.”

Sick people must increasingly fear the government even if the medicine they require is legal. At a September conference, “Drug Cops and Doctors: Is the DEA Hampering the Treatment of Chronic Pain?” Dr. Linda Paey told the story of her husband Richard, who is currently serving a 25-year prison sentence because Florida’s drug laws left him no legal way to get the prescription medication he needs to control intractable

pain. Paey later appeared on *60 Minutes* to discuss the persecution of pain patients. Ronald T. Libby’s June Policy Analysis, “Treating Doctors as Drug Dealers: The DEA’s War on Prescription Painkillers,” detailed the coercive methods that the DEA uses to intimidate and harass doctors who specialize in pain management, preventing millions of Americans from getting the medical care they need to alleviate their pain. John Tierney of the *New York Times* cited Libby’s study in a July column, charging that the DEA goes after doctors because they are easier to catch than illegal drug dealers.

Fighting terrorism has been used as a rationale for curtailing the civil liberties of American citizens and foreign nationals within our borders. Cato’s Project on Criminal Justice has documented numerous violations of the law and the Constitution.

The case of suspected terrorist Jose Padilla illustrates how the Bill of Rights has been circumvented in the War on Terror. If the president prevails in his argument that he can hold Padilla and other suspected terrorists without charging them with a crime, the right of all Americans to be

presumed innocent until proven guilty is at risk. Cato scholars have spoken out against the “enemy combatant” designation in *USA Today*, the *New York Times*, and other media outlets.

Cato’s director of information policy studies, Jim Harper, is a member of the Department of Homeland Security’s Data Privacy and Integrity Advisory Committee and is influencing the administration to use new technologies in a responsible manner. Harper is also writing a book about identification and how efforts to create a National ID system will threaten privacy and liberty. Harper has been advocating against unwarranted surveillance and government “data-mining” programs, though President Bush has stood by his assertion that he has the authority to unilaterally authorize warrantless wiretaps of Americans’ communications.

In September, Cato’s Center for Constitutional Studies hosted its annual Constitution Day Conference, which featured analysis of the just-completed Supreme Court term by leading constitutional scholars. Nadine Strossen, president of the American Civil Liberties Union and professor of law at New York Law

School, discussed the Constitution’s religion clauses in the fourth annual B. Kenneth Simon Lecture. Strossen likened the country’s growing acceptance of government entanglement with religion to the increasing willingness to submit to intrusive searches of persons and properties: the fact that such invasions into private life are equally applied against all, she said, doesn’t make them acceptable.

The fourth annual *Cato Supreme Court Review*, released at the conference, highlighted the erosion of important federalist precedents. Pepperdine University’s Douglas Kmiec, writing about *Gonzales v. Raich*, lamented the brake the Court put on its recent revival of federalism, while Vanderbilt’s James Ely Jr. excoriated the Court for its three property rights decisions.

Cato scholars continue to fight efforts to expand the power of government to interfere with constitutional liberties. On property rights, privacy, and other constitutional issues, Cato experts will continue their work to “secure the blessings of liberty to ourselves and our posterity.”

“Well-placed, well-connected special interests get together with local governments at the expense of property owners, and small businesses to carry out their plans.”

—ROGER PILON,
FOXNEWS, YOUR WORLD
WITH NEIL CAVUTO,
JUNE 23, 2005



Oklahoma attorney general **Drew Edmondson** laments the Drug Enforcement Administration’s persecution of pain doctors. He and 47 other state attorneys general have signed a resolution calling on the DEA to balance combatting diversion of prescription drugs with measures to protect effective pain treatment. **Dr. Linda Paey** advocates for patients’ rights to medical treatment.



REFORMING THE POLITICAL PROCESS

“I am not an advocate for frequent changes in laws and constitutions, but laws and institutions must go hand in hand with the progress of the human mind. As that becomes more developed, more enlightened, as new discoveries are made, new truths discovered and manners and opinions change, with the change of circumstances, institutions must advance also to keep pace with the times.”

—THOMAS JEFFERSON

The United States

government is based on the rules and limits set forth in the Constitution. For government to serve the needs of the people, however, citizens must be encouraged to take an active role in the political process. Government must be transparent enough to allow scrutiny by the general public and small enough to allow thorough monitoring of its activities.

Cato Institute scholars have long encouraged policies that would increase citizen participation in the democratic process. In 1984, Cato published "The Federal Election Commission: A Case for Abolition," which warned that restrictions on campaign financing would limit free speech. Throughout the 1990s Cato papers advocated term limits to increase competition in elections, reduced spending in both federal and state budgets, and the abolition of government programs that limit individual freedom. In 2005 scholars from Cato's Center for Representative Government continued to receive media and scholarly attention for their consistent defense of smaller, more accessible government.

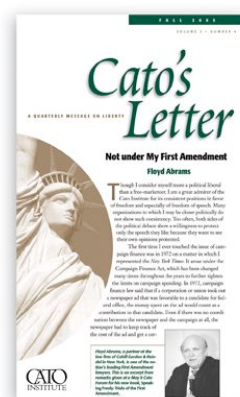
Politicians across the country are preparing for congressional and local elections in 2006, and the two major parties are working hard to raise money for the most competitive races. In many races, however, candidates benefit from public campaign funding. In a Cato book called *Welfare for Politicians*, editor John Samples, director of Cato's Center for Representative Government, shows that public financing of elections does not reduce corruption, nor does it increase political participation among

taxpayers, most of whom do not support giving their tax dollars to political candidates.

The same people who believe that taxpayers should be forced to pay for political campaigns to reduce the corrupting influence of money in politics have taken steps to block private groups from expressing their opinions on political campaigns. At a Hill Briefing in May, "Should We Ban 527s?" John Samples and campaign finance lawyers Robert Bauer and Cleta Mitchell agreed that all citizens have the right to spend money to propagate political ideas.

Partisan groups on both sides of the political spectrum fight restrictions on their own candidates' freedom of speech while filing lawsuits to prevent their opponents' supporters from expressing their views. The Cato Institute has been one of the few consistent voices arguing for the principle expressed best by Voltaire, who said, "I may disagree with what you say, but I will defend to the death your right to say it." At a forum for his book *Speaking Freely: Trials of the First Amendment*, renowned constitutional lawyer Floyd Abrams commended Cato for its unswerving advocacy of free speech in all its forms. Abrams' speech was republished in the Fall issue of *Cato's Letter*.

Former federal election commissioner Bradley Smith became well accustomed to dealing with contradictions during his time in Washington. At a September Policy Forum, Smith compared electoral politics to the world of *Alice in Wonderland*, where words mean the opposite of what they seem to mean and people believe impossible things. Citizen participation in the political process,



In the Fall 2005 issue of *Cato's Letter*, Cato's quarterly speech digest, First Amendment lawyer **Floyd Abrams** discussed campaign finance regulation and other restrictions on political speech. Abrams lamented that few partisans on either the left or right are steadfast in supporting freedom of speech. Although liberals supported the right of the *New York Times* to run an ad critical of President Nixon in 1972, many today support restrictions on campaign spending by conservative interest groups. Similarly, he said, conservatives have recently fought campaign finance restrictions but often support bans on speech they consider indecent.

“I think the American people are hungry for more facts, more real information about the situation we are in. I would like to encourage them to look on the website of an institution called the Cato Institute.”

—CONGRESSMAN
JIM COOPER (D-TN),
MAY 25, 2005, SPEECH
TO THE U.S. HOUSE OF
REPRESENTATIVES

he said, is hindered by a system of campaign finance law so complex that grassroots campaigns and civic groups cannot know whether or not they are violating the law.

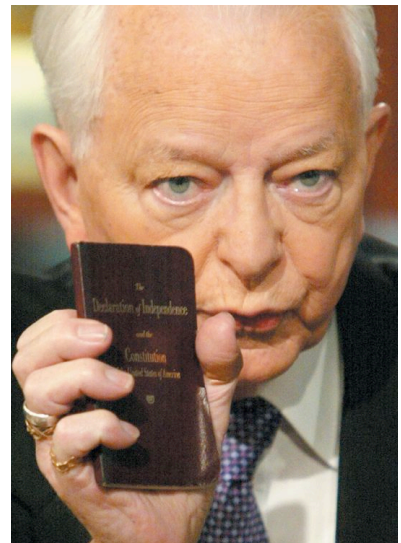
Confusing restrictions on campaign finances also make the task of rooting out true corruption more difficult because the law casts a wide net. In an April debate in *USA Today*, Samples argued that most members of Congress are not corrupt and that the media does a thorough job of sniffing out even a hint of unethical behavior. As Cato’s government reform scholars have consistently argued, transparency and openness about the sources of a legislator’s funding are a better way to prevent undue influence than unenforceable restrictions on campaigns.

