



CATO
INSTITUTE
2006 Annual Report

“ Taking its name from a series of anti-tyranny pamphlets published in the early 18th century, the libertarian Cato Institute is the foremost advocate for small-government principles in American life. ”

— EZRA KLEIN,
AMERICAN PROSPECT,
SEPTEMBER 12, 2006



In the past hundred years, the intentions of America's founding generation have been all but forgotten. The size of the federal government has grown exponentially while the autonomy of the individual has been similarly reduced in scope. Coercion is used regularly against peaceful individuals to achieve unethical policy goals.

In response to the abandonment of our nation's first principles, the Cato Institute was organized in 1977. During the ensuing three decades, Cato has brought the original ideas of America back to the center of public policy discourse. And Cato peacefully spreads those values abroad, continuing a global devotion to freedom begun over a quarter of a century ago.

Cato's work is educational on two important fronts—with policymakers and with millions of concerned individuals. Exhaustively researching and analyzing data, Cato's scholars make policy proposals in a variety of books, policy studies, periodicals, and online publications. Policymakers are also exposed to Cato's recommendations through frequent Capitol Hill Briefings and other meetings.

Cato Sponsors and other friends of freedom have access to those publications and additional opportunities to gain firsthand familiarity with

policy initiatives through forums, seminars, and conferences. Cato actively trains talented young college students from the United States and other countries through a research internship program, ensuring that the next generation of leaders in the cause of liberty is numerous and highly capable.

Last but not least, many millions of individuals, in the United States and around the world, are made aware of Cato policy initiatives through national and international television and radio appearances by Cato scholars, major newspaper and magazine articles, and increasingly through Cato's websites in four languages—English, Spanish, Russian, and Arabic.

All those efforts are supported entirely by Cato Sponsors. Individual Sponsors contributed 74 percent of Cato's budget during the last 12 months. All Cato's funding is from private sources.

All Cato's research and initiatives use America's first principles as the basis for proposals relevant to contemporary policy discussion. Our 2006 *Annual Report* recaps the most recent chapter in the ongoing battle for individual rights and dignity led by the men and women of the Cato Institute.

CATO
INSTITUTE

*30 Years of
Advancing Liberty*

Message *from*



EDWARD H. CRANE, PRESIDENT AND CEO

responsible for reducing stress on struggling families. The same government that created a civil war in Iraq. The same government that created multi-trillion-dollar unfunded liabilities in Social Security and Medicare. The same government that took three days to figure out that Katrina had created a bit of a problem in New Orleans. These people are going to reduce the stress on struggling families?

There are very good reasons government does so poorly at providing services and solving problems. First and foremost is the lack of market discipline. When bureaucracies fail, they don't go out of business; they use their failure as evidence that they need bigger budgets and more staff. Bureaucrats aren't spending their own money. There is very little accountability in government. Bureaucracies tend to service problems rather than solve them. The list of reasons why it is not smart to turn to government to solve social and economic problems is, if not endless, extensive. Yet, despite a truly horrendous record over the decades, the politicians of both major parties reflexively assume that the state is the proper vehicle for solving problems.

The sad thing is that we could ignore the practical problems with government problem solving by simply turning to the United States Constitution. One would search long and hard, for instance, to find in the Constitution that section authorizing the federal government to reduce the stress on struggling families. (Article I, Sec. 11: Struggling Families.) Of course, in today's undisciplined approach to judicial philosophy, both conservatives and liberals would point to the General Welfare Clause. If it's good for the general welfare, then Congress is authorized to act. Perhaps that's what David Brooks, a very bright and personable individual who spoke at Cato in 2006, actually believes. But he would be wrong. A reasonably good authority on the Constitution, James Madison, said that an expansive view of the General Welfare Clause would turn the Constitution on its head.

“You ought to organize your committees by priority. For example, create a Flourishing Families Committee. Get economists, religious activists, and psychologists in one room to figure out how government can reduce stress on struggling families.”

—DAVID BROOKS in a February 22, 2007, *New York Times* column offering advice to GOP presidential candidates.

One doesn't know whether to laugh or cry when reading such silliness, but we think this quote from one of the leading lights of the neoconservative intelligentsia is revealing of the growing promiscuousness with which the conservative movement approaches governance in America these days. A government that can't keep rats, roaches, and mold out of wounded soldiers' hospital living quarters at Walter Reed is going to be

the President and the Chairman

The clause was meant to limit the power of the federal government by saying that the enumerated powers of the federal government could be used only for the general welfare, not for what the Framers called factions and we call special interests.

So, we would encourage policymakers and the public to take the Constitution seriously. That is why Cato has distributed nearly four million copies of that remarkable document. The Framers knew what they were doing. We ignore their wisdom at our peril.

This is our 30th *Annual Report*. We take great pride in what the Institute has accomplished in three decades. We are one of the most quoted think tanks in America. Our award-winning website is visited by more than 30,000 individuals every weekday. Our annual budget is around \$20 million, and as of this writing we have 106

full-time employees. We have steadfastly adhered to our classical liberal/libertarian philosophy, maintaining a strictly nonpartisan approach to work. Our commitment is to the ideals of a free society, not to any political party.

The loyal support of Cato Sponsors over these three decades has created a unique platform from which to promote our philosophy to an enormous audience on a wide range of issues. We're pleased this year to have added Sigrid Fry-Revere to our policy staff as our first director of bioethics studies. We have hired Randal O'Toole, a longtime libertarian scholar of public-land, urban, and transportation issues, as a senior fellow. The remarkable young author of *In Defense of Global Capitalism*, Johan Norberg, will be working for us in Stockholm as a senior fellow. One of the nation's leading advocates of a flat tax and international tax competition, Dan Mitchell, is now also a senior fellow at Cato.

We want to make special note of our growing international presence, which is attributable to the work of Tom Palmer and Ian Vásquez and their colleagues. We have added the courageous former top economic adviser to Russian president Vladimir Putin, Andrei Illarionov, as a senior fellow at our new Center for Global Liberty and Prosperity. And we now have active websites in Russian, Arabic, and Spanish and plans for new ones in Chinese, Kurdish, and Persian. For the first time in human history, the works of Jefferson, Madison, Locke, Hayek, Friedman, and other great champions of freedom are available in Arabic.

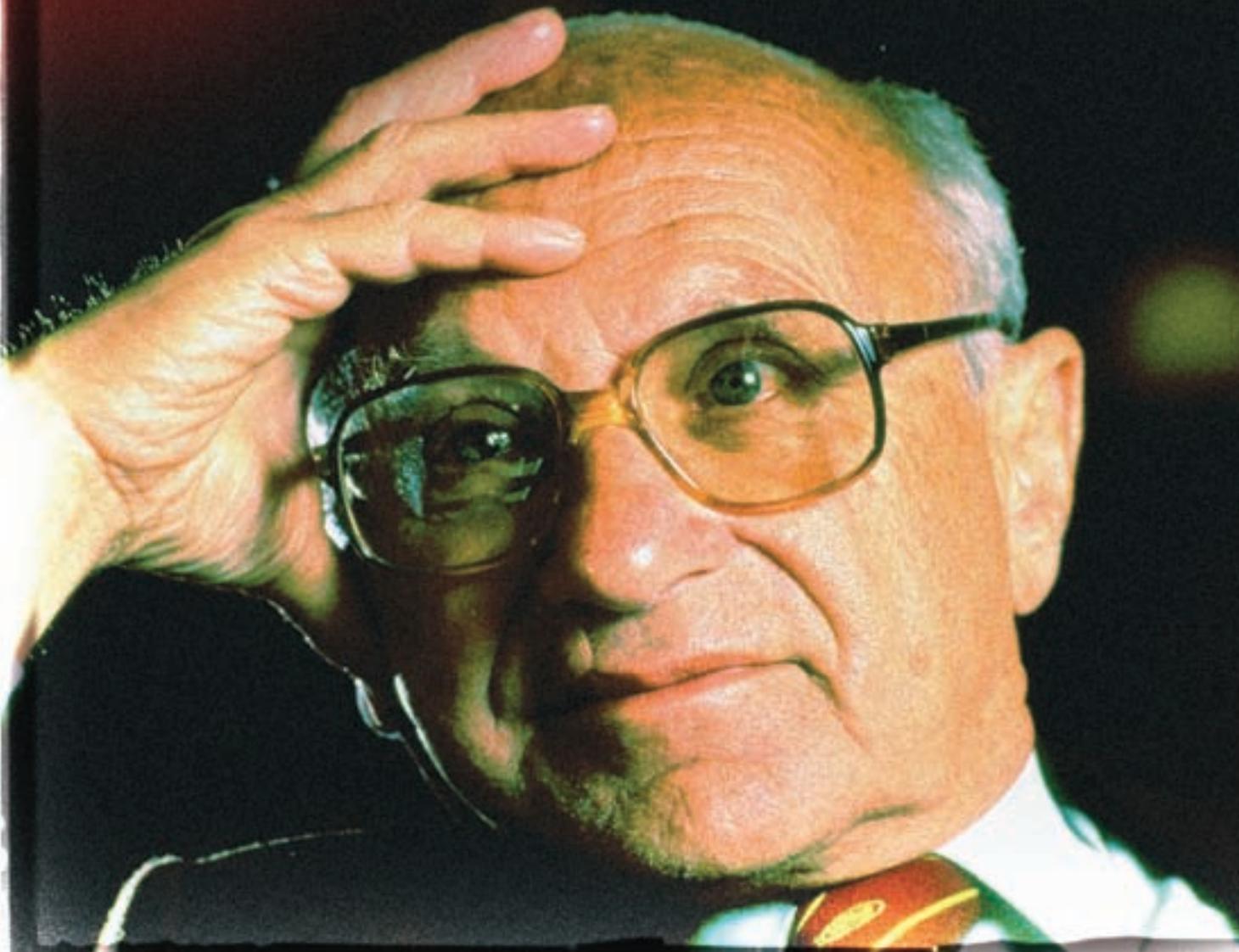
This 30th *Annual Report* is dedicated to our dear friend Milton Friedman, who passed away at the age of 94 last year. He was fighting for freedom right to the end. And to end this report on a brighter note than the quote at the top, we prefer Thomas Jefferson's wisdom: the sum of good government, he said, was one "which shall restrain men from injuring one another, which shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned."



WILLIAM A. NISKANEN, CHAIRMAN

Milton Friedman

A Courageous and Persuasive Voice for Freedom



The life of one of the 20th century's greatest champions of freedom is a study in accomplishment. Milton Friedman (1912–2006) was at the same time scholar, scientist, adviser, teacher, mentor, communicator, and public intellectual. He advanced greatly our understanding of how freedom works (and how coercion fails). He provided valuable advice and expertise to governments around the globe. He taught and mentored generations of economists whose accomplishments have revolutionized academic life. He communicated his insights in clear and simple language to millions of people through his columns, television shows, books, speeches, and interviews.

Friedman's contributions to economic science were recognized by the Nobel Memorial Prize in Economic Sciences and many other awards. His investigations of permanent income and consumer behavior and his pioneering work in monetary theory and policy have both illuminated the workings of complex economies and greatly improved policy. The taming of the inflation of the 1970s was largely a result of people paying attention to Friedman's admonitions against expanding the money supply for short-term political advantage.

Friedman's university teaching and his example of public involvement led generations of economists to focus attention on the harmful effects of substituting state-enforced commands for the voluntary negotiation and cooperation of the market. The movement to restrict or eliminate the coercive powers of government regulatory agencies is largely attributable to Friedman and his students. The result has been an economy that is more responsive to consumer demand, more efficient, more adaptable, and more just.

Friedman did not limit his analysis and advocacy only to responsible monetary policy and freeing markets for goods, however. He also believed passionately in free markets for labor. As a member of the President's Commission on an All-Volunteer Armed Force, he worked tirelessly to demonstrate the harm of the military draft and the benefits of an all-volunteer force. During the commission's hearings, Gen. William Westmoreland, then chief of staff of the Army, famously said that he did not want to command an army of "mercenaries." Friedman asked him, "General, would you rather command an army of slaves?" General Westmoreland retorted, "I don't like to hear our draftee soldiers referred to as slaves." Friedman's response was clear: "I don't like to hear our patriotic volunteers referred to as mercenaries. If they are mercenaries, then I, sir, am a mercenary professor, and you, sir, are a mercenary general; we are served by mercenary physicians, we use a mercenary lawyer, and we get our meat from a mercenary butcher." When asked in 2003 to cite

his proudest accomplishment, Friedman immediately responded that it was the elimination of military conscription. He also never tired of pointing out the terrible effects of interfering with personal choice when it comes to alcohol, narcotics, and other victimless crimes.

One proposal that originated with Friedman has changed the debate about education the world over. In Sweden parents can choose to send their children to the schools of their choice, whether state or private, secular or parochial, for-profit or nonprofit. Similar systems of choice are being initiated throughout the world, including in numerous American states, despite the powerful opposition of the teachers' unions. Pupils and parents the world over have Milton Friedman to thank for promoting their right to choose.

Friedman was most widely known, however, neither as a scholar nor as a policy adviser, but as a charming, thoughtful, and persuasive public communicator. Through his columns in *Newsweek* from 1966 to 1983, his 1980 PBS television series *Free to Choose*, and such accessible and elegant books as *Capitalism and Freedom*, *Free to Choose*, and *Tyranny of the Status Quo* (the latter two coauthored with his brilliant and loving wife Rose Friedman), he brought the liberating message of capitalism, freedom of choice, and personal responsibility to millions. When asked what motivated him to move so quickly to dismantle socialism in formerly communist but now-thriving Estonia, then-prime minister Mart Laar quickly answered, "We read Milton Friedman and F. A. Hayek."

In the concluding paragraph to his influential 1962 book *Capitalism and Freedom*, Friedman wrote:

As Adam Smith once said, "There is much ruin in a nation." Our basic structure of values and the interwoven network of free institutions will withstand much. I believe that we shall be able to preserve and extend freedom despite the size of the military programs and despite the economic powers already concentrated in Washington. But we shall be able to do so only if we awake to the threat that we face, only if we persuade our fellow men that free institutions offer a surer, if perhaps at times a slower, route to the ends they seek than the coercive power of the state.

Milton Friedman accomplished much in his lifetime. But his accomplishments are not limited to one lifetime. They will continue as long as his life is remembered, as long as his scholarship is studied, as long as his ideas move the hearts of men and women of good will. To the continuation of Milton Friedman's accomplishments on behalf of freedom and justice, this 30th anniversary report of the Cato Institute is dedicated.



THE
MILTON
FRIEDMAN
PRIZE FOR
ADVANCING LIBERTY

The 2006 Milton Friedman Prize for Advancing Liberty from the Cato Institute was awarded to Mart Laar, former prime minister of Estonia and main architect of his country's remarkable economic transformation into one of the world's freest and most dynamic economies.

The prize and its accompanying \$500,000 cash award were presented to Laar by Francisco Flores, former president of El Salvador, on May 18, 2006, at a gala dinner at the Drake Hotel in Chicago, attended by several hundred Cato supporters and guests. Named after Nobel laureate Milton Friedman, the prize is awarded every other year to an individual who has made a significant contribution to advancing human freedom. Cato deeply appreciates Dr. Friedman's allowing the Institute to name this award in his honor.

The Friedman Prize went to the late British economist Peter Bauer in 2002 and to Peruvian property rights advocate Hernando de Soto in 2004.

In his keynote address at the dinner, Pulitzer Prize-winning columnist George F. Will praised the increasingly significant role of the Cato Institute, stating, "The Cato Institute is the foremost upholder of the idea of liberty in the nation that is the foremost upholder of the idea of liberty." Videotaped remarks by Milton Friedman and former secretary of state Colin Powell were also seen by dinner attendees.





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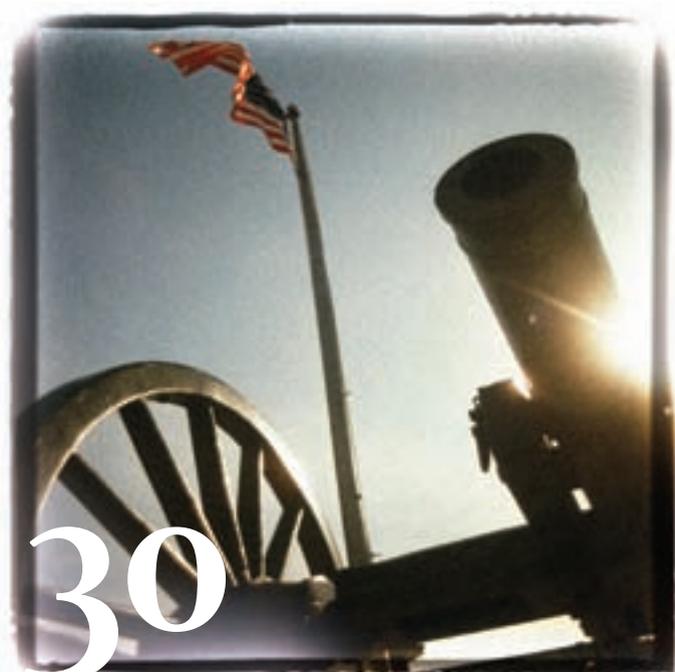
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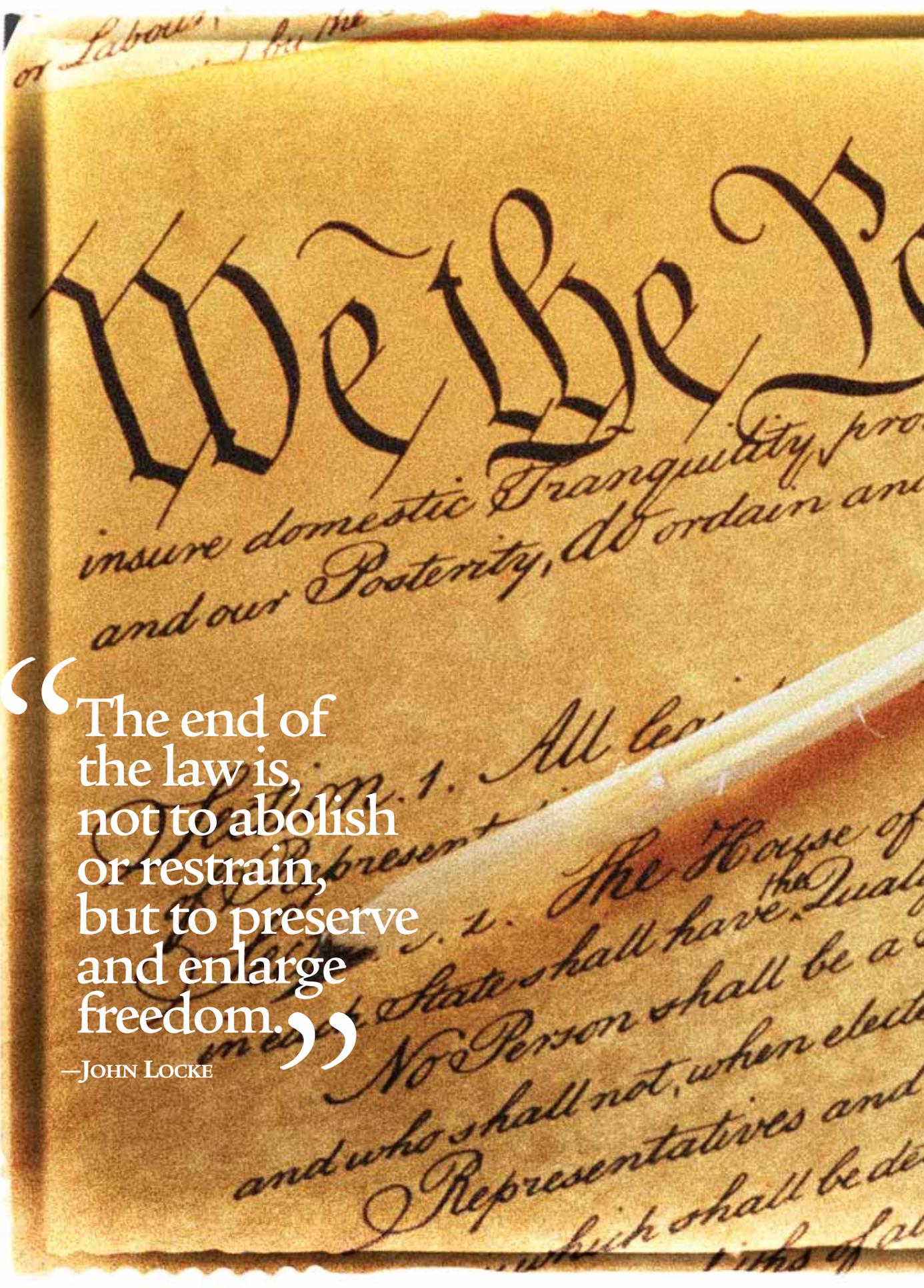
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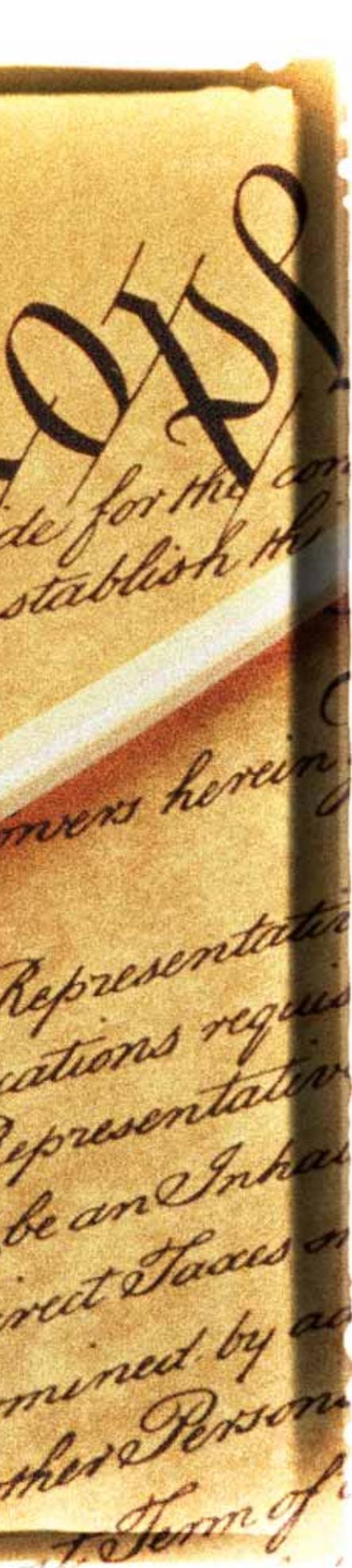
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“The end of the law is, not to abolish or restrain, but to preserve and enlarge freedom.”

—JOHN LOCKE



RESTORING
INDIVIDUAL
SOVEREIGNTY

During 2006 Cato's experts met the challenge of protecting and restoring individual rights with enthusiasm and enjoyed significant success. Necessarily, this involved working on issues that embrace both federal and state policy considerations.

Cato has played an active and effective role in the emerging property rights movement that seeks to reclaim Americans' fundamental birthright. After the wrong-headed decision of the Supreme Court in 2005 in *Kelo v. City of New London*, in which the Court effectively gutted private property rights, Cato took important initiatives.

In June Cato published *Cornerstone of Liberty: Property Rights in 21st-Century America* by Timothy Sandefur, a staff attorney at the Pacific Legal Foundation. In the book, he notes that “[John] Locke described individual rights as all deriving from a common principle: the exclusive right to own and use our selves. Locke saw property rights as the comprehensive term for all rights.”

Following publication of Sandefur's book, the Cato University July summer seminar held in St. Petersburg, Florida, focused on the economic, legal, and moral issues

“Radley Balko is doing for Maye what documentary filmmaker Errol Morris did for Randall Adams in *The Thin Blue Line*: uncover a conspiracy of deceitful prosecution and shoddy police work.”

—PAUL JACOB,
Common Sense,
DECEMBER 12, 2006

Andrew Coulson, director of Cato’s Center for Educational Freedom, wrote in the *Seattle Post-Intelligencer* in June that the Seattle Public Schools declared on their website that “emphasizing individualism as opposed to a more collective ideology” is a form of “cultural racism.” They later apologized and withdrew the definition after Coulson’s criticism.

connected to property rights. Joining Sandefur on the faculty were, among others, Roger Pilon, Cato vice president for legal affairs; Tom G. Palmer, vice president for international programs and director of Cato University; and Scott Bullock, Institute for Justice, who argued the *Kelo* case before the Supreme Court.

Victories followed in the wake of the efforts by Cato and its allies. Perhaps the most important has been passage of legislation in 31 states to limit, to a greater or lesser extent, effects of the anti-property-rights decision of the Supreme Court. Restraints on untrammled abuse of eminent domain garnered 80 percent or more of the votes in referenda in New Hampshire, Michigan, and South Carolina.

A week before the November referenda, Roger Pilon wrote an op-ed that appeared in the *Los Angeles Times* and other newspapers. Pilon echoed the Bill of Rights: “If someone else wants the property badly enough, there’s a fair way to get it: Pay for it. That’s the



American way. If it’s right for individuals, it’s right for government too.”

Cato continued exposing the irrationality and harmful consequences of the War on Drugs with a July white paper, *Overkill*:

The Rise of Paramilitary Police Raids in America by policy analyst Radley Balko. Paramilitary raids by police have increased a staggering 1,300 percent over the last 25 years. The vast majority of the raids are to serve routine drug warrants, including warrants for offenses as trivial as marijuana possession.

Overkill provides a legal, historical, and policy background explaining the trend. Balko critiques “no-knock” and “short-notice” raids and explains how such confrontational tactics cause violence rather than lessen risks and offers recommendations for reform. He documents a shocking number of botched SWAT raids in which excessively militaristic tactics have threatened the lives of the targets of the raids, accidental targets, and the police themselves.

Overkill won praise from former Seattle police chief Norm Stamper, who discussed the problem of police raids in the War on Drugs at a Book Forum at Cato in September. Supreme Court Justice Stephen Breyer cited Balko’s work in his dissenting opinion in *Hudson v. Michigan*. (The Court upheld the use of evidence obtained by police in a no-knock raid.)

The white paper also prompted a September op-ed, “Wrong Door,” in the *Wall Street Journal* by Balko and Joel Berger, an attorney representing innocent victims in cases similar to Maye’s.

Many studies show that nongovernment schools provide better educational outcomes for more students and lessen social conflict. They also make moral and ethical sense. Individuals should have the right to choose for themselves and for their children an education that reflects their values without government supervision.

In December, Andrew Coulson, director of Cato’s Center for Educational Freedom, published the “Cato Education Market Index.” The report endeavors to assess how closely existing school systems resemble free markets. Coulson also rates education policy proposals on how conducive they are to the rise of competitive marketplaces. One of the

least surprising findings is that no U.S. state currently has anything resembling a free education marketplace.