Unfortunately, political campaigns have become less competitive over time. Over the last 50 years, the congressional reelection rate has averaged more than 90 percent. “Uncompetitive Elections and the American Political System,” a study by Cato senior fellow Patrick Basham and Independence Institute senior fellow Dennis Polhill, found that the perks awarded to incumbent politicians—postal franking, free travel, media access, and publicly funded staff—translate to an 11-point advantage at the polls. Attempts to increase competition by limiting campaign financing actually exacerbate the problem by limiting the ability of challengers and advocacy groups to compete with such well-situated incumbents.

Incumbents also benefit from the ability to gerrymander districts to ensure their own reelection. In the

2006 midterm elections, only a small percentage of races will actually be competitive; the rest are a virtual lock for the incumbent party. Basham and Polhill’s study predicted that nonpartisan redistricting would be necessary to prevent collusion that limits voter choice. Imposing term limits on long-serving representatives would also foster turnover in the people’s branch of government.

Government only works as long as an engaged populace has the ability to elect representatives who truly speak for their interests and to oust those who do not. Cato has long been one of the few consistent voices for the freedom of expression and government accountability that keep politicians honest and safeguard the rights of citizens to elect the government they deserve.



Sen. Robert Byrd (D-WV) brandishes his Cato pocket Constitution on NBC’s *Meet the Press*. Cato has distributed more than 3 million copies of its pocket edition of the Declaration of Independence and the Constitution, which is also available in Spanish and Arabic.



Cato's vice president for government affairs **Susan Chamberlin** and director of health and welfare studies **Michael Tanner** discuss Social Security reform with **Sen. Jon Kyl (R-AZ)** at an April Hill Briefing. At a Policy Forum reflecting on his tenure as chairman of the Federal Election Commission, **Bradley A. Smith** chats with Cato president **Ed Crane**.



“I want to thank all of you from Cato for not only helping us address this fiscal crisis that we are facing as a nation, but for your many-year effort at trying to preserve the fiscal sanity and stability of this nation for generations that follow us.”

—SEN. JOHN MCCAIN (R-AZ), OCTOBER 17, 2005, CATO HILL BRIEFING



Cato director of tax policy studies **Chris Edwards** joins **Rep. Jeb Hensarling** and **Sens. John McCain** and **Jim DeMint** at a press conference on curbing out-of-control federal spending.



**ROLLING BACK
THE ENTITLEMENT
STATE**

“If we can prevent the government from wasting the labors of the people under the pretense of taking care of them, they must become happy.”

—THOMAS JEFFERSON

The right

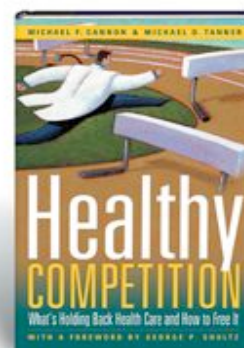
of the people to be free from government meddling has been ignored for too long. Writing about the New Deal social programs he proposed in 1935, Franklin D. Roosevelt expressed hope that Congress would “not permit doubts as to constitutionality, however reasonable, to block the suggested legislation.” The programs Roosevelt championed are just as unconstitutional today as they were then, and they have expanded into many more areas of American life that were meant to remain outside the grasp of the federal government. Today, entitlement programs benefit not only the poor but a wide range of special interest groups, including corporations, human service organizations, independent charities, and broad groups of citizens, regardless of financial need.

Decades of research show that entitlement programs hurt all taxpayers in a number of ways. By heavily taxing those who create new wealth and jobs, the government distorts the function of the free market and reduces employment opportunities for the poor. Government redistribution of wealth creates perverse incentives for investors trying to protect their assets and creates a culture of dependency and entitlement-seeking that marginalizes the values of hard work, individual responsibility, and ethical values. Public schools, which were intended to give all children the skills they need to succeed as adults, are instead wasting taxpayer money and preventing families from seeking out a better education for their children. Fortunately, Cato continues to propose attainable and innovative reforms to America’s bloated social programs.

Cato led the way to help restore freedom of choice to consumers and health care providers with the publication of *Patient Power* in 1992, which called for widespread availability of health savings accounts (HSAs) to allow patients to pay for medical care with untaxed dollars. This year director of health policy studies Michael Cannon and director of health and welfare studies Michael Tanner published *Healthy Competition: What’s Holding Back Health Care and How to Free It*, a comprehensive guide to increasing consumer choice and reducing harmful government intervention in the provision of medical care. Nobel Laureate Milton Friedman called the book “surprisingly readable, extraordinarily comprehensive, highly persuasive.”

Cannon and Tanner recommend expanding consumers’ ability to choose private health insurance to fit their needs. In March, Rep. John Shadegg (R-AZ) spoke at a Cato Policy Forum about his proposal to create a nationwide market for health insurance instead of limiting consumers to plans based in their home state. Michael O’Grady of the Department of Health and Human Services predicted that the proposal would lower insurance premiums and allow patients to choose coverage appropriate to their needs.

At a Cato Policy Forum in May, “Can Health Savings Accounts Cover the Uninsured?” panelists suggested that combining high-deductible health plans with tax-free HSAs for out-of-pocket expenses could help make coverage more affordable for those who are now uninsured. Tanner and Cannon proposed universal availability of HSAs and



In *Healthy Competition*, policy scholars **Michael Tanner** and **Michael Cannon** offer practical advice on using free market principles to improve health care for Americans. The book provides concrete policy suggestions for giving more Americans access to the best health care America has to offer and allowing competitive markets to make medical care even better.



Cato's nationwide campaign for Social Security reform told millions of Americans that they deserve ownership, inheritability, and choice regarding their own retirement savings.



At a May Hill Briefing, Cato scholars **Michael Tanner** and **Jagadeesh Gokhale** examined the impact of the Social Security deficit on the nation's finances.

profound deregulation of the health care market in *Healthy Competition* as the best ethical and practical solution: such policies would lower costs through full market competition and restore individual choice, a right each individual should have in a free country. A November article in the *National Journal* detailed the benefits of HSAs and cited Cannon's efforts to expand consumer-driven health care.

In 2003, President Bush signed into law the Medicare prescription drug benefit—the single largest expansion of the entitlement state since the Johnson administration. Nearly 16 percent of federal tax revenues in 2005 went to support the current Medicare system, and the new benefit could add more than \$700 billion to the cost over the next 10 years. In “Medicare Prescription Drugs: Medical Necessity Meets Fiscal Insanity,” a February Cato Briefing Paper, Cato senior fellow Jagadeesh Gokhale recommends significant market-based reforms to bring Medicare costs under control.

Cato's work to curb entitlement spending is centered on a belief that the federal government should be one of enumerated and limited powers, as mandated in the Constitution. Thanks to the tireless efforts of Cato scholars, even politicians are beginning to realize that the economy will someday fall apart under the pressure of ever-more-confiscatory taxation and senseless regulation.

At a bipartisan Hill Briefing in October, Sen. John McCain (R-AZ) agreed that the Medicare drug benefit will raise taxes to unprecedented levels. He joined Cato's experts in

recommending the repeal of the drug benefit, along with curbing other wasteful spending, as a means to balance the budget. Rep. Jim Cooper (D-TN) predicted that 25–35 percent of seniors would be worse off under the drug benefit than under their previous private coverage. The drug benefit has already cost many seniors their existing drug coverage.

In a November article in the *Detroit Free Press*, Michael Cannon asked why Congress insisted on putting all seniors under a single system, when 75 percent of them already had drug coverage. Cannon appeared on NPR, Fox News, and MSNBC to discuss the drug benefit's disadvantages for seniors.

Cato experts also devoted significant attention in 2005 to ending the government's monopoly on education. Cato's Center for Educational Freedom presented powerful evidence of the superiority of free educational markets over government school monopolies and explained the shortcomings of a number of government education programs.

Unfortunately, but not unexpectedly, many government efforts to make education better and more affordable end up backfiring. As college students across the country paid their tuition bills in January, Hillsdale College professor Gary Wolfram published “Making College More Expensive: The Unintended Consequences of Federal Tuition Aid,” a study examining how federal tuition assistance raises the cost of college tuition by increasing demand, putting higher education further out of reach for the poorest students it was intended to help.

In April, policy analyst Marie Gryphon shattered “The Affirmative Action Myth,” finding that affirmative action produces no concrete benefits for minority students because so many come from underperforming public high schools that do not prepare them for college.

The best way to ensure that underprivileged students succeed in college is to improve the quality of their elementary and secondary education. At a September forum for his new book *Education Myths: What Special-Interest Groups Want You to Believe about Our Schools—And Why It Isn't So*, Manhattan Institute senior fellow Jay P. Greene found that nearly all of the students whose high school education prepares them for college go on to enroll in higher education. He also tackled the fallacy that school choice harms public schools by draining resources and talented students. His book shows that in school districts where vouchers are available, the students who remain in public schools do better than students in districts where no choice exists.

In October, then-director of Cato's Center for Educational Freedom David Salisbury showed how school vouchers can increase resources available to public school students in “Saving Money and Improving Education: How School Choice Can Help States Reduce Education Costs.” The paper found that the availability of vouchers in Arizona, Wisconsin, Ohio, Florida, Pennsylvania, Maine, and Vermont has saved taxpayers millions of dollars and improved the quality of public school education.

A May book edited by Salisbury

and University of Newcastle professor James Tooley, *What America Can Learn from School Choice in Other Countries*, examines longstanding school choice programs in Sweden, Chile, Australia, Denmark, and other foreign countries and concludes that the most salient objections to voucher programs have been overcome in those countries. There is no reason to believe that school choice in the United States would not be equally successful.

Following Salisbury's departure, one of the contributors to that book, Andrew J. Coulson, was appointed the new director of the Center for Educational Freedom. Coulson is the author of *Market Education: The Unknown History*.

Reform of the scandalous Social Security system joined health care choice and educational freedom as a major policy initiative of the Cato Institute in 2005. Major media often cite Cato as the first to call for reform of the Social Security system.

This year, Cato's Project on Social Security Choice focused on reminding current workers that they are paying their own money into a retirement system that will be unable to support them by the time they retire. Cato distributed more than 300,000 copies of *It's Your Money: A Citizen's Guide to Social Security Reform*. The booklet explains that in only 12 years, Social Security will begin running a deficit and that current workers will likely not recoup the money they have paid into the system. This Social Security crisis, however, presents an opportunity to allow younger workers a retirement benefit that they can count on because they own it.

With the generous support of donors across the country, the Project on Social Security Choice created radio and television ads centered on the theme of ownership, inheritability, and choice that ran on the CBS Radio Network, the Rush Limbaugh and Sean Hannity shows, and more than 1,800 local radio and television stations from Seattle to Des Moines to Little Rock. More than 56 million Americans heard at least one ad reminding them that their retirement savings should be their own and that they should choose how to invest. Print ads were featured in the *New York Times*, the *Washington Post*, the *Wall Street Journal*, and *Roll Call*.

Congressional Quarterly named Michael Tanner one of the five most influential Social Security experts this year. Tanner gave more than 70 speeches and testified before Congress four times in 2005. Cato scholars wrote for *USA Today*, the *Wall Street Journal*, and other papers and appeared on NPR's *Morning Edition*, the *NewsHour with Jim Lehrer*, ABC's *World News Tonight*, and NBC's *Nightly News* to discuss Social Security reform.

As public policy reforms centered on individual autonomy and choice gain wider footholds, the culture of dependency underpinning the entitlement state will begin to fade. Ultimately, benefiting from more freedom and the greater prosperity and hope it brings, millions of individuals will begin to demand further policy reforms that fully reinstate the values of America's founding generation.



**DEFENDING
AMERICA, PROMOTING
WORLD PEACE**

“The means of
defense against
foreign danger
historically
have become the
instruments of
tyranny at home.”

—JAMES MADISON

The military

of the United States is the strongest in the world and has many times throughout history defended the freedom of the United States and that of foreign nations from the threat of tyranny. Cato's foreign policy scholars have long advocated a balance between maintaining a strong national defense and avoiding dangerous entanglements in international conflicts where the security of the United States is not at risk.

In his 2004 book, *Exiting Iraq*, Cato's director of foreign policy studies Christopher Preble warned that the conflict had become far too costly politically, financially, and in terms of life lost. The book recommended a military withdrawal by January 1, 2005. Unfortunately, the war has continued, the costs have continued to rise, and the Bush administration has declared that the United States will not set a deadline for withdrawal until the new Iraqi government is firmly established.

Cato senior fellow Tom Palmer traveled to Iraq twice in 2005 to offer assistance to Iraqis working to advance toleration, the rule of law, free markets, and political pluralism in the nascent democracy. Among his responsibilities, Palmer heads Cato's Jack Byrne Project on Middle East Liberty, an ambitious effort to make available libertarian ideas and policy recommendations in Arabic, Kurdish, Farsi, and other Middle Eastern languages. In the summer issue of *Cato's Letter*, Palmer wrote of his hope that Iraq will become a stable market democracy.

American interests in maintaining peace in the Arab world and protecting international oil supplies have long been billed as

justifications for continued intervention in the region. However, in *Sandstorm: Policy Failure in the Middle East*, Cato research fellow Leon Hadar argued that American intervention in the Arab-Israeli conflict has exacerbated the problem and that plans for peace must originate among the players in the conflict. Furthermore, he showed that the multibillion-dollar cost of maintaining a U.S. presence negates any benefit of cheaper oil from the region.

Chris Preble has also been active in the debate over America's role in the United Nations. In September, he addressed a crowd of Hill staffers on "United Nations Reform: Beyond the Blame Game," challenging the idea that the UN can improve its image without addressing fundamental contradictions in its mission. International law, he said, must sometimes choose between respecting the sovereignty of nations and protecting the rights of people living under repressive regimes, and those choices cannot be made without cost.

The international community has long feared the proliferation of nuclear weapons to aggressive, undemocratic regimes. In January, Cato held a forum for *The Korean Conundrum*, a book by vice president for defense and foreign policy studies Ted Galen Carpenter and former senior fellow Doug Bandow. Carpenter advocated a policy of nonaggression in Korea in exchange for verifiable guarantees from North Korea that it would not pursue its nuclear program. The view that North Korea's nuclear ambitions could be stopped with proper incentives from the United States was vindicated in



Leon Hadar's *Sandstorm*

challenges traditional assumptions about U.S.-Middle East relations, showing how American attempts to foster stability and freedom have backfired. U.S. intervention has bred resentment, he says, which hinders progress and peace in the region and hurts America's economic and political interests.

“The harsh reality is that terrorist groups around the world have been enriched by prohibitionist drug policies that drive up drug costs and deliver enormous profits to the outlaw organizations willing to accept the risks that go with the trade. Drug prohibition is terrorism’s best friend. That symbiotic relationship will continue until the United States and its allies have the wisdom to dramatically change their drug policies.”

—TED GALEN CARPENTER,
NATIONAL POST,
JANUARY 4, 2005

November, when Ambassador Joseph De Trani, U.S. special envoy for the Six-Party Talks, expressed hope that North Korea will agree to abandon its nuclear programs in exchange for energy and economic assistance. Carpenter appeared on South Korean television, as well as CNN and Reuters TV, to discuss the book and the future of U.S.-Korea relations.

Cato scholars have actively supported U.S. efforts to build military strength to defend America from foreign and terrorist threats. In April, former director of defense policy studies Charles Peña concluded that anti-American terrorist groups have likely acquired shoulder-fired anti-aircraft missiles. In “Flying the Unfriendly Skies: Defending against the Threat of Shoulder-Fired Mis-siles,” he advised that commercial aircraft could be outfitted with technology to protect against the potential deadly threat. Peña, a noted terrorism expert, was a frequent guest on radio and television, appearing on C-SPAN, NBC Newschannel, and MSNBC to discuss the War on Terror.