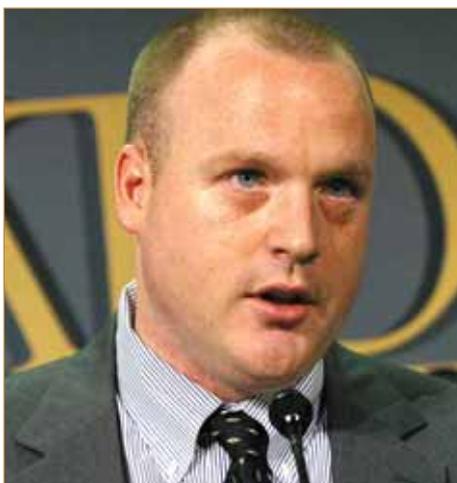
The “Cato Education Market Index” calls for a true free market in education to replace the current socialized school system that serves all poorly. “Contrary to common assumptions,” Coulson writes in the index, “education markets are not an untested idea. The first education system in the world that reached beyond a tiny ruling elite was the market that arose in Athens during the 5th century BC. Today, education markets thrive everywhere from impoverished slums and villages of the developing world to the multi-billion-dollar after-school tutoring sector in Asia.”

Voucher programs, which give parents a choice in their children’s education, are beneficial. Early in the year, Cato published a white paper, *Spreading Freedom and Saving Money: The Fiscal Impact of the D.C. Voucher Program*. The study, written by Susan L. Aud, senior fellow at the Milton and Rose D. Friedman Foundation, and Leon Michos, adjunct professor of economics at George Washington University, concludes that even if federal subsidies for the program were ended, the city would still save more than \$200,000. A locally funded universal program, they contended, would save \$3 million.

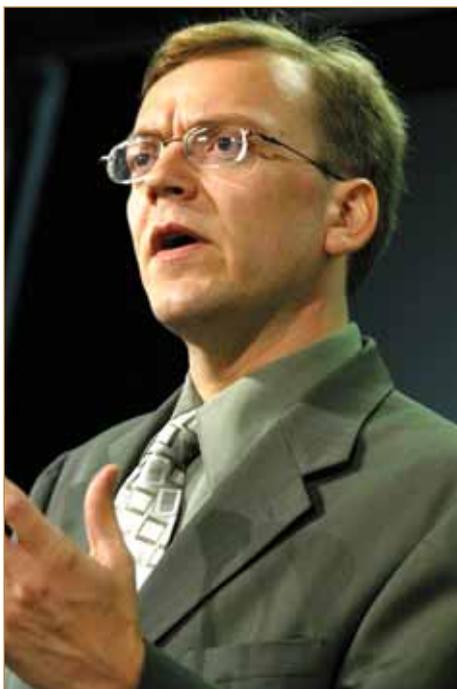
Coulson’s op-ed “War on Vouchers” appeared in the *Wall Street Journal* in January. Commenting on a decision by the Florida Supreme Court invalidating that state’s voucher system, Coulson condemned the court for its tortured interpretation of a 1998 state constitutional amendment. The court’s decision not only banned vouchers, the only way many low-income parents have to secure quality education for their children, but may affect state charter schools as well. Coulson pointed out that Florida’s government-run schools “have managed an on-time graduation rate of just 57%, placing it third from last nationally. Its composite SAT score is the fourth lowest among the states.” He called for Florida and other states to amend their constitutions to guarantee that



Cato vice present for legal affairs **Roger Pilon** was one of 2006’s most visible defenders of the Constitution. In the *Wall Street Journal* in December, he criticized conservative scholars who claim to adhere to the words of the Constitution, yet ignore portions of the text when it suits them.



One of policy analyst **Radley Balko’s** accomplishments this year was publicizing the case of Cory Maye, a Mississippi man who was taken off death row and granted a new trial. Maye was sentenced to death in 2001 for killing a police officer who broke into his home on a late-night drug raid, but Balko’s work showed that Maye believed he was acting in self-defense against an intruder.



“John Locke saw property rights as the comprehensive term for all rights,” **Timothy Sandefur** wrote in his Cato book *Cornerstone of Liberty: Property Rights in 21st-Century America*. Sandefur is shown addressing a Cato forum for his book.

Cato policy analyst **Neil McCluskey** (top) and adjunct scholar **Marie Gryphon** (center) discussed her Policy Analysis “Giving Kids the Chaff: How to Find and Keep the Teachers We Need” at a Cato Policy Forum on September 25. Gryphon concluded that only market forces and greater choice can improve the quality of teachers. She wrote an op-ed about her study that appeared in *Business Week*.



In 2006 **Jim Harper**, director of information policy studies, crisscrossed the nation, giving speeches, testifying before legislative panels, and meeting with state officials in California, New Hampshire, New Mexico, Maryland, Tennessee, and Utah in order to stir up resistance to the REAL ID Act.



vouchers remain available.

Other achievements to advance educational freedom include publication of the book *Liberty and Learning* revisiting Milton Friedman’s seminal essay proposing free market-based education on its 50th anniversary.

The issue of the affordability of higher education has prompted calls for the federal government to increase subsidies to higher education. In response, Cato education policy analyst Neil McCluskey argues that we need less, not more, federal money. Appearing on CNBC, McCluskey explained, “Money for higher education is like a drug, and the symptoms of the addiction are the tuition costs which keep going up.” Federal aid fuels price inflation, giving colleges and universities little incentive to hold down costs as federal subsidies soar.

In George Orwell’s classic *1984*, an all-powerful government controls every aspect of individuals’ lives and maintains meticulous, comprehensive records on everyone. No better philosophical argument was ever made for individual privacy and control of one’s own identity.

By creating a de facto national ID card with uniform federal standards, the REAL ID Act lays the groundwork for a real-life “Big Brother” system run by politicians and bureaucrats in Washington.

In May Cato published *Identity Crisis: How Identification Is Overused and Misunderstood* by Jim Harper, director of information policy studies.

Identity Crisis shows that national ID cards, biometric surveillance, and other policies that put identifying information in the hands of government take away our liberties without making us any safer. A national ID card, for example, would be vulnerable to fraud the same way our current ID cards are, but it would open the door for formidable government control of individuals, as the history of other countries shows.

Harper’s ideas made a major impression on those experienced with identification technology. Justin Oberman, former head of identity programs at the Transportation Security Administration, said, “I would have used this

book every day to help structure programs and develop policies if I'd had it at TSA.”

Significant media coverage also ensued, including citations in the *New York Times* in April, in *Privacy Journal* in May, and on NPR's newsmagazine *All Things Considered* in December.

Cato launched its involvement in bioethics, increasingly crucial to individual rights, by naming Sigrid Fry-Revere as its first director of bioethics studies. Fry-Revere previously taught at the University of Virginia and George Mason University. Her areas of policy research and development include genetic engineering, neuroethics, reproductive technologies, end-of-life decisions, and research ethics.

In a *Los Angeles Times* op-ed, Fry-Revere wrote against the public funding of stem cell research—but for different reasons than are usually given by most opponents. She argued that government support for stem cell research “has proved bureaucratic, wasteful, expensive, fickle and divisive.” Instead, a fully legal private market in stem cell research can better make good on the tremendous promise this field shows for human health.

In another article in the *New York Post*, Fry-Revere criticized federal advisory councils for suggesting that organs be harvested from dead bodies without prior consent of decedents or their survivors. “A better way to remedy the dearth of willing organ donors,” Fry-Revere argues, “is to introduce ethical market principles to replace the current immoral public policy that prohibits financial incentives for organ donations.”

In comments filed with the Food and Drug Administration in December, Fry-Revere voiced her objections to the agency's suggestion that all hospitals be linked electronically to create a nationwide medical database. A much cheaper, more efficient, and patient-centered solution would be to allow patients to control their medical records themselves. Patients could carry with them data sticks that contain their medical records much in the same way they carry insurance cards.



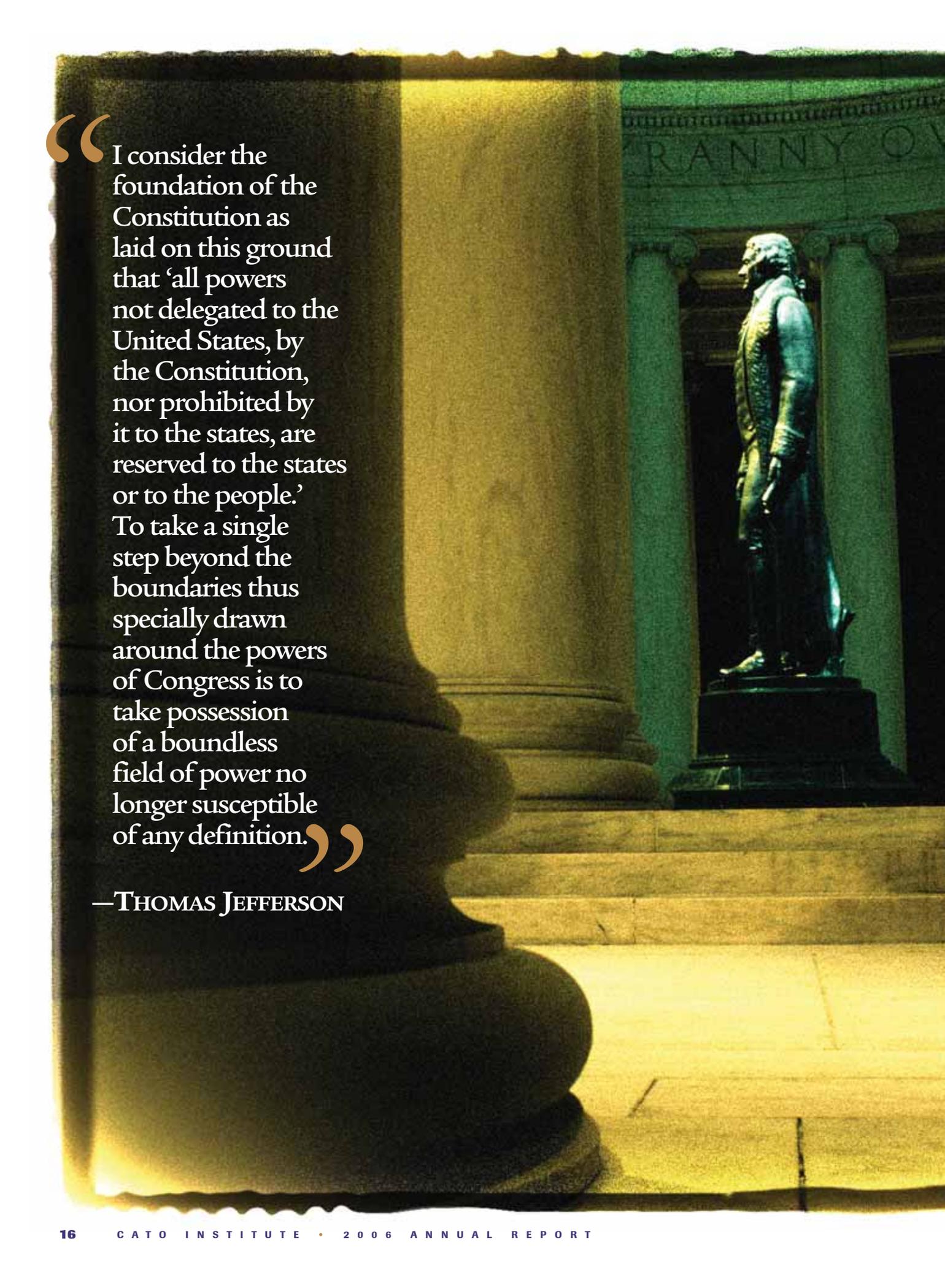
“The policy was strikingly similar to charter schools, pioneered in the US to introduce private funds and market forces into public education and backed by think-tanks such as the Cato Institute.”

—*Times* (LONDON),
DECEMBER 2, 2005

Cato's new director of bioethics studies **Sigrid Fry-Revere** wrote in the *New York Post* that the lack of organ donors could be quickly remedied by relying on ethical market principles, which recognize that individuals own their own bodies.

“John Locke's ideals found their greatest expression in the Constitution of the United States,” *Time* columnist **Andrew Sullivan** told a Cato forum in October for his newly published book, *The Conservative Soul: How We Lost It, How to Get It Back*.

Judge **Janice Rogers Brown**, shown here with Cato chairman **William A. Niskanen** at the 2006 Benefactor Summit. In her speech to Summit attendees, she described how her view of the rule of law was influenced by growing up in the segregated South in an era when who the parties to a legal action were was usually more important than the merits of the case.



“I consider the foundation of the Constitution as laid on this ground that ‘all powers not delegated to the United States, by the Constitution, nor prohibited by it to the states, are reserved to the states or to the people.’ To take a single step beyond the boundaries thus specially drawn around the powers of Congress is to take possession of a boundless field of power no longer susceptible of any definition.”

—THOMAS JEFFERSON



CAGING THE FEDERAL LEVIATHAN

As Benjamin Franklin left Independence Hall on September 18, 1787, following the final drafting of the proposed new Constitution, a certain Mrs. Powell asked him what kind of government had been fashioned. Never at a loss for words, Franklin quickly replied, “A republic, if you can keep it.”

A republic, by definition, restricts the mandate of government. The Constitution draws a line beyond which government may not reach, even if a majority of the voters wish it to do so. Those who framed the Constitution ingeniously devised a system of divided power that they believed would curtail the size and power of government.

Today, however, most policymakers find nothing strange about giving government a dominant role in every sphere of human activity. For instance, Congress now holds hearings on steroid use by professional athletes and the transfat content of fast food. That would be laughable if it were not so sinister.