As the year was coming to a close, an article in the *New York Times* revealed that the Bush administration had authorized the National Security Agency to conduct warrantless wiretaps against Americans it suspects may be involved in terrorism. Tim Lynch, director of Cato’s Project on Criminal Justice, appeared on *NBC Nightly News* to debate Judge Richard Posner, who argued that warrantless wiretaps were legal.

Many nativists have taken the view that the best way to prevent foreign terrorism in the United States is

to keep foreigners out. But despite increasingly harsh crackdowns on illegal immigration, more than 10 million undocumented immigrants currently live in the United States. In his June study, “Backfire at the Border: Why Enforcement without Legalization Cannot Stop Illegal Immigration,” Princeton University professor Douglas S. Massey showed how current U.S. policies waste law enforcement resources and fail to differentiate between peaceful immigrants and dangerous criminals.

At a September Hill Briefing, Daniel Griswold, director of Cato’s Center for Trade Policy Studies, described the U.S. immigration system as “Bordering on Failure.” He emphasized that as long as there is a demand for labor in the United States, job-seeking migrants will enter the country, legally or illegally. Griswold testified in May before the Immigration Subcommittee of the Senate Committee on the Judiciary, and his proposal to create a guest worker program has been incorporated into an immigration bill President Bush requested from Congress in his 2006 State of the Union address.

America’s War on Drugs has had a deadly impact on the Latin American countries that produce them. In his 2003 book *Bad Neighbor Policy*, Carpenter predicted that crackdowns on drug-exporting nations would lead to escalating violence, economic instability, and the militarization of civilian life in those countries. Colombia has already suffered the consequences of its cooperation with draconian U.S. drug policies, and unfortunately, according to a

November Foreign Policy Analysis, "Mexico Is Becoming the Next Colombia." If Mexico is to stop this trend, Carpenter explains, the U.S. government must rethink its absolutist position on drug interdiction abroad, allowing the Mexican authorities to tackle corruption and violence without also having to fight our War on Drugs.

The War on Terror is not a fight with a clear end, making a principled, targeted foreign policy more important than ever before. Keeping America safe and strong will require the kind of innovative, unconventional ideas for which Cato Institute scholars are widely known.



"Now is the time to chart a new course. The first step should be a firm pledge to begin the withdrawal of American troops soon after the December 2005 elections. The Bush administration should further commit to have all U.S. troops out of Iraq by the end of 2007 at the latest."

—CHRISTOPHER PREBLE,
CHICAGO SUN-TIMES,
NOVEMBER 15, 2005

Ted Galen Carpenter asks how best to guarantee that North Korea abides by its promises to dismantle nuclear weapons programs. **Christopher Preble** discusses national security and the war on terrorism at a Cato policy forum. On a visit to Iraq in April, senior fellow **Tom G. Palmer** talks with **Amal Kashif al-Ghitta**, member of the Iraqi Parliament. Palmer addressed Parliament on "Principles of Constitutional Democracy." Palmer also met with the Minister of Education, **Abdul-Aziz Tayib**, at the Ministry of Education in Erbil.



**FREEING
THE WORLD
ECONOMY**

“Harmony, liberal intercourse with all nations, are recommended by policy, humanity, and interest. But even our commercial policy should hold an equal and impartial hand; neither seeking nor granting exclusive favors or preferences; consulting the natural course of things; diffusing and diversifying by gentle means the streams of commerce, but forcing nothing.”

—GEORGE WASHINGTON’S
FAREWELL ADDRESS

Free trade

and strong property rights are paramount in creating a healthy and dynamic economy. The United States has a long history of such economic freedoms. If developing countries are to benefit from U.S. prosperity and freedom, they must also adopt free trade as a first principle—and the United States must not revert to what Alan Greenspan calls “creeping protectionism.” Trade policy experts at the Cato Institute believe that almost every sector of the American economy could benefit from competition and trade with the rest of the world.

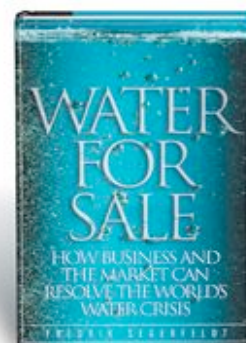
Unfortunately, interest groups working on behalf of industries that benefit from domestic protectionism have worked hard to convince the public that free trade threatens American jobs and the American economy. Certain sectors of the farm industry have perhaps been most guilty of propagating such myths. Americans have been told that the American family farm is dying, and that farm price supports are necessary to preserve the quintessential agrarian lifestyle.

Daniel Griswold, director of Cato’s Center for Trade Policy Studies; Stephen Slivinski, director of budget studies; and Christopher Preble, director of foreign policy studies, exposed the truth about farm subsidies in their paper “Ripe for Reform: Six Good Reasons to Reduce U.S. Farm Subsidies and Trade Barriers.” In fact, they argue, most farm subsidies go to wealthy corporations and hurt small farms. Farm price supports and tariffs make food more expensive for Americans by preventing cheaper foreign goods from entering the market, and they

prevent labor and resources from being used more efficiently in other industries.

Agricultural protectionism isn’t just harmful to producers and consumers; it’s also illegal. The World Trade Organization in 2005 ruled in several cases that the United States was violating its international trade agreements by maintaining farm subsidies and trade barriers against its trading partners. In a December Trade Policy Analysis, “Boxed In: Conflicts between U.S. Farm Policies and WTO Obligations,” University of California professor Daniel Sumner found that U.S. farm programs for a variety of commodities may be suppressing market prices in violation of the WTO commitments. Dan Griswold appeared on CNN, BBC’s *World Update*, and CNBC to discuss the WTO’s decision and its implications for other longstanding U.S. trade restrictions.

The foreign aid community has for decades tried one approach after another in an effort to promote growth in poor nations. But aid has not reduced poverty, nor is it likely to do so in the future, according to 40-year veteran development practitioner Thomas Dichter in a September Foreign Policy Briefing. Dichter believes that development assistance to poorly governed developing countries should be ended. Moeletsi Mbeki of South Africa agrees that a lack of money is not the cause of African poverty. In “Underdevelopment in Sub-Saharan Africa: The Role of the Private Sector and Political Elites,” he observes that Africa’s predatory political elite prevent the African private sector from creating wealth.



Fredrik Segerfeldt explores how millions of poor households in the developing world have gained access to clean, safe water through privatization of water networks in his 2005 book, *Water for Sale*. Private companies can raise the capital necessary to quickly improve water infrastructure, and competition can ensure that water services are provided efficiently and affordably.



Christopher Dell, U.S. ambassador to Zimbabwe, speaks about the threats leveled against him after he criticized the Mugabe regime's seizure of private farmland. **Amela Karabegovic** of the Fraser Institute heralds the release of *Economic Freedom of the World: 2005 Report*. South African businessman **Moeletsi Mbeki** explains that corruption and unstable property rights make building wealth nearly impossible for many Africans.

Peasants, who make up the core of the private sector, would benefit from property rights protection and market reforms.

Marian Tupy, assistant director of the Cato Institute's Project on Global Economic Liberty, appeared on CNN International, the PBS *NewsHour with Jim Lehrer*, and NPR's *Marketplace* to discuss the pitfalls of aid to Africa. Tupy's December study, "Trade Liberalization and Poverty Reduction in Sub-Saharan Africa," presented research showing that countries with the greatest freedom to trade tend to grow faster than countries that restrict trade. Developing countries, he said, can reap the benefits of free trade even if the developed world retains trade barriers and should immediately free trade relations with their neighbors and the world.

Cato's advocacy of free trade paid off this year in Latin America when the U.S. House of Representatives approved the Central American Free Trade Agreement in July. At a Hill Briefing in March, Griswold and Cato trade policy analyst Dan Ikenson argued that both imports and exports benefit American consumers by giving buyers access to new foreign goods and creating new markets for American-made goods abroad. In their 2004 study, "The Case for CAFTA," Griswold and Ikenson maintained that despite its flaws, the agreement enhances important U.S. foreign policy goals by promoting freedom and democracy in a region that has been troubled in the recent past by wars and political

oppression. Ian Vásquez, director of Cato's Project on Global Economic Liberty was a frequent guest on Spanish language radio and television to discuss the benefits of the agreement.