In 2006 Cato was ever alert to reintroduce the wisdom of America’s founding generation and present well-crafted policy proposals based on first principles.

“The current 46-percent estate tax rate borders on being confiscatory. Chris Edwards of the Cato Institute reports that out of the 50 largest economies in the world, we have the third highest estate tax rate.”

— SEN. ORRIN HATCH
(R-UT)

FLOOR OF THE SENATE,
JUNE 8, 2006

In the executive summary of Cato’s white paper *Power Surge: The Constitutional Record of George W. Bush*, Gene Healy, Cato senior editor, and Timothy Lynch, director of Cato’s Project on Criminal Justice, point to Bush’s authorization of the detention of American citizens without trial, his support for surveillance without warrant or oversight, his refusal to veto unconstitutional laws such as campaign finance reform, among other policies, as evidence that Bush has overstepped his authority.

Power Surge found sympathetic ears across the political spectrum. Sen. Patrick Leahy (D-VT) approvingly cited the study in a speech on the Senate floor, and the conservative blog Redstate.com called it “a forceful, well-argued, respectful case against the president’s vision for the scope of executive power.”

In related activities, Cato scholars were deeply involved in the debate over wartime executive power. Testifying before the Senate Judiciary Committee in February, senior fellow Robert Levy criticized President Bush’s assertion that the National Security Agency can eavesdrop on American citizens without a warrant. He explained that “the executive branch cannot, in the face of an express prohibition by Congress, unilaterally set the rules, execute the rules, and eliminate oversight by the other branches.”

Where have the federal courts been—the judges whom Madison, Jefferson, and other Founders expected to stop any legislative or executive usurpation of constitutionally protected liberties?

As Cato adjunct scholar Richard Epstein explained in his seminal book *How Progressives Rewrote the Constitution*, the courts essentially changed sides during the 1930s. Epstein, who teaches in the University of Chicago Law School, showed how Progressives purposefully attacked many of the “old Court” decisions that protected constitutional rights and eventually weakened judicial thinking about limited federal powers.

At Cato’s Fifth Annual Constitution Day Conference in September, directed by Cato vice president for legal affairs

Roger Pilon and senior fellow Mark Moller, speakers called for a return to interpretation of the Constitution as it was clearly meant by framers such as Madison. The day-long event attracted well over 200 participants.

Topics addressed included “Federalism after *Raich*: Assisted Suicide, Wetlands, and Preemption”; “Executive Power after *Hamdan v. Rumsfeld*”; and “The First Amendment: Campaign Finance, the Solomon Amendment, and Whistleblowers.” The annual B. Kenneth Simon Lecture, “Challenges to the Rule of Law: Or, *Quod Licet Jovi, Non Licet Bovi?*” was delivered by U.S. Appeals Court Judge Danny J. Boggs.

The conference coincided with the publication of the 2005–2006 *Cato Supreme Court Review*, edited by Moller. The *Review* features essays on religious freedom, campaign finance regulations, antitrust, and the question of whether the Supreme Court is practicing law or politics.

Cato regularly files amicus briefs with the U.S. Supreme Court when first principles are at stake. In a 2006 issue of the *National Wetlands Newsletter*, Moller commented on the Court’s decision in *Rapanos v. United States*, a case involving the federal government’s jurisdiction over wetlands. Cato had previously filed a brief on behalf of Rapanos with the Court.

In his article Moller questioned that decision, which left in place a large amount of centralized bureaucratic control of wetlands policy, and argued that the rule of law protecting private property rights is flouted by federal policy.

Cato filed amicus briefs in other cases during 2006 including *Gary Davenport v. Washington Education Association*, in which Cato defended the First Amendment free speech rights of the nonunion employees; *Massachusetts v. Environmental Protection Agency*, in which Cato argued against creative judicial activism to impose Kyoto-type standards without legislative authority; and *Salim Ahmed Hamdan v. Donald H. Rumsfeld*, in which Cato’s Timothy Lynch argued that if the president chooses to try a person for a

war crime, he cannot deny the accused the benefit to trial by jury.

One of the major items on the agenda of many big-government conservatives has been to create a federal definition of marriage, although marriage laws are by implication among the powers reserved to the states under the Constitution. Amending the Constitution to create a federal definition of marriage would allow the federal government to reach into yet another area the Founders intended to reserve to the states.

In 2006 Cato's opposition to this attempt was highlighted by publication of the Policy Analysis "The Federal Marriage Amendment: Unnecessary, Anti-Federalist, and Anti-Democratic" by Dale Carpenter of the University of Minnesota School of Law. Sen. Arlen Specter (R-PA) cited the study on the Senate floor. Ultimately, the proposed amendment failed to garner the two-thirds majority necessary to pass each house of Congress.

By any measure, the American government is the largest in human history. As Goldwater warned, the federal leviathan is now "big enough" to take away liberty and property and has been doing so at an accelerating rate. Cato's scholars worked during 2006, not only to warn policymakers of the dangers of an ever-larger nanny state, but to bring this issue into focus for millions of concerned individuals.

Buck Wild: *How Republicans Broke the Bank and Became the Party of Big Government*, written by Stephen Slivinski, Cato's director of budget studies and published by Nelson Current in August, received a number of accolades for revealing the ugly truth about the profligate spending of Republicans.

The Economist said in an October review, "For chapter and verse on the [Bush] administration's betrayal of fiscal conservatism, look no further" than *Buck Wild*.

Slivinski also appeared on the *Rush Limbaugh* radio talk program in August to



Tim Lynch, director of Cato's Project on Criminal Justice, wrote a Briefing Paper, "Doublespeak and the War on Terrorism," in September about how the Bush administration disguises the true nature of its policies through distorted language. An Associated Press article that ran in dozens of newspapers around the country cited Lynch's study.



Cato senior fellow **Robert A. Levy** testified to the Senate Judiciary Committee on February 28 that the National Security Agency has broken the law by eavesdropping on American citizens without a warrant. He explained that the executive branch has unconstitutionally eliminated oversight by the other branches.



John Samples, director of Cato's Center for Representative Government, published two books this year: *The Marketplace for Democracy*, which revealed the lack of competition in our democracy, and *The Fallacy of Campaign Finance Reform*, which explained how McCain-Feingold and other restrictions are antithetical to Madisonian principles.



Cato senior fellow **Mark Moller**, pictured at the Fifth Annual Constitution Day Conference on September 14, wrote in 2006 about how the Supreme Court ruling in *Rapanos* would "open the spigot" of federal power in wetlands policy.

Cato's director of tax policy studies **Chris Edwards** testified before the Senate Budget Committee on September 28 about the state of the economy. Edwards recommended reform of the income tax system and scouring the federal budget for programs to cut or eliminate.



At a Cato Capitol Hill Briefing, **Stephen Slivinski**, Cato's director of budget studies, advocated budget reforms to allow the executive to check runaway spending by Congress



A lack of ethics in Congress and reckless spending are both results of the Republican Party abandoning its historic principles, **Sen. Chuck Hagel (R-NE)** told the audience at a New York Cato seminar.



promote the book's ideas to millions of conservative listeners. Rep. Mike Pence (R-IN) urged all members of the Republican Study Committee to read *Buck Wild* to understand where the party went wrong.

Slivinski gained even more media attention with his "Fiscal Policy Report Card on America's Governors," published as a Cato Policy Analysis. Dozens of local newspapers and radio stations reported on how well their states' governors did in holding down spending and taxes according to Slivinski's measurements.

At a February Book Forum for *Size Matters: How Big Government Puts the Squeeze on America's Families, Finances and Freedom*, author Joel Miller related how government taxation and spending negatively impact families. That same month, at a Capitol Hill Briefing, Cato's director of tax policy studies Chris Edwards discussed the budget's tax proposals and the danger of rising taxes if spending is not cut in coming years. More than 100 congressional staff and members of Congress attended.

Edwards continues to promote budget-cutting ideas on the heels of the publication of his Cato book *Downsizing the Federal Government* in late 2005. In several widely cited *Tax & Budget Bulletins*, he describes how to cap the overall federal budget, how the number of federal subsidy programs has soared, and how average citizens can monitor wasteful federal spending.

During 2006 Edwards testified to Congress four times on various tax and budget issues: "The Need for Tax Reform" in March, "Improving Financial Management in Congress" in May, "The State of the Economy and Budget" in September, and "America's Public Debt: How Do We Keep It from Rising?" also in September.

Edwards coauthored a *Wall Street Journal* op-ed, "A \$2-Trillion Fiscal Hole," with senior fellow Jagadeesh Gokhale in October regarding unfunded health spending by states. He also wrote a *Washington Post* op-ed about the absurd complexity of the federal tax code.

Campaign finance reform has been used as cover for expanding the advantages of incumbents, many of whom do not mind trampling on the Constitution. McCain-Feingold directly bans mention of the names of federal candidates in advertising paid for by most individuals and organizations for 60 days prior to an election. The legislation also severely limits the ability of challengers to raise the campaign funds necessary to buy enough advertising to effectively counter the massive free publicity enjoyed by incumbents.

John Samples, director of Cato's Center for Representative Government, believes that McCain-Feingold is the greatest assault on freedom of speech since the Alien and Sedition Acts. In October the University of Chicago Press published Samples's book *The Fallacy of Campaign Finance Reform*, one of the few book-length criticisms of campaign finance laws. George Will wrote in his *Washington Post* column that Samples "demolishes the argument that campaign finance reform has increased voters' choices by increasing the number of presidential candidates."

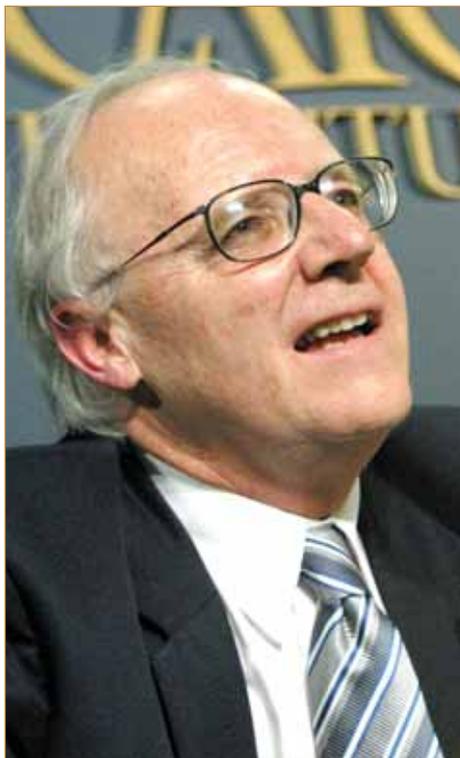
The Founders intended that government be controlled by individual citizens, rather than the opposite. That makes competition in politics, as well as in the marketplace, highly desirable. A day-long conference in March set the stage for Cato's efforts to show the need for increased competition in U.S. elections.

The Marketplace of Democracy, edited by Samples and Michael McDonald of the Brookings Institution, brought together chapters from various contributors analyzing the effects of policies such as term limits and redistricting.

According to Cato executive vice president David Boaz and coauthor David Kirby of America's Future Foundation, about 15 percent of voters are neither liberal nor conservative but libertarian. The authors used polling data to support their conclusions about this important but ignored "swing vote" in an October policy paper, "The Libertarian Vote." Boaz and Kirby show

that, although libertarians have tended to prefer Republicans over Democrats at the polling booth, that margin has narrowed in recent elections. They conclude that the libertarian vote is large enough to swing elections, which seems to be borne out by the results in a number of close elections in November 2006. Their study drew coverage from major media including *The Economist*, which commented in an October article, "Mr. Boaz and Mr. Kirby argue that wooing the libertarian vote could propel either party to electoral success" but that neither showed signs of trying very hard, each advocating a variety of interventionist policies.