Latin America's troubled economic and political history was the subject of two policy forums at Cato in 2005. At a March forum for his book, *Liberty for Latin America: How to Undo Five Hundred Years of State Oppression*, Peruvian journalist Alvaro Vargas Llosa explained that state oppression has been a problem in the region since the Spanish conquest of the New World, and it continues to preempt good policies and undermine the efforts of Latin Americans to lift themselves out of poverty. Vargas Llosa returned in November to comment on *The Roots of Poverty in Latin America*, a new book by Argentine author Guillermo Yeatts. The author posited that poverty persists in Latin America because countries colonized by Spain maintain social and economic institutions that undermine property rights and voluntary exchange.

The release of the 2005 edition of *Economic Freedom of the World*, copublished with the Fraser Institute in Canada and more than 60 other think tanks around the world, brought significant international media attention. Ian Vásquez appeared on CNN to discuss the book's finding that economic freedom is the key to prosperity. Newspapers in Thailand, Georgia, Hong Kong, the United Arab Emirates, Ukraine, and other nations around the world

reported their countries' successes in economic freedom and endorsed the report's conclusion that economic freedom promotes peace and prosperity. The International Monetary Fund relied extensively on the report in its annual *World Economic Outlook* to support its findings that institutions such as property rights and rule of law are the keys to economic growth.

Nations achieve economic growth and stability by promoting stable monetary institutions and encouraging investment in the economy. At the 23rd Annual Cato Institute Monetary Conference, "Monetary Institutions and Economic Development," co-sponsored with *The Economist*, leading monetary economists explained why institutions matter and suggested ways that emerging market economies can improve their monetary institutions to encourage trade. Speakers included Rodrigo de Rato, managing director of the International Monetary Fund; Roger W. Ferguson Jr., vice chairman of the Federal Reserve Board; University of California-Los Angeles professor Deepak Lal; Massachusetts Institute of Technology professor Yasheng Huang; and Cato chairman William A. Niskanen.

China has, in recent years, begun to embrace the principles of free trade. Monetary conference participants argued that allowing private investment and increasing the flexibility of the exchange rate would increase confidence in the Chinese economy and aid growth. Cato's vice president for academic affairs James A. Dorn has argued for ending financial repression in China. He has

warned that China-bashing could lead to trade wars that would undermine China's "peaceful rise."

In "U.S.-China Relations in the Wake of CNOOC," Dorn argued that preventing the CNOOC energy company's bid to buy U.S.-based Unocal was pure protectionism and not in the interest of U.S. national security. Politicizing energy markets and restricting the free flow of capital will harm both China's political development and the American economy. Cato senior fellow Jerry Taylor testified in July before the House Armed Services Committee, defending the right of Unocal stockholders to sell their firm to the highest bidder.

As China moves toward economic freedom, the Zimbabwean economy has collapsed as a result of the government's widespread violations of private property rights. Christopher Dell, the U.S. ambassador to Zimbabwe, was threatened with expulsion from the country after giving a speech at the Africa University in Mutare in November condemning the human rights abuses and economic mismanagement of the Mugabe regime. In that speech he cited a Cato Institute paper, "How the Loss of Property Rights Caused Zimbabwe's Collapse," which blames the confiscation of private farmland for Zimbabwe's current economic and agricultural crisis.

Poor countries that replace government monopolies with market competition have seen tangible results. The failure of public utility companies to provide clean, safe water to more than 1 billion people

"Just as Hayek warned, the government's initial attack on private property led to intervention in the economy and, concomitantly, the destruction of political freedom in Zimbabwe. If Mr. Mugabe continues along the path marked by other socialist dictators, the world may yet see Zimbabwe descend into an orgy of violence."

—MARIAN TUPY,
THE FINANCIAL TIMES,
JULY 27, 2005

“China’s emergence from centuries of isolation and stagnation is one of the great stories of our time. Hundreds of millions of its citizens are beginning to taste the rewards of middle-class life that most Americans take for granted. It is profoundly in our economic and security interests to nurture that progress.”

—DANIEL T. GRISWOLD,
FORBES, NOVEMBER 14, 2005

worldwide has created a water crisis, and 22 people die each minute as a result. In his June book, *Water for Sale*, Fredrik Segerfeldt of the Confederation of Swedish Enterprise detailed how weak property rights, bureaucratic management, and price distortions have led to inadequate water supplies throughout Asia, Africa, and Latin America. Using numerous examples of successful private water networks, Segerfeldt showed how privatizing water distribution can increase access to affordable piped water, especially for the world’s poorest people, who otherwise pay high black market prices for water.

Governments in poor countries have also failed to educate children. A Cato Institute Conference in September asked, “Does Private Education Work for the Poor?” and found that in many of the world’s poorest countries, low-cost, high-quality private schools are educating thousands of students whose achievements go unnoticed by the development community. Private school proprietors from Zimbabwe, India, Nigeria, and other countries where public education has failed the poorest students described harassment and demands for bribes from government officials who feel threatened by the success of private education for the poor. A study by James Tooley and Pauline Dixon of the University of Newcastle, copublished in December by Cato’s Project on Global Economic Liberty and its Center for Educational Freedom, documented for the first time the extent and quality of private educa-

tion for the poor in some of the poorest slums in the world.

European critics of the United States often claim that social democratic systems are better for citizens than free-market economics. In September, Cato released the paperback edition of Olaf Gersemann’s *Cowboy Capitalism*, the popular book that shows how greater market freedoms in the United States create a more flexible, adaptable, and prosperous system than the declining welfare states of Europe.

As Americans complained about high gas prices in the wake of the summer’s hurricanes, Cato senior fellows Jerry Taylor and Peter Van Doren appeared on every major news network to warn against government intervention in the oil market. They also urged opposition to the pork-laden energy bill, which politicians claimed would help lower energy prices through massive subsidies to big producers.

Regulation of U.S. goods can have a direct impact on the global market. Taylor and Van Doren have long been skeptical of efforts by the U.S. government to control the international oil market by regulating American suppliers and storing vast reserves of domestic oil. In a January Policy Analysis, “Economic Amnesia: The Case against Oil Price Controls and Windfall Profit Taxes,” they show that price controls and taxes on oil profits dissuades investment in American oil, leaving the nation more dependent on foreign suppliers.

In today’s competitive global economy, policymakers need to re-

spond to foreign reforms by cutting U.S. income tax rates. Cato's director of tax policy Chris Edwards testified in May before the President's Advisory Panel on Federal Tax Reform. When the panel released its recommendations to simplify the tax code and reduce taxes on savings and investments, Edwards wrote in the *Washington Times* in October, "policy-makers should be more aggressive in responding to global trends and cutting marginal tax rates further than the tax panel has proposed." He was also cited in the *Financial Times*, *New York Times*, *Washington Post*, *Newsweek*, *Investor's Business Daily*, and *Forbes* on tax and budget issues.

Countries around the world that have opened trade and lowered restrictions on their economies have reaped extensive rewards. As property rights and economic institutions in developing countries are strengthened, those countries will generate wealth and move out of poverty. And prosperous countries that improve economic freedom will see still greater growth and innovation. As the work of Cato experts consistently shows, expanding free trade, opening markets, and removing regulatory restraints will lead to economic progress that benefits people, rich and poor alike.



“When you talk about debt relief, what you’re really talking about is the failure of past foreign aid because the majority of the debt of heavily indebted countries is due to official loans from the World Bank, the IMF, and other places.”

—IAN VÁSQUEZ,
WASHINGTON TIMES,
JULY 8, 2005

At a September Hill Briefing, **Dan Griswold** outlines necessary reforms to the American immigration system. **James Dorn** welcomes nearly 200 guests to Cato's 23rd Annual Monetary Conference. **Ian Vásquez** moderates a panel discussion on the role of financial market liberalization in economic development. **Dan Ikenson** makes "The Case for CAFTA" at a Cato Hill Briefing.



**TAKING ON
BIG-GOVERNMENT
CONSERVATIVES**

“The powers not delegated to the United States by the Constitution, nor prohibited by it to the states, are reserved to the states respectively, or to the people.”