In December, Cato vice president for research Brink Lindsey published an essay titled "Libertarians" in the *New Republic* online. Lindsey argues that while Democrats



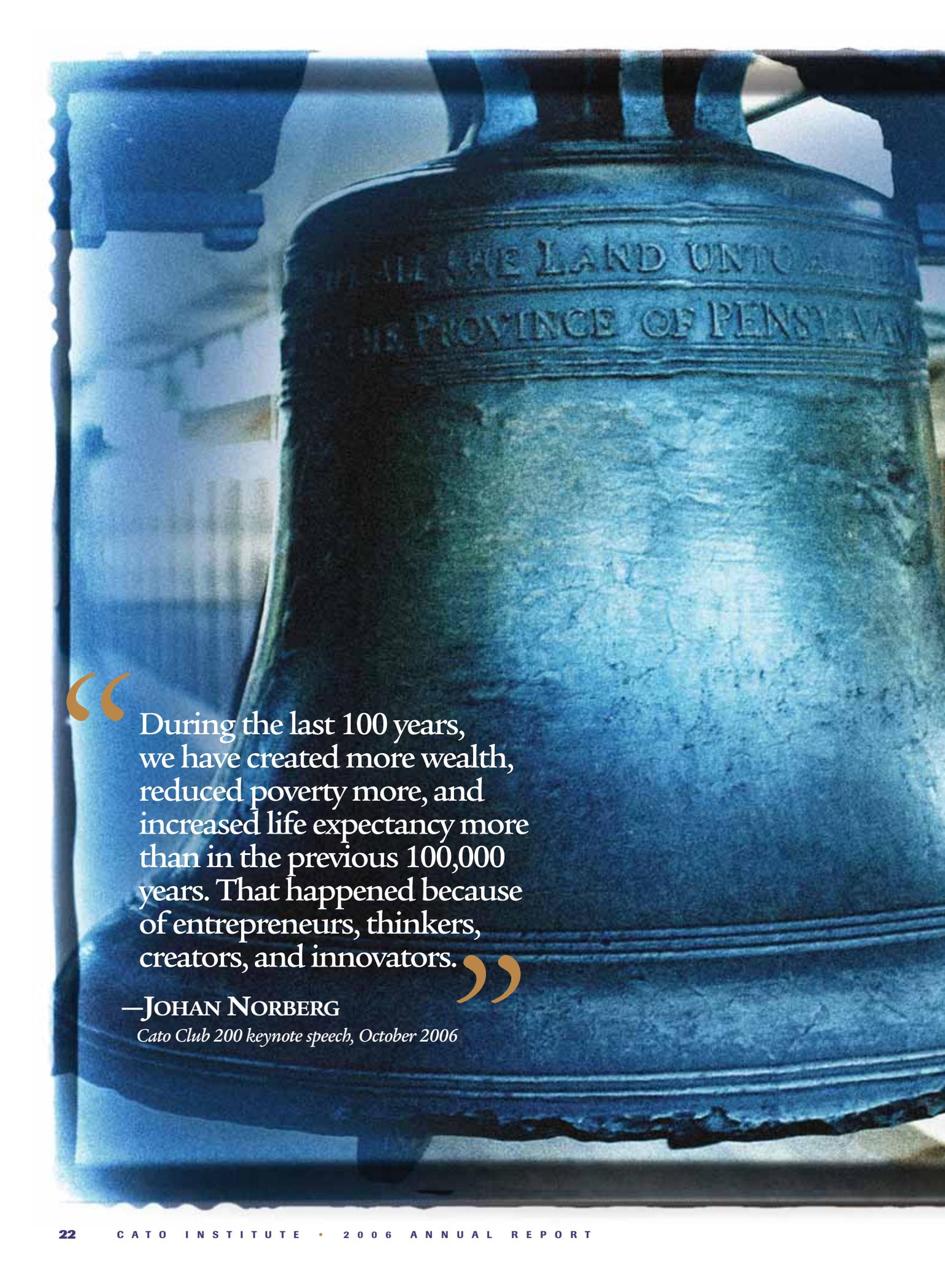
benefited by default from libertarian dissatisfaction with big-government conservatives in the 2006 election, liberals need to "up their game" with a "refashioned liberalism that incorporates key libertarian concerns and insight" that would embrace both cultural and economic progress.

“Read the reports of the Cato Institute, and they will tell you, they will demonstrate to you that the Bush administration is the biggest-spending administration since Lyndon Baines Johnson.”

—REP. JIM COOPER (D-TN)

FLOOR OF THE HOUSE OF REPRESENTATIVES
JULY 18, 2006

Delivering the annual B. Kenneth Simon Lecture, U.S. Sixth Court of Appeals Chief Judge **Danny J. Boggs** contended that the rule of law means "to the extent fallible judges are capable of it, the outcome of a case depends on the merits" and no other considerations.



“ During the last 100 years, we have created more wealth, reduced poverty more, and increased life expectancy more than in the previous 100,000 years. That happened because of entrepreneurs, thinkers, creators, and innovators. ”

—JOHAN NORBERG

Cato Club 200 keynote speech, October 2006



ADVANCING
ECONOMIC
FREEDOM

Thirty years ago, scientist Paul Ehrlich predicted that by the end of the 20th century famine, disease, increasingly scarce resources, and related catastrophes would reduce the population of the United States to fewer than 25 million individuals.

But just the opposite happened. In October 2006 the number of people in America passed the 300 million mark. New infants arrive in a world increasingly free and prosperous. Although problems abound, wherever the market has been free to respond, human needs are met and prosperity is created.

The free market unleashes human ingenuity to find new and more efficient ways of providing goods and services. Protecting and expanding free markets are both domestic and global in scope; thus Cato's initiatives in many cases address both domestic and worldwide concerns.

Perhaps no single event in 2006 better signaled Cato's commitment to the principles of market liberalism and freedom than the establishment of the Center for Global Liberty and Prosperity in October. The center, which had been a Cato project until then, is headed by director

“*Cato Unbound*, an online magazine sponsored by the libertarian Cato Institute, plays host this week to one of the immigration debate’s most elegant discussions.”
—*Wall Street Journal*,
AUGUST 22, 2006

Ian Vásquez.

Late in the year Andrei Illarionov joined the center as senior fellow. Illarionov is a former chief economic adviser to Russian president Vladimir Putin. He worked at the Kremlin from 2000 to December 2005, when he resigned in protest of policies that curtail economic and personal freedom.

Another new scholar is Indian economist and *Times of India* columnist Swaminathan Aiyar, who joined the center as a research fellow. He has been the editor of India’s two biggest financial dailies, the *Economic Times* and *Financial Express*, and was also the India correspondent of *The Economist* for two decades.

Committed to promoting policies that protect human rights, extend personal choice, and support economic freedom to end world poverty, the center is expanding Cato’s work on Central and Eastern Europe, Asia, Africa, and Latin America. The center works with Cato’s foreign language websites, ElCato.org, Cato.ru, and Misbahalhurriyya.org (“Lamp of Liberty”), through which hundreds of media placements and interviews were generated during 2006.

Other potential reversals of economic and personal freedom in Europe drew Cato’s attention as well. In the study “The Rise of Populist Parties in Central Europe: Big Government, Corruption, and the Threat to Liberalism,” policy analyst Marian Tupy explains that the victory of populist parties in recent elections was more a product of voter discontent with corruption than of discontent with markets. He argues that reducing the size of government in Central European countries is the best way to fight corruption. The study resulted in an October *Wall Street Journal Europe* op-ed by Tupy, “Still in the Market for Reforms.”

In Latin America, populist leaders Hugo Chávez and Evo Morales have moved to nationalize local industries, notably oil and gas. Those developments and others in the region were the subject of a conference, “Latin America: Between Populism and Modernity,” in November. Cato also exposed the hypocrisy of Latin America’s newest

socialist dictator in a Development Policy Analysis by Gustavo Coronel, former Venezuelan representative to Transparency International, titled “Corruption, Mismanagement, and Abuse of Power in Hugo Chávez’s Venezuela,” published in November. In major U.S. media coverage, Vásquez appeared on PBS in June to discuss Peruvian elections.

Addressing African issues, in July Cato published a Foreign Policy Briefing, “Foreign Aid and the Weakening of Democratic Accountability in Uganda,” by Andrew Mwenda, political editor of the *Daily Monitor*, a newspaper in Kampala, Uganda. In the study Mwenda argues that to promote democracy and accountability, the West should discontinue future aid flows.

Cato had Georgia—the former Soviet Republic of Georgia—on its mind in October with a groundbreaking conference in the capital, Tbilisi.

“Freedom, Commerce, and Peace: A Regional Agenda” was cosponsored by Cato, the New Economic School of Georgia, and others with the support of the John Templeton Foundation and the Donald and Paula Smith Family Foundation. More than 100 scholars, policymakers, and others were in attendance at the event, the goals of which included building a strong regional network of reformers and spreading proven techniques for promoting freedom and liberal market reform, as well as encouraging policymakers considering reforms.

Economic Freedom of the World, an annual book published by Cato and the Fraser Institute, measures the degree to which the policies and institutions of countries are supportive of economic freedom. The 2006 edition was edited by James Gwartney, professor of economics at Florida State University, and Robert A. Lawson, professor of economics at Capital University in Columbus, Ohio. William Easterly, professor of economics at New York University, contributed a chapter showing that economic freedom has a positive impact on prosperity

and helps to lift nations out of poverty but that foreign aid has no such impact. A companion forum in September featured Gwartney.

Published by Cato early in 2007, *The Improving State of the World: Why We're Living Longer, Healthier, More Comfortable Lives on a Cleaner Planet* by Indur M. Goklany effectively challenges the “conventional wisdom” that globalization has made matters worse for humanity and the environment. In a December review, Allister Heath wrote in the *Spectator* that Goklany “demonstrates that on every objective measure of the human condition—be it life expectancy, food availability, access to clean water, infant mortality, literacy rates or child labor—well-being and quality of life are improving around the world.”

Cato's 24th Annual Monetary Conference, “Federal Reserve Policy in the Face of Crises,” in November drew a number of distinguished speakers, including Randall S. Kroszner, a governor of the Federal Reserve Board; William Poole, president of the Federal Reserve Bank of St. Louis; Anna J. Schwartz, National Bureau of Economic Research; and Robert J. Barro, Harvard University. Issues discussed included the twin U.S. deficits, the trillions of dollars in unfunded pension and health care entitlements, and erosion of the dollar through incipient inflation. The conference, directed by Cato's vice president for academic affairs James A. Dorn, attracted more than 200 participants, including policymakers from the United States and other countries as well as leading monetary experts.

Loosening restrictions on international trade was a strengthened focus for Cato during 2006. A grant from the Hewlett Foundation permitted the Center for Trade Policy Studies to hire Sallie James, an Australian economist specializing in agricultural policy, as a policy analyst. During her first months at Cato, James focused on farm subsidies, an area of increasing concern for makers of domestic and foreign policy.



Andrei Illarionov, former economic adviser to Russian president Putin and senior fellow at the Cato Institute, described the accelerated pace of change in Russia and new ways in which political, economic, and civil liberties are being eliminated at a Policy Forum, “Russian Energy Policy and the New Russian State” at Cato on November 20.



Left to right, Nobel Laureate **Vernon L. Smith**; Cato vice president for international programs **Tom Palmer**; and **Kakha Bendukidze**, state minister on reforms coordination of the Republic of Georgia, at “Freedom, Commerce, and Peace: A Regional Agenda,” a three-day conference sponsored by Cato and other free market organizations in Tbilisi in October.

Her December policy study, “Milking the Consumers: The High Cost of U.S. Dairy Policies,” estimates that domestic dairy policy costs taxpayers more than \$4 billion annually in direct subsidies and artificially keeps U.S. prices above prices in the world market.

Dan Ikenson, associate director of Cato's Center for Trade Policy Studies, reminded policymakers of the failures of protectionism in two studies, “Nonmarket Nonsense: U.S. Antidumping Policy toward China” in April

ABC News interviewed Cato senior fellow **Pat Michaels** about global warming and climate change on March 24. Michaels contended that most projections about global warming and its effect on the environment are exaggerated.



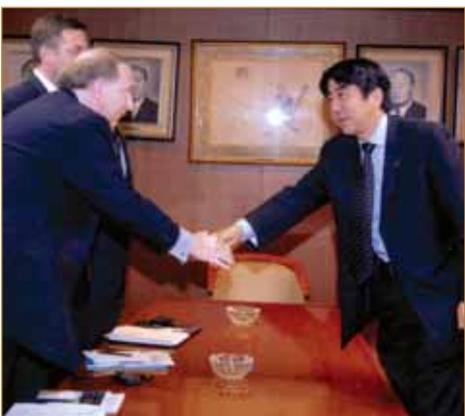
Hong Kong chief executive **Donald Tsang**, right, affirmed his government's continuing commitment to market freedom at a Cato seminar. Tsang's aide and Cato's **Ed Crane** and **Ian Vásquez** listen.



Liberalism and the left was the topic of informal discussion by **Mario Vargas Llosa**, **Andrei Illarionov**, **Ian Vásquez** and **David Boaz** after a conference on the future of Latin America cosponsored by the International Foundation for Liberty and the Atlas Economic Research Foundation.



Cato vice president **Jim Dorn** was welcomed to Japan for an October conference on American-Japanese-Chinese relations by **Shinzo Abe**, then chief of the Japanese cabinet and now prime minister.



and “Leading the Way: How U.S. Trade Policy Can Overcome Doha’s Failings” in June. In the latter, he urged Washington to abandon the mindset that barriers to trade should be used as bargaining chips to extract concessions from other countries. In June Ikenson also published “Current Controversy: Surplus of Politics, Deficit of Leadership,” dealing with the consequences of appreciation of the Chinese yuan on U.S.-China trade.

In August Dorn testified before the U.S.-China Commission. He argued that Congress should encourage China to move toward capital freedom and not focus narrowly on the exchange rate. Dorn published articles in the *Financial Times* and *Caijing* (China’s leading financial magazine) making the case for economic liberalism.

A June forum presented arguments for and against international economic liberalization. “Two Views on Global Development: Revive the Invisible Hand or Strengthen a ‘Society of States?’” featured Cato adjunct scholar Deepak Lal, arguing for the proposition, and Ethan Kapstein of the Center for Global Development, taking an opposing view.

Immigration issues involve both global prosperity and domestic market freedom. Free movement of individuals seeking to work, save, and invest is the ideal. In the meantime, working toward more rational immigration policy, as millions seek the opportunities available in the United States, is critical.

Cato continued to push for immigration reform during the year. Dan Griswold’s 2002 study, “Willing Workers: Fixing the Problem of Illegal Mexican Migration to the United States,” laid the groundwork for reform proposals by Rep. Jeff Flake, Sens. John McCain and Jon Kyle, and President Bush.

In August U.S. Secretary of Commerce Carlos Gutierrez, himself an immigrant who fled Castro’s Cuba as a young boy with his family, addressed a Cato Policy Forum, “Comprehensive Immigration Reform for a Growing Economy.” Secretary Gutierrez

explained why reform must include a temporary worker program and a “hard-earned path to legalization” for undocumented workers already in the United States.

Today the country is hearing another round of calls for more regulation and subsidy of health care. Interestingly, those proposals have come from a wide spectrum of sources—from think tanks and politicians associated with the right to the usual suspects on the left.

But the cracks in the supposed desirability of socialized health care have begun to widen. In April Cato published “A Seismic Shift: How Canada’s Supreme Court Sparked a Patients’ Rights Revolution,” by Jacques Chaoulli, a physician and senior fellow at the Montreal Economic Institute.

In that study, Chaoulli recounts how he argued and won the case of *Chaoulli v. Quebec* before Canada’s Supreme Court, in which the court struck down two laws that gave the province’s government-run Medicare system a virtual monopoly.

The court ruled that Quebec’s ban on private health insurance for services already covered under the Medicare program violated Canadians’ rights to life, liberty, and security of person, opening the door to a parallel private health system.

Closer to home, in a June Briefing Paper, “No Miracle in Massachusetts: Why Governor Romney’s Health Care Reform Won’t Work,” Cato’s director of health and welfare studies Michael Tanner points out that the plan creates more of the same government spending and control that are responsible for the health care system’s current problems, and it fails to introduce true market forces that would increase competition and lower costs. The *National Journal* invited Tanner to a September forum about the reform, which also featured Gov. Romney. Tanner was the only speaker who did not support Romney’s plan or criticize it for not spending even more.

Tanner touched on the same theme in a policy study published in April, “Individual Mandates for Health Insurance: Slippery

Slope to National Health Care.” In that paper, Tanner criticizes mandatory health insurance broadly and argues that adopting such a program would lead to a “slow and steady downward spiral” to socialized medicine. Many state legislators were among the policymakers to whom Tanner spoke directly on this issue.

Cato’s director of health policy studies Michael Cannon was one of the most prominent voices pointing out that government intervention in health care increases costs and takes away individual choice. In a May op-ed in the *Boston Herald*, Cannon criticized a proposal by congressional Republicans that would have expanded the federal government’s power over the states’ health insurance regulations. Fortunately, in a victory for federalism, the bill failed to pass in the Senate.



Cannon also made a strong argument for consumer sovereignty in a May policy study, “Health Savings Account: Do the Critics Have a Point?” Health savings accounts allow workers greater control over spending on their own health care. While he agrees with many of the criticisms of HSAs, Cannon argues that the way to remedy those problems is to expand HSAs to give individuals control over even more of their health care dollars.

As if the new prescription drug entitlement were not enough, another new entitlement program was proposed in Congress. In a January policy paper, “KidSave:

“Last month the Cato Institute, a libertarian think-tank, said Mr. Bush had shown disdain and indifference for the U.S. constitution by adopting an ‘astonishingly broad’ view of presidential powers.”

—*Financial Times* (LONDON), JUNE 28, 2006

Cato policy analyst **Sallie James** recommended a thorough overhaul of U.S. agricultural policy to reduce subsidies and allow market forces to work unimpeded at a Cato Capitol Hill Briefing, “Changing Course: Why Congress Should Consider a New Direction for U.S. Agriculture Policy,” on September 21.

“Arnold Kling’s *Crisis of Abundance* is one of the most important books written on health care.”

—TYLER COWEN,
PROFESSOR OF ECONOMICS,
GEORGE MASON UNIVERSITY

Cato’s director of trade policy studies **Dan Griswold** spoke at a “Freedom to Trade” rally and media event in Hong Kong during the December World Trade Organization’s ministerial meeting. Griswold drew coverage on CNN and the BBC, among other venues.

The courageous **Ayaan Hirsi Ali**, author of the best-selling book *Infidel* and a former member of the Dutch Parliament, recalled her experiences with Muslim intolerance growing up in the tribal society of Somalia at a November Cato conference.

Real Problem, Wrong Solution,” Tanner and senior fellow Jagadeesh Gokhale argue that, although the way out of poverty is through saving and asset accumulation, federally funded grants to children, generally known as “KidSave accounts,” are the wrong way to address the problem.

Cato published two important books dealing with health care from a free market perspective during 2006. In



Crisis of Abundance: Rethinking How We Pay for Medical Care, Cato adjunct scholar Arnold Kling reveals that, thanks to government, Americans do not know when to stop consuming health care. This excess demand drives up the cost of care dramatically, and a smaller role for government could alleviate the crisis. Arnold Relman of Harvard

Medical School wrote in a review in the *New England Journal of Medicine* that he tends to disagree with Kling’s free market approach to health policy. Nevertheless, Relman wrote, “I warmly recommend his books to general readers who want to understand what economics has to say about health care.”

Satire is the order of the day in adjunct scholar David Hyman’s *Medicare Meets Mephistopheles*. The book is written from the viewpoint of an underling demon who enthusiastically reports to his boss, the devil, about the success of Medicare in promoting the seven deadly sins.

Cato senior fellow Randal O’Toole says in a January policy study, “A Desire Named Streetcar: How Federal Subsidies Encourage Wasteful Local Transit Systems,” that, although federal subsidies to transit have doubled since 1990, ridership has increased only 10 percent. O’Toole proposes devolving funding entirely to state and local governments.

Calls were also heard during the year for intervention by Washington policymakers in the domestic automotive industry. But in “Blowing Exhaust: Detroit’s Woes Belie a Healthy U.S. Auto Market,” Cato scholars Griswold and Ikenson argue that the U.S. auto industry is really healthy and that it is not government’s role to rescue companies that have made bad decisions.

Liberal thinkers and scholars, including many of America’s Founders, warned against having so many laws that free markets and civil liberties are jeopardized. That is now the situation in the United States, as is detailed exhaustively in John Hasnas’s book, *Trapped: When Acting Ethically Is against the Law*, published by Cato in April. Hasnas, a professor of law and ethics at Georgetown University, argues that corporate scandals have resulted in “overcriminalization” of business practices.

One of the most visible pushes for activist government in 2006 was related to energy and the environment. President Bush claimed the United States is “addicted” to oil in his State of the Union

address. Al Gore's film *An Inconvenient Truth* was a box office hit. California passed a mandatory limit on greenhouse gas emissions. Numerous members of Congress called for a "windfall profits tax" on oil companies. Cato scholars were quick to respond and explain why energy and environmental concerns should not be used as pretexts for new market interventions.

Last winter the rise in petroleum prices on the global spot market fueled calls for federal intervention to hold down gasoline and heating oil prices for consumers, calls which conveniently forgot the disaster of similar intervention in the late 1970s.

Cato senior fellow Jerry Taylor and senior fellow and *Regulation* editor Peter Van Doren injected a dose of common sense into the debate with their January Policy Analysis, "Economic Amnesia: The Case against Oil Price Controls and Windfall Profit Taxes." They argue that, although based on the premise that oil companies make excessive profits that should be channeled back to the consumer to ease pain at the pump, price controls and windfall profit taxes will actually make gas more expensive.

Later in the year Taylor debated the issue with Rep. Dennis Kucinich (D-OH) on CBS's *Early Show* and explained that "if you increase taxes on oil companies, you'll get less investment in the oil industry," and that in turn pumps up gasoline prices.

In an op-ed in *Investor's Business Daily*, Taylor and Van Doren further explained that the idea that corporations should be "punished" for gas prices is based on a misunderstanding of the oil market; the oil companies do not control oil prices, which are set by commodity spot markets.

Global warming has long been cited as a justification for costly new meddling by government in the marketplace, and media coverage of that issue increased in 2006. Senior fellow Patrick Michaels looked beyond the hype with a calm examination of scientific facts that the media ignored in his August policy study "Is the Sky Really Falling? A Review of Recent Global Warming Scare Stories."



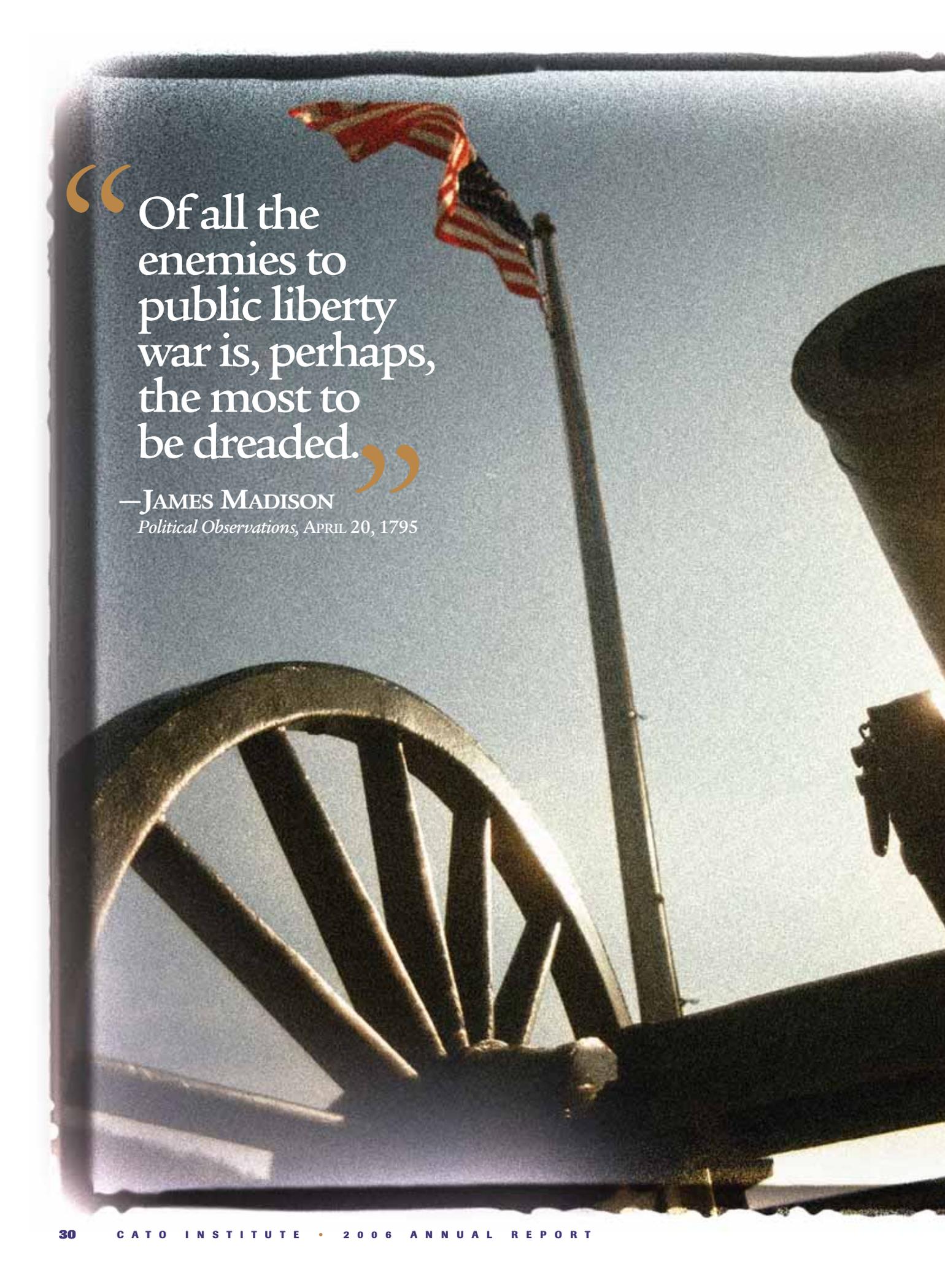
Cato's director of health and welfare studies **Michael Tanner** told congressional staffers how free market reforms can make medical care and health insurance more affordable at a May 31 Cato Health Care University session on Capitol Hill.

Cato senior fellow **Jerry Taylor** said that gas prices are set by the market and not nefarious corporations at "Fact and Fiction about Gasoline Prices," a Cato Capitol Hill Briefing on June 30.



"In truth, gasoline prices today are taking less of a bite from our pocket-books than has been the norm since World War II," *Regulation* editor and Cato senior fellow **Peter Van Doren** wrote in an op-ed coauthored with Jerry Taylor that appeared in *Investor's Business Daily* in May.





“Of all the
enemies to
public liberty
war is, perhaps,
the most to
be dreaded.”

—JAMES MADISON
Political Observations, APRIL 20, 1795



ADVANCING
THE CAUSE
OF PEACE

What are the best defense and foreign policies for the United States? Should we, as George Washington advised in his Farewell Address, stay clear of military alliances? Is the best course to pursue a policy of peace, based on respect for other nations, while remaining realistic about the policy aims of many autocratic foreign governments?

Grounded in the sober insight of Washington and other founding fathers, Cato scholars uncompromisingly dissected the failures of neoconservative projects in defense and foreign policy. The most egregious has been the Iraq War, now widely recognized to be the costly mistake that Cato scholars warned it would be years before its launch by the administration.

In “Escaping the Trap: Why the United States Must Leave Iraq,” Ted Carpenter, Cato’s vice president for defense and foreign policy studies, states, “Staying in Iraq is a fatally flawed policy that has already cost more than 3,000 American lives and consumed more than \$350 billion.” Carpenter then warns, “Whatever price we will pay for withdrawing from Iraq, however, must be measured against the

“As early as December 2001, Institute scholars were writing editorials urging the administration not to go to war against Saddam Hussein; when it did, Cato was one of the first think tanks to warn that the lack of postwar planning would doom the reconstruction effort.”

—NEW REPUBLIC,
SEPTEMBER 13, 2004

probable cost in blood and treasure if we stay.” In conclusion, Carpenter recommends: “Above all, U.S. policymakers need to absorb the larger lesson of the Iraq debacle. Launching an elective war in pursuit of a nation-building chimera was an act of folly. It is a folly they should vow never to repeat in any other country.”