—CONSTITUTION OF
THE UNITED STATES
OF AMERICA

Historically,

the political left has pushed for more government spending and intervention, while the right has held that government programs cost too much, provide too little benefit to the taxpayers who fund them, and trample on liberty. Liberals have insisted that people require government assistance and protection; conservatives have argued that too much regulation harms the economy by stifling innovation and destroying jobs.

In recent years, however, many Republicans have abandoned their conservative principles in favor of unprecedented federal spending, rapidly rising deficits, and increasing government intrusion into every area of American life. Believing that big government of any political stripe is detrimental to liberty, Cato scholars have been especially critical recently of big-government Republicans for hiding their excessive spending behind the rhetoric of conservatism.

The GOP has broken the “Contract with America” that led it to victory in the 1994 elections. In March, Cato released *The Republican Revolution 10 Years Later: Smaller Government or Business as Usual?* edited by Cato’s director of tax policy studies Chris Edwards and director of the Center for Representative Government John Samples. Former House speaker Newt Gingrich writes about his view that the 1994 election was the culmination of a Republican tradition that began with Barry Goldwater and Ronald Reagan. Other contributors, including former majority leader Dick Armey and Cato president Ed Crane, argue that Republicans must return to those philosophical roots if they hope to fulfill the

promise of the Republican Revolution and give Americans the smaller, more effective government they deserve.

Republicans are clearly not living up to their rhetoric of fiscal responsibility. As Cato director of budget studies Stephen Slivinski showed in his May Policy Analysis, “The Grand Old Spending Party: How Republicans Became Big Spenders,” the current Republican administration has presided over the largest increase in federal spending since Lyndon Johnson. The federal budget as a share of the economy grew from 18.5 percent of GDP on Clinton’s last day in office to 20.3 percent by the end of Bush’s first term, and Republicans have continued to add new programs to the budget. The study was cited in *The Economist*, *Newsweek*, *Time*, and the *Washington Post*. Slivinski plans to release a book in 2006 expanding on the story of how Republicans lost their fiscal restraint.

In February, Cato released the 6th edition of the *Cato Handbook on Policy*, a comprehensive, issue-by-issue blueprint for reducing the federal government to the limits intended by the Founding Fathers. The *Washington Post* has called the *Handbook* “a soup-to-nuts agenda to reduce spending, kill programs, terminate whole agencies, and dramatically restrict the power of the federal government.” The 2005 *Handbook* cited cutting taxes and reining in spending as top-priority issues, along with developing new strategies to fight the War on Terrorism without violating citizens’ civil liberties.

The media latched on to stories of profligate government spending in August, when



Profligate government spending will lead to fiscal crisis for future generations. Fortunately, as Cato director of tax policy studies **Chris Edwards** shows in ***Downsizing the Federal Government***, we don’t need many of the programs the federal government provides. The book, which offers a concrete plan for cutting unconstitutional programs and streamlining federal agencies, was lauded by Nobel laureate James M. Buchanan as “a responsible program-by-program set of proposals to get the federal government within reasonable limits.”



Chris Edwards proposes to Hill staffers that fiscal conservatism would be well received by the voters. **Jim Harper** tells the House Committee on Homeland Security that air travel would be safer if airlines were held responsible for their own security. Cato chairman **William Niskanen** testifies before the House Energy and Commerce Committee on the folly of price controls.

the pork-laden highway bill came before Congress. The bill contained 6,371 earmarks for special projects added to the bill by powerful members of Congress. Rep. Don Young (R-AK), chairman of the Transportation Committee, secured more than \$900 million in pork projects for Alaska, including the much-condemned “bridge to nowhere.” Cato executive vice president David Boaz appeared on CNN’s *Inside Politics* to condemn the bloated bill.

In an op-ed in the *Washington Times*, Chris Edwards pointed out that although Republicans deserved the blame for producing so much waste, “the two parties are partners in crime in pork spending, corporate subsidies, unneeded Pentagon weapons systems, misallocated Homeland Security funding, and other waste.” At a Cato Hill Briefing in October, Sen. John McCain (R-AZ) reminded the audience that Ronald Reagan had vetoed a highway bill for proposing 100 pork projects. That bill would be thrifty by today’s standards.

After hurricanes devastated the Gulf Coast last fall, many Americans were quick to blame the federal government for spending too little money on preparation and failing to respond quickly enough in the aftermath. Cato scholars offered a different perspective: federal meddling itself had led to bad local policies that exacerbated the disaster, and private industry was better than government at responding to the needs of the victims. Cato scholars testified before Congress; were featured in the *Wall Street Journal*, *National Review*, *Forbes*, and the *Washington Times*; and appeared

on CNN, FoxNews, and NPR. Cato chairman William Niskanen told the *Wall Street Journal* that Katrina could be “a test of the conservative agenda, from enterprise zones to school vouchers and the repeal of labor laws, and these ideas deserve careful thought.”

Cato senior editor Gene Healy opposed an expanded role for the military in disaster relief. On the *NewsHour with Jim Lehrer* and ABC’s *World News Tonight*, Healy explained that the Posse Comitatus Act is meant to prevent the president from using the military in a policing role against American citizens. Healy urged the government not to use a natural disaster as a pretense for destroying a fundamental principle of American law: that turning the military on civilians should be a last resort.

In September, then-House majority leader Tom DeLay claimed that the government was running at peak efficiency and that he could find no fat to cut from the budget. He challenged those who believe in reducing the size of government to “bring me the offsets, I’ll be glad to do it.” Chris Edwards answered that call with his book, *Downsizing the Federal Government*, a comprehensive catalog of government waste, mismanagement, fraud, pork, and programs that overstep the federal government’s constitutionally recognized powers. Edwards found more than \$300 billion in unnecessary, inefficient, and unconstitutional government programs that should be abolished or delegated to local governments and private actors. Sen. Tom Coburn (R-OK) found the book so compelling that he had his entire staff read it during Congress’s winter recess.

When the federal government commits to spending it can ill afford, it often foists the costs of such programs on the states. As states continued their efforts to claw their way out of the worst budget hole in years, Cato's director of budget studies Stephen Slivinski and senior fellow Stephen Moore released the seventh biennial "Fiscal Policy Report Card on America's Governors." The report card's grading is based on 15 objective measures of fiscal performance, with high grades going to governors who have cut taxes and spending the most. The report shows that states can secure their long-term fiscal health by restraining spending growth and keeping taxes low to promote economic development. Slivinski commented on high-scoring governors Arnold Schwarzenegger (R-CA) and Mark Sanford (R-SC) and failing governors Bob Taft (R-OH) and Edward Rendell (D-PA) on radio shows across the country.

States have also seen drastically increased education costs under the federal No Child Left Behind Act. In a study titled "No Child Left Behind: The Dangers of Centralized Education Policy," Lawrence A. Uzzell wrote that one-size-fits-all federal education mandates directly contradict the principles of Bush's "ownership society." No Child Left Behind quashes state and local district educational experimentation without providing any reason to believe that the federal government can better educate children.

Congress also supported homogeneity in the legal system this year. The Action Fairness Act was supposed to provide a fairer federal

system of resolving large lawsuits. But the act, wrote senior fellow Mark Moller, does nothing to secure the due process rights of class action defendants, nor does it prevent coercive settlements. It will draw class action cases into federal court, threatening the dual sovereignty that makes the court system dynamic and responsive to the needs of citizens. Moller's Policy Analysis, "Controlling Unconstitutional Class Actions: A Blueprint for Future Lawsuit Reform," appeared in expanded form in the *Harvard Journal of Law & Public Policy*.

Overreaching federal government exacts a steep price from individuals and from businesses that must comply with the law. Environmental regulations have been particularly costly, both to the economy and to the environment they purport to protect. In *Saving Our Environment from Washington*, Cato adjunct scholar David Schoenbrod argues that Congress uses the EPA to insulate itself from the negative effects of environmental regulations. The EPA's scientific findings are beholden to political will, which leads to baffling policies that generate millions of dollars in compliance costs but do very little to solve major environmental problems. *The National Review* called Schoenbrod "an informed and vigorous advocate for a radical reorientation in U.S. environmental policy." *Meltdown*, a book by Cato senior fellow Patrick J. Michaels about the bad science backing up dire warnings of global warming and the bad policies it has inspired, was released in paperback in October.