Most Americans now recognize the intractability of the war in Iraq. Polls show that an increasing number of Americans have come to believe that the decision to invade Iraq was wrong. In an August op-ed in the *San Francisco Chronicle*, Carpenter called for a timetable of “months, not years” for withdrawing from Iraq. His sober analysis of the sectarian violence in Iraq led him to conclude that “the United States cannot keep the peace there at anything resembling a reasonable cost in American blood and treasure.”

At a Policy Forum in November, “The U.S. Military and Counterinsurgency: What We Have Learned from Iraq and Afghanistan,” Christopher Preble, director of foreign policy studies, explained that the root cause of the U.S. military’s failure to defeat the insurgency in Iraq is not lack of planning or preparation. The problem is that the U.S. government embarked on a mission that is not a vital national security interest and thus cannot sustain popular support. Other speakers were Thomas Ricks, *Washington Post* writer and author of *Fiasco: The Military Adventure in Iraq*; Jeffrey Record of the Air War College; and Conrad Crane, the lead author of the Army/Marine Corps Counterinsurgency Manual. At this event Record elaborated on a study he had written for Cato in September, “The American Way of War: Cultural Barriers to a Successful Counterinsurgency,” as well as an October op-ed in the *Dallas Morning News*. He explained how the unique political and military culture of the United States makes counterinsurgencies difficult to maintain, as experience in Iraq bears out, and thus should be pursued only when vital national security interests are at stake.

Cato foreign policy scholars drove the debate about the North Korean and Iranian nuclear crises. In an op-ed published by *Foxnews.com* on April 14, Carpenter and policy analyst Justin Logan proposed a grand bargain: “The United States should offer Iran full normalization of relations, including a public promise not to attack it, restored diplomatic relations, and normalized economic relations. In return, Iran would need to give up any prospect of building a nuclear arsenal. Iran would be required to immediately open its existing nuclear program to unfettered international inspections.”

There has also been talk that the United States should bomb Iran to eliminate weapons sites. Logan demonstrated that such a plan is likely to make a bad situation far worse in a Policy Analysis, “The Bottom Line on Iran: Costs and Benefits of Preventive War versus Deterrence.” Logan argues that, despite Iran’s inflammatory rhetoric, an understanding of Iran’s history and internal structure shows that it is not beyond rational decisionmaking.

The Ploughshares Fund awarded Cato’s foreign policy department a major grant for its work on Iran. Cato used the grant to host a half-day conference in December on diplomatic options to defuse the Iranian situation and an evaluation of the available fallback options: air strikes and deterrence.

When North Korea reportedly tested a nuclear weapon in October, *USA Today* looked to Carpenter to explain the implications of the event in a front-page story. Above all, Carpenter urged the United States not to resort to preemptive strikes on North Korea. As he explained in an op-ed in the *Baltimore Sun* in July, “Proponents of preemptive strikes would risk the lives of millions of South Koreans as well as the lives of the U.S. troops stationed in South Korea on, at best, a long-shot gamble that Pyongyang would not respond militarily to an attack on its territory, however much it humiliated the regime. Responsible superpowers do not gamble so recklessly.”

Another problem with deploying Ameri-

can troops abroad is that, once the United States gets involved somewhere, it becomes difficult for America to extract itself, even after the original mission has faded. Preble looked at the U.S. relationship with Japan in a Policy Analysis, “Two Normal Countries: Rethinking the U.S.-Japan Strategic Relationship.” He calls for the United States to begin withdrawing troops from Japan. That would allow Japan to take a more assertive role in its own region’s security rather than rely on the United States. The two nations, Preble further wrote in the *National Interest*, should craft a new alliance that is not “a patron-client relationship” but instead “one based on shared interests, mutual trust, and understanding.”

Christopher Preble and Justin Logan revealed that public-sector ineffectiveness does not end with domestic programs but extends to foreign nation building. They penned the cover story for the November 2006 issue of the *Foreign Service Journal*, “The Case against State’s Nation-building Office,” based on a Policy Analysis they published this year. The State Department has opened an office that has as its mission developing the capability of the United States to stabilize and reconstruct any hotspot in the world suffering from conflict and strife. The notion that instability around the world is inherently deserving of an American response, Preble and Logan wrote, “is a recipe for squandering American power, American money, and potentially, American lives.” Given their historical difficulty and high cost, nation-building operations are, Preble and Logan argue, an expensive distraction from a terrorist threat that can arise from stable and civilized parts of the world as easily as from “failed states.”

Neoconservatives think that invasion of foreign countries is the best way to confront terrorists. But Cato’s work shows that interventionism can often make us less safe. Robert Pape of the University of Chicago wrote a Policy Analysis, “Suicide Terrorism and Democracy: What We’ve



Ted Galen Carpenter, left, Cato’s vice president for defense and foreign policy studies, and Cato director of foreign policy studies **Chris Preble** explored possible policy implications of Carpenter’s book *America’s Coming War with China* at a Cato Book Forum on January 25.



Cato policy analyst **Justin Logan**, front, argued on Capitol Hill against efforts by the State Department to create a standing nation-building office. He said that interventions in failed states tend to be too costly to succeed.



Cato vice president for international programs **Tom G. Palmer** speaks on “The Political Economy of Freedom” to faculty and students at Suleimani University in northern Iraq.

Learned Since 9/11.” His research on every suicide terrorist act since 1980 suggests that “almost all suicide terrorist attacks have in common a specific political goal: to compel a democratic state to withdraw forces from the territory that the terrorists prize greatly.” As an alternative, he suggested an “off-shore balancing strategy” whereby the United States reduces the number of its troops around the globe but maintains forces ready to intervene in emergencies that could threaten vital U.S. interests.

“The Cato Institute is the foremost upholder of the idea of liberty in the nation that is the foremost upholder of the idea of liberty.”

—GEORGE F. WILL

May 18, 2006





THE CATO
INSTITUTE
AT 30

The preceding pages of this *Annual Report* illustrate Cato's work advancing liberty in the United States and around the world. The following pages provide a closer look at the people who make it possible and at the means employed to spread the ideals of freedom.

The people include first and foremost Cato's policy scholars. In 2006 they were once again among the highest-profile public policy experts in the world.

Cato's development, communications, editorial, and operations staff members play key roles in all Cato initiatives, including publications, events, and other activities. They are critical in keeping Cato scholars visible in national and global media and in obtaining resources for operations.

Underwriting the efforts of those committed individuals are more than 15,000 Cato Sponsors, the cornerstone of our first 30 successful years. Cato's work is undertaken only with their generosity and that of a number of foundations, companies, and other organizations. We are deeply grateful for their ongoing support. We are honored to work on their behalf toward our shared goal of advancing liberty.

“Cato University @Capitol Hill offered very concrete policy application, in addition to a good foundation in principles.”

— CHRIS BARKLEY
SENATE SUBCOMMITTEE
ON FEDERAL FINANCIAL
MANAGEMENT

Foreign aid has permitted the Ugandan government to remain unaccountable to citizens, journalist **Andrew Mwenda** told a Cato Policy Forum in October.

At a Cato Capitol Hill Briefing, a crowd in the Rayburn House Office Building watches **Rep. Jeff Flake (R-AZ)** say that “those of us on Capitol Hill are always deeply indebted to Cato for what they do.”

Network news crews taped remarks by U.S. Secretary of Agriculture **Mike Johanns** during “Prospects for Reform of U.S. Agricultural Policy – With or without Doha,” a Cato Policy Forum on August 31.

Speaker **Zainab al-Suwaji**, leader of the civil rights movement for Muslim women in Iraq, with Cato president **Ed Crane** at the 2006 Cato Club 200 Retreat.

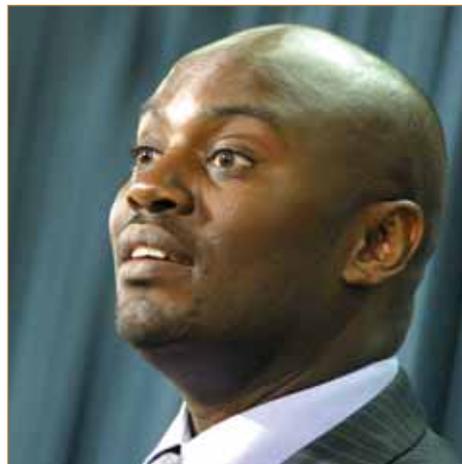
Cato got its message out to those who help craft federal laws at 16 Capitol Hill Briefings throughout the year. Altogether 1,600 people attended Capitol Hill events, which were coordinated by Cato’s government affairs department. At one briefing, David Boaz told his audience about the life and legacy of Milton Friedman. At two others, Jerry Taylor explained why high gas prices do not necessitate government interference, and Christopher Preble and Justin Logan made the case against nation building. Others who spoke at Cato events included Rep. Jeff Flake (R-AZ); Donald Marron, acting director, Congressional Budget Office; Rep. Paul Ryan (R-WI); and Bradley A. Smith, former Federal Elections Commission chairman.

Cato also presented John Stossel’s ABC News specials in three standing-room-only Capitol Hill events, bringing his unique libertarian perspective to Hill staffers. In late spring, Cato Health Care University featured Cato scholars discussing a free market rationale for lessening government involvement and restoring consumer choice.

During the summer, Cato’s government affairs department launched the first Cato University@Capitol Hill. Modeled on Cato University, the series is designed to provide younger Capitol Hill staffers with a better understanding of the principles that are the foundation of libertarian policy recommendations. Twenty-two Capitol Hill staffers attended six or more of the sessions.

Cato regularly holds forums in its F. A. Hayek Auditorium that bring together speakers to discuss important new books or debate current policy issues. Forums attracted more than 7,000 visitors to Cato in 2006. These events are also broadcast from Cato’s website and are often featured on C-SPAN. In 2006 Cato held 29 Book Forums and 29 Policy Forums.

Among this year’s speakers were Secretary of Commerce Carlos Gutierrez; Secretary of Agriculture Mike Johanns; former president and CEO of the Motion Picture Association of America Jack Valenti; former Irish prime minister John Bruton; ABC 20/20 coanchor

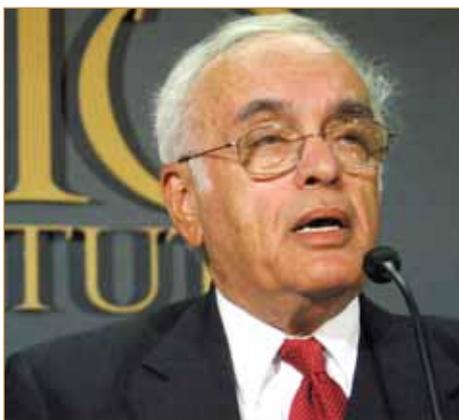
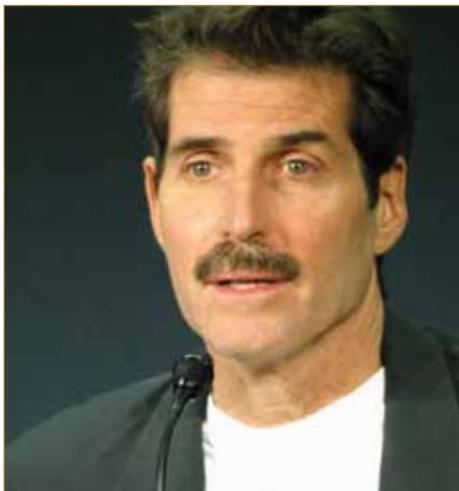


John Stossel; Columbia University economist Jagdish Bhagwati; “Instapundit” editor and University of Tennessee professor Glenn Reynolds; *U.S. News & World Report* columnist Michael Barone; Sens. John Cornyn (R-TX) and Kay Bailey Hutchison (R-TX); and Bobby Harrell (R), speaker of the South Carolina House of Representatives.

Cato held seminars in five major U.S. cities during 2006, providing local Sponsors and guests an opportunity to hear from prominent nationally known figures on key contemporary issues. In New York City, Sen. Chuck Hagel (R-NE) addressed the question of why so few of his fellow Republicans are committed to small government; he was joined by Bradley A. Smith, former chairman of the Federal Election Commission, who discussed the “war on free speech” being waged by advocates of campaign finance reform. In Atlanta, John Stossel of ABC’s *20/20* focused on the negative myths perpetuated by journalists and others against the benefits of free markets. And in Dallas and Houston, economist Bruce Bartlett made a compelling presentation on President Bush’s betrayal of the small-government legacy of Ronald Reagan.

The Don CeSar Beach Resort in St. Petersburg, Florida, was the setting for the 2006 summer seminar of Cato University, “Cornerstone of Liberty: Property Rights in the 21st Century,” held in July. Cato University is open to anyone interested in learning more about the ideas and philosophy of liberty.

Scott Bullock of the Institute for Justice discussed his experience arguing the *Kelo* case before the Supreme Court in “*Kelo v. New London: A View from the Inside*.” Cato vice president for legal affairs Roger Pilon gave a lecture titled “Property and American Constitutionalism,” and Timothy Sandefur of the Pacific Legal Foundation and author of the Cato book *Cornerstone of Liberty: Property Rights in 21st-Century America* talked about “America’s New Grass-Roots Movement for Justice.”