Big government programs are not

merely wasteful; they are an active intrusion into areas of life never meant to be controlled by the federal government. Every area of life, from local school districts to professional baseball to the institution of marriage, is the federal government's bailiwick according to the current administration. David Boaz was disturbed by the assertion of members of Congress that they "may at any time conduct investigations of any matter," including the matter of private drug testing for professional athletes. He also wrote newspaper columns on the proposed constitutional amendment to supersede state definitions of marriage, privatizing public broadcasting, and other intrusions of the federal government into local issues.

In August 1999 Cato president Ed Crane wrote an op-ed for the *New York Times*, in which he predicted that if elected president, George W. Bush would follow Bill Clinton's example of meddling in areas of American life that the federal government was never meant to control. Bush's campaign promises, he wrote, "ought to give pause to those limited-government Republicans who truly want to put an end to Bill Clinton's political legacy." Unfortunately, Crane was right. Fortunately, he and many others at the Cato Institute remain committed to exposing the pernicious effects of big government, no matter which party proposes it.



EXPANDING LIBERTY'S MESSAGE

“Those who expect to reap the blessings of freedom, must, like men, undergo the fatigues of supporting it.”

—THOMAS PAINE

Cato's work

over the past 29 years has made it one of the most persistent voices in the public policy debate, consistently and effectively arguing for liberty, limited government, free markets, and peace.

The Cato Institute has nearly 100 employees who are dedicated to advancing the vision of a truly free society in Washington, in our state capitals, and around the globe. Cato's peaceful warriors for liberty base their efforts on exhaustive research and truthful analysis, so that as many individuals as possible will be informed and thereby empowered to advance the culture of individual autonomy and responsibility.

Expanding this circle of friends of liberty widely is a key focus of Cato's efforts. Institute policy experts once again stood out in that endeavor in 2005.

During 2005, Cato's policy specialists were among the most frequent guests on CNN, FoxNews, PBS, CNBC, MSNBC, NPR, and other major television and radio networks. Excelling as communicators as well as scholars, Cato's experts appeared 1,053 times on major television and radio programs over the course of the year. They contributed 341 op-eds to major newspapers and magazines and were cited or quoted an additional 2,343 times. And Cato's

reach is widening: coverage by foreign broadcast and print media, particularly in Latin America, increased significantly.

Equally important are the administrative and support staff who publish, disseminate, and promote the superb work done by Cato's scholars. Their efforts help promote the studies, books, newsletters, e-publications, conferences, seminars, and Hill briefings that disseminate the ideas of liberty in the United States and around the world.

The Cato Institute's work would not be possible without the generous support of some 15,000 individual Cato Sponsors, as well as a number of foundations and companies. Many have contributed to Cato for years, some for decades. They share Cato's vision and underwrite it willingly and enthusiastically.

With so many self-identified allies—intelligent, productive Americans and prestigious organizations from coast to coast—we are more convinced than ever that America's true greatness flows from its people, not from Washington, D.C.

Each of us at the Cato Institute commits to each Sponsor to redouble our efforts to restore the first principles of our founding fathers, the surest ramparts against tyranny ever designed by human beings.



Cameras from several foreign and domestic television stations capture a Cato Policy Forum on the future of North Korea's nuclear program. Cato events have been filmed by Voice of America, Bloomberg TV, and CBS News and are broadcast on CSPAN and other television networks.

At left: Cato policy scholars are frequent guests on national and international television and radio networks. Shown here are Cato experts on *The NewsHour with Jim Lehrer*, *NBC Nightly News*, *PBS Journal Editorial Report*, *CNN Inside Politics*, *CNBC Closing Bell*, *CNN Headline News*, *C-SPAN Washington Journal*, and other programs.

Cato events

CITY SEMINARS

In 2005, Cato held five seminars around the country in cities from New York to San Francisco. Cato's City Seminars give sponsors and others interested in liberty the opportunity to hear from some of the nation's leading commentators on politics, culture, and society. In Chicago, syndicated columnist **Robert Novak** gave an astute analysis of the Bush administration's Social Security reform strategy as well as the politics surrounding other issues on Capitol Hill. In New York, Home Depot founder **Ken Langone** delivered an impassioned critique of New York State's attorney general Eliot Spitzer. Journalist and television commentator **Tucker Carlson** took on the big-government GOP. Nearly 1,000 people attended City Seminars in 2005.

HILL BRIEFINGS

The Cato Institute held 36 Capitol Hill Briefings in 2005, giving congressional staffers fresh intellectual ammunition on a variety of policy issues. **Mike Tanner** presented a four-day Social Security University series in February. In March **Dan Griswold** spoke about the then-pending Central American Free Trade Agreement—CAFTA—before a standing room-only crowd. In April **Stephen Slivinski** and **Sen. Tom Coburn (R-OK)** discussed the GOP's spending explosion. In September

Chris Edwards gave a timely talk about pork barrel spending, and in November he discussed his new book *Downsizing the Federal Government*.

BOOK AND POLICY FORUMS

The Cato Book Forum and Cato Policy Forum series bring together Cato's own scholars and other leading experts to discuss new books and debate important policy issues. In 2005, Cato held 27 Book Forums and 23 Policy Forums.

Speakers at 2005 forums included **Edward Prescott**, winner of the 2004 Nobel Prize in economics; author and free-market activist **Alvaro Vargas Llosa**; First Amendment lawyer **Floyd Abrams**; syndicated columnist **Robert Novak**; Bolivian ambassador **Jaime Aparicio Otero**; Sens. **John Cornyn (R-TX)**, **John McCain (R-AZ)**, **Jim DeMint (R-SC)**, and **John Sununu (R-NH)**; and Reps. **John Shadegg (R-AZ)**, **Jim Cooper (D-TN)**, **Jeff Flake (R-AZ)**, **Jeb Hensarling (R-TX)**, and **Ron Paul (R-TX)**.

CATO CONFERENCES

Cato holds several major conferences each year. At "Social Security: The Opportunity for Real Reform" in February, six members of Congress and other speakers discussed proposals to reform the program. Cato's 23rd Annual Monetary Conference, cosponsored with *The Economist*,



featured **Rodrigo Rato**, managing director of the International Monetary Fund, along with **Roger W. Ferguson Jr.**, vice chairman of the Federal Reserve Board. On Constitution Day, **Nadine Strossen**, professor at New York Law School and ACLU president, gave the annual B. Kenneth Simon Lecture in Constitutional Thought, "Religion and the Constitution: A Libertarian Perspective." Other conferences in 2005 included "Does Private Education Work for the Poor?" and "Drug Cops and Doctors: Is the DEA Hampering the Treatment of Chronic Pain?"

CATO UNIVERSITY

Several hundred people attended the three Cato University seminars held in 2005. The spring seminar featured **Rep. Edward Royce (R-CA)**, Duke University's **Michael Munger**, and several Cato scholars on "Applied Economics: User-Friendly Tools to Understand Politics, Business Enterprise, and Life." In June, **Anne Applebaum**, author of the Pulitzer Prize-winning *Gulag: A History*, and economics professors **Jeffrey Rogers Hummel** and **Stephen Davies** spoke about "The History and Philosophy of Liberty and Power." The October seminar, "The Art of Persuasion: Skills for Everyone," featured **Nick Gillespie** of *Reason* magazine and economist **Alex Tabarrok** advising attendees on convincing others of the value of liberty.

NEW YORK POST
The Star-Ledger
Los Angeles Times
The Miami Herald
The Washington Post
The Dallas Morning News
The Washington Times
The Philadelphia Inquirer
INVESTOR'S BUSINESS DAILY
The NEW YORK Sun

Cato's media relations department works to promote the Institute's ideas and scholars in the news media. Cato scholars in 2005 contributed 341 op-eds to major newspapers and magazines. They were quoted in more than 2,300 articles in leading print media outlets. Cato scholars' opinions are read by millions around the world and are cited frequently by prominent pundits and policymakers.

Cato publications

CATO'S LETTER

Read highlights from recent events in Cato's free quarterly speech digest. John Goodman of the National Center for Policy Analysis, First Amendment lawyer Floyd Abrams, and Cato's Dan Griswold and Tom Palmer were featured in 2005.

REGULATION

Regulation is Cato's quarterly review of business and government. Featured articles included: **SPRING:** David Hyman and Charles Silver analyze the relationship between medical errors and tort reform. **SUMMER:** James C. Spindler argues that market forces are more effective than Sarbanes-Oxley at preventing accounting scandals. **FALL:** Lloyd R. Cohen endorses compensation for organ donors. **WINTER:** The federal government can curb eminent domain abuse by changing the terms of grants for local projects, writes William A. Fischel.

POLICY ANALYSIS

Cato published 44 policy studies in 2005, including:

- "The Grand Old Spending Party: How Republicans Became Big Spenders"
- "Health Care in a Free Society: Rebutting the Myths of National Health Insurance"
- "Time to Stop Fooling Ourselves about Foreign Aid: A Practitioner's View"
- "Ripe for Reform: Six Good Reasons to Reduce U.S. Farm Subsidies and Trade Barriers"
- "Saving Money and Improving Education: How School Choice Can Help States Reduce Education Costs"

POLICY REPORT

Cato's bimonthly newsletter brings readers the latest news from Cato's extensive research programs.

CATO JOURNAL

Published three times a year, *Cato Journal* covers a wide range of topics, with a focus on economic policy, economic freedom, and development. Recent issues featured articles on "Institutions and Development," "International Monetary Reform and Capital Freedom," "Creating a Competitive Education Industry," and "Remembering Peter Bauer."

Contributors in 2005 included Milton Friedman, Ben Bernanke, Thomas Sowell, Kristin J. Forbes, Amartya Sen, James Buchanan, Deepak Lal, Israel M. Kirzner, Anna J. Schwartz, John O'Sullivan, and Kenneth Rogoff.

CATO AUDIO

Cato's monthly audio magazine in 2005 featured remarks by *The Economist's* Robert Guest; Judge Andrew Napolitano; First Amendment lawyer Floyd Abrams; South African entrepreneur Moeletsi Mbeki; ACLU president Nadine Strossen; and David Boaz, Ed Crane, and other speakers from recent Cato events.



BOOKS PUBLISHED IN 2005:

Cato Handbook on Policy, 6th edition
edited by Edward H. Crane and David Boaz

**The Republican Revolution 10 Years Later:
Smaller Government or Business as Usual?**
by Chris Edwards and John Samples

**Welfare for Politicians? Taxpayer
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**Cowboy Capitalism: European Myths,
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**Meltdown: The Predictable Distortion of Global
Warming by Scientists, Politicians, and the Media**
by Patrick J. Michaels

Cato Supreme Court Review 2004-2005
edited by Mark K. Moller

Downsizing the Federal Government
by Chris Edwards



ONLINE PUBLICATIONS



Lampofliberty.org, Cato's Arabic language website, joined Cato's many other online resources in 2005 to put Cato at the forefront of electronic communications. Cato also runs Spanish (www.elcato.org) and Russian (www.cato.ru) language websites, the monthly web magazine *Cato Unbound* (www.cato-unbound.org), and the policy websites www.socialsecurity.org and www.freetrade.org. Cato's free Email newsletters include *Cato Daily Dispatch*, *Economic Development Bulletin* and *Healthy Competition*.



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Finances

IN 2005, total revenue for the Cato Institute reached its highest level ever, exceeding \$22.4 million, a \$7.5 million increase over the previous year. Contributions increased 57% over 2004. Individuals accounted for 83% of all revenues.

Expenses were \$17.2 million. The record revenue level resulted in a \$5.2 million surplus. This surplus allowed Cato to replenish reserves and place it on solid financial footing going forward.

Cato, having no significant endowment, relies on annual support to fund its programs. Our financial position remained strong with total assets of \$21.1 million offset by liabilities of \$454,000.

2005 INCOME

Individuals	\$18,571,000
Foundations	2,572,000
Corporations	365,000
Program Revenue	846,000
Other Income	108,000

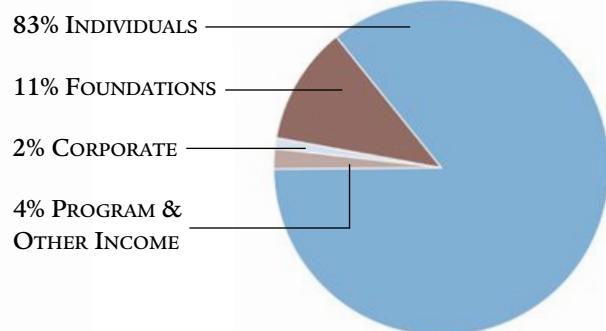
INCOME\$22,462,000

ASSETS AND LIABILITIES

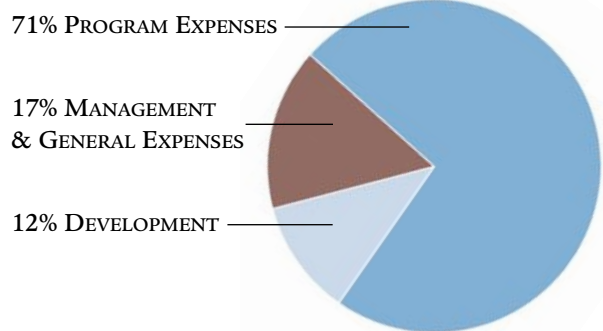
Cash and Equivalents	\$14,193,000
Net Fixed Assets	6,705,000
Other Assets	673,000
Liabilities	(454,000)

NET ASSETS\$21,117,000

2005 INCOME



2005 EXPENSES



Institutional Support

CORPORATE SPONSORS

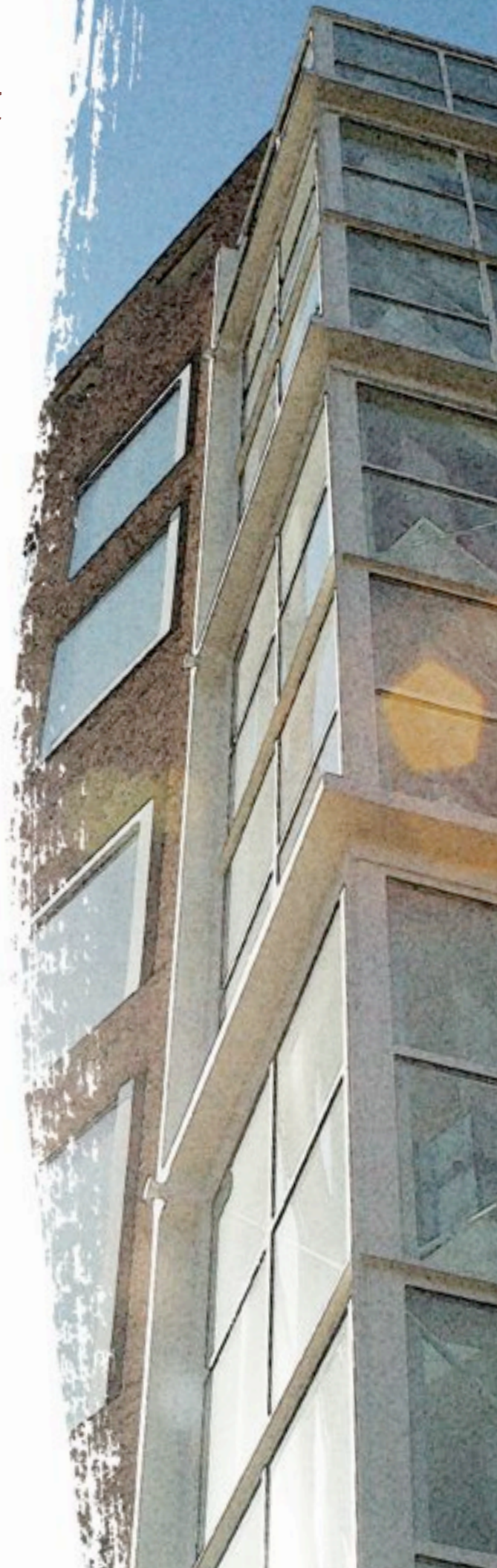
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