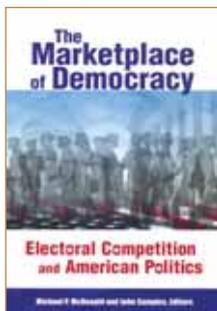
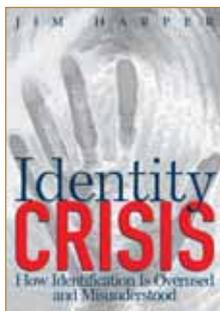
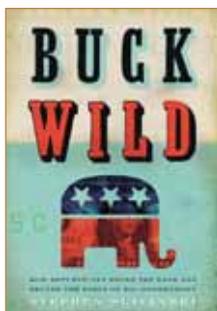
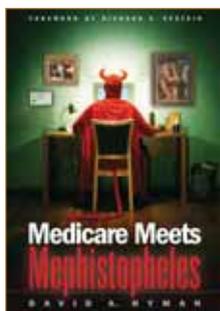
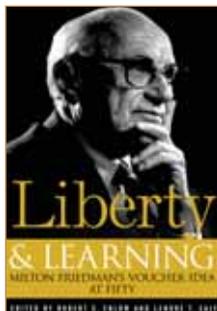
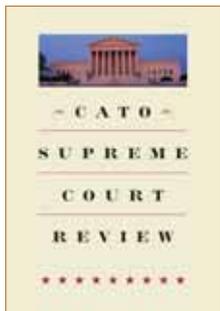
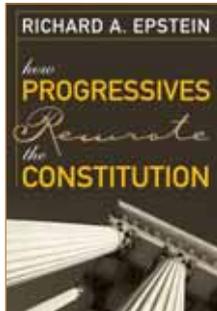
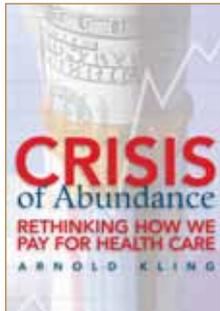
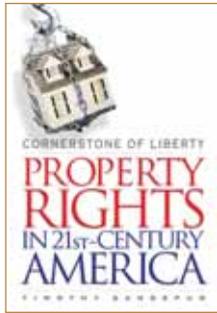
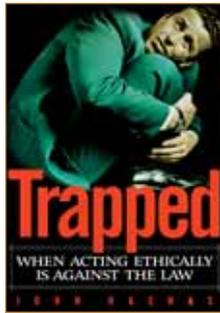
One of Cato’s best friends in the media is ABC’s **John Stossel**. In May Cato hosted a Book Forum for his latest book, *Myths, Lies, and Downright Stupidity: Get Out the Shovel—Why Everything You Know Is Wrong*.

Syndicated columnist **Robert Novak** told the audience at a Cato Book Forum for *Buck Wild* that as bad as Republicans have been for limited government, Democrats in power will likely be worse.

Designed to help launch the careers of young leaders for liberty, the Cato internship program recruits and trains a new team of interns each semester of the college year. Interns conduct research, provide administrative support for Cato policy staff, and assist media and development staff. While at Cato, interns also participate in a series of seminars taught by Cato scholars that focus on political philosophy, economic theory, and intellectual history.

Cato’s 2006 interns came from colleges and universities all over the United States and from Afghanistan, Greece, Guatemala, Iraq, Kyrgyzstan, Poland, Russia, Serbia, Slovakia, Slovenia, and Venezuela. Many returned to school or began graduate programs, while others started jobs on Capitol Hill or with other market-friendly organizations. Two 2006 interns stayed on as full-time Cato staff.

“Writing for the majority [in *Gonzales v. Oregon*], Justice Kennedy unloads a paean to states’ rights worthy of the folks at the Cato Institute.”
 —*Wall Street Journal*,
 JANUARY 18, 2006



Cato typically publishes 10 to 12 books every year covering a wide range of policy issues. During 2006 subjects included privacy, health care, property rights, educational freedom, and electoral competition, among others.

America's Coming War with China: A Collision Course over Taiwan by Ted Galen Carpenter. A warning about what the U.S. must do quickly to avoid being dragged into war.
 (Published by Palgrave Macmillan.)

How Progressives Rewrote the Constitution by Richard A. Epstein. How the New Deal still shapes the Supreme Court's decisions after seven decades.

Trapped: When Acting Ethically Is against the Law by John Hasnas. Examines overcriminalization in an age of corporate scandals.

Crisis of Abundance: Rethinking How We Pay for Health Care by Arnold Kling. Modern medicine can do much more today than it could in the past. The trouble is paying for it.

Cornerstone of Liberty: Property Rights in 21st-Century America by Timothy Sandefur. Shows why property rights are the “cornerstone of liberty” and how they are protected in the U.S. Constitution.

Identity Crisis: How Identification Is Overused and Misunderstood by Jim Harper. Shows that an increase in identification does not lead to increased security and invades personal privacy.

Marketplace of Democracy: Electoral Competition and Politics, edited by Michael P. McDonald and John Samples. Copublished with the Brookings Institution. Top-tier political scholars investigate the startling lack of competition in our democratic system.

The Fallacy of Campaign Finance Reform by John Samples. This book uncovers numerous fallacies behind proposals for campaign finance reform. (Published by University of Chicago Press.)

Medicare Meets Mephistopheles by David Hyman. Demonstrates the success of this entitlement program in encouraging the seven deadly sins while undermining thrift and honesty.

Economic Freedom of the World: 2006 Annual Report, edited by James Gwartney and Robert Lawson with William Easterly. The leading index of global economic freedom. (Copublished with the Fraser Institute.)

Liberty & Learning: Milton Friedman's Voucher Idea at Fifty, edited by Robert C. Enlow and Lenore T. Ealy. A collection of expert essays evaluating progress of Friedman's innovative idea.

Buck Wild: How Republicans Broke the Bank and Became the Party of Big Government by Stephen Slivinski. A scathing critique of the Republican abandonment of the principles of limited government. (Published by Nelson Current.)

Cato Supreme Court Review 2005–2006, edited by Mark K. Moller. Published every September, this review analyzes key cases from the Court's most recent term.

Cato published 44 policy studies in 2006. Among them were "Circumventing Competition: The Perverse Consequences of the Digital Millennium Copyright Act" by Timothy B. Lee, "Two Normal Countries: Rethinking the U.S.-Japan Strategic Relationship" by Christopher Preble, "The Rise of Populist Parties in Central Europe: Big Government, Corruption, and the Threat to Liberalism" by Marian L. Tupy, "Empowering Citizens to Monitor Federal Spending" by Chris Edwards, and "Against the New Paternalism: Internalities and the Economics of Self-Control" by Glen Whitman.

Since its first issue in 1977, Cato's quarterly magazine *Regulation* has expertly scrutinized the effects of regulatory policies on our lives and livelihoods. In 2006 *Regulation* authors—each a leading national expert—examined both hot-button and emerging policy issues. Among them were Roger A. Pielke Jr. on the dangers of politicizing science; Cindy Williams on how to attract and retain individuals in the military; David Schoenbrod on how the EPA's political conduct has led to unnecessary deaths and how the agency can reclaim its mission and soul; and Thomas Lambert on how government smoking bans, despite their popularity, are not justified.

Cato produces a number of policy bulletins providing a concise overview of a current policy topic, including *Free Trade Bulletin*, *Tax & Budget Bulletin*, and *Economic Development Bulletin*.

Published three times a year, *Cato Journal* provides insightful and engaging analyses of key policy issues, focusing on a dynamic range of economic matters. Contributors are a veritable who's who in business, government, and academia. In 2006 they included Alvaro Vargas Llosa, Deepak Lal, Samuel Brittan, Kenneth Rogoff, and Rodrigo de Rato. Among articles featured in 2006 were "U.S.-China Relations: The Case for Economic Liberalism," "Limiting Government: The Failure of 'Starve the Beast,'" and "Does Gun Control Reduce Crime or Does Crime Increase Gun Control?"

Cato Policy Report, our bimonthly newsletter, provides a comprehensive look at Cato's wide-ranging research program. During 2006 features included "War of the Worlds?" by Christopher Preble, "Myths of the Worlds?" by Radley Balko, "Big Business and Big Government" by Timothy P. Carney, "Mart Laar Receives Milton Friedman Prize," "Bourgeois Virtues?" by Deirdre McCloskey, "The Imperial Presidency and the War on Terror" by Gene Healy, and "How Bush Bankrupted America" by Bruce Bartlett.

“The Cato Institute is one of the most effective at lobbying the media on behalf of ‘traditional’ American principles of individual liberty, limited government, free markets and peace.”

— GANNETT NEWS SERVICE

CatoAudio is a monthly audio magazine featuring speakers at recent Cato events. Topics in 2006 included “A U.S. Exit Strategy from the Middle East,” “Reducing Tensions in Korea,” “Terrorism and Liberty,” “Tax Cuts and Stimulating the Economy,” and “Social Security Choice for Women and Minorities.”

Four times a year, *Cato’s Letter* features an important speech from a recent Cato event for some 130,000 subscribers who receive the newsletter at no cost.

In 2006 *Cato’s Letter* featured speeches by Roger Pilon, Cato’s vice president for legal affairs; Tucker Carlson of MSNBC; syndicated columnist George F. Will; and Frederick W. Smith, chairman and CEO of FedEx Corporation and a member of Cato’s Board of Directors.

MEDIA COVERAGE FOR 2006 INCLUDED

MAJOR TELEVISION APPEARANCES	429
MAJOR RADIO APPEARANCES	364
MAJOR OP-EDS	358
MAJOR PRINT CITATIONS	2,299

During 2006 Cato again fared exceptionally well compared with other public policy organizations, with 3,450 major print op-eds and articles and major television and radio appearances. One achievement was Indur Goklany’s *The Improving State of the World* book on the cover of Britain’s *Spectator* magazine in December. International coverage of the book included interviews on BBC television and radio and Britain’s Channel 4 News. David Boaz and David Kirby’s policy analysis “The Libertarian Vote” drew coverage in *The Economist*, the *New York Times*, and *National Journal*. Cato placed op-eds with the *Wall Street Journal*, *Business Week*, *Financial Times*, *New York Times*, *USA Today*, *Los Angeles Times*, *Washington Post*, *Chicago Tribune*, and the *Philadelphia Inquirer* among other publica-

tions. Cato experts were frequent guests on ABC, CBS, NBC, CNN, PBS, CNBC, FOX News, MSNBC, NPR, and other major broadcast outlets.

Cato’s homepage, Cato.org, had 19 percent more visitors this year than last. The site averaged more than 26,000 visits per day, or a total for the year of 9,600,000 visits. In November alone there were more than 1,000,000 visits.

All other Cato websites are accessible from Cato.org, including Cato’s new blog, Cato@Liberty, which features rapid commentary on current events posted by Cato scholars.

Cato’s foreign-language websites sharply increased the visibility of libertarian ideas around the world. In many instances, the only access individuals speaking these languages have to the classic ideals of the rule of law and civil society is through the Cato websites, which function as contemporary “committees of correspondence” to peacefully promote freedom around the globe.

Spanish-language media in Latin America and elsewhere picked up hundreds of articles, dozens of essays, studies, and press releases from ElCato.org, Cato’s Spanish website, in 2006.

The website also assisted in promoting two Cato books translated and published in Spanish, *Educación privada y pobreza: Un estudio de las escuelas privadas en países de bajos ingresos* by James Tooley and Pauline Dixon and *Agua privada para todos: Cómo la empresa y el mercado pueden solucionar la crisis mundial del agua* by Fredrik Segerfeldt.

Cato vice president for foreign policy and defense studies Ted Galen Carpenter saw his Policy Analysis “Mexico Is Becoming the Next Colombia” featured as a front-page story in Mexico’s *El Economista*.

In 2006 Cato.ru, Cato’s Russian-language website, carried dozens of translated policy studies, translated and original op-eds, short policy studies, commentaries, and interviews. All were carefully selected to enable public policy scholars, journalists, politicians, business leaders, entrepreneurs, and students to explore in their own language the ideas of liberty, the rule of law, and free

market economics.

Cato.ru has established close ties with prominent news and opinion media in Russia. Our partners to date include such major Russian media as *Kommersant*, *Vedomosti*, *Gazeta.ru*, *Polit.ru*, and *Russia in Global Politics*, the five most widely read independent publications in Russia.

Lampofliberty.org, Cato's Arabic website, is running a syndication project that published 165 libertarian-themed op-eds from Cato in Arabic newspapers starting in April 2006 when the project got under way.

Newspapers and periodicals that carried Misbahalhurriyya.org ("Lamp of Liberty") articles in 2006 included *Al Ghad* (Jordan), *Al Rai Al Aam* (Kuwait), *Al Bawaba* (Dubai), and *Al Hayat*, which circulate throughout the region.

Another new feature in 2006 was Cato Daily Podcasts, featuring both Cato scholars and other friends of liberty. Cato podcasts have become one of the most popular politically themed offerings on iTunes, with 500,000 downloads since May 2006.

Audio of Cato events is also available at the website. Plans call for video to be added during 2007. Both podcasts and events audio may be accessed at www.cato.org.

Every month the online magazine *Cato Unbound* presents an essay on a major topic by one of the world's leading thinkers. Other writers then respond to the essay and to each other. The end result is a wide-ranging, open-ended conversation about ideas. The debates are being picked up and commented on by major newspapers.

Cato's free online subscriptions, available at www.cato.org, include Daily Dispatch, Cato Today, Cato Monthly E-Update, and Healthy Competition.



Bottom left, *Cato Unbound*, the institute's monthly online magazine, has drawn critical acclaim in its first year from national media. Top to bottom right, Cato's Spanish-language website *ElCato.org*, Russian-language website *Cato.ru*, and Arabic-language website

Misbahalhurriyya.org ("Lamp of Liberty") have brought the literature of individual liberty and civil society to new audiences of millions. Bottom right, Cato's daily weblog, *Cato@Liberty*, provides the institute's scholars with a venue to respond immediately to developments relating to public policy.

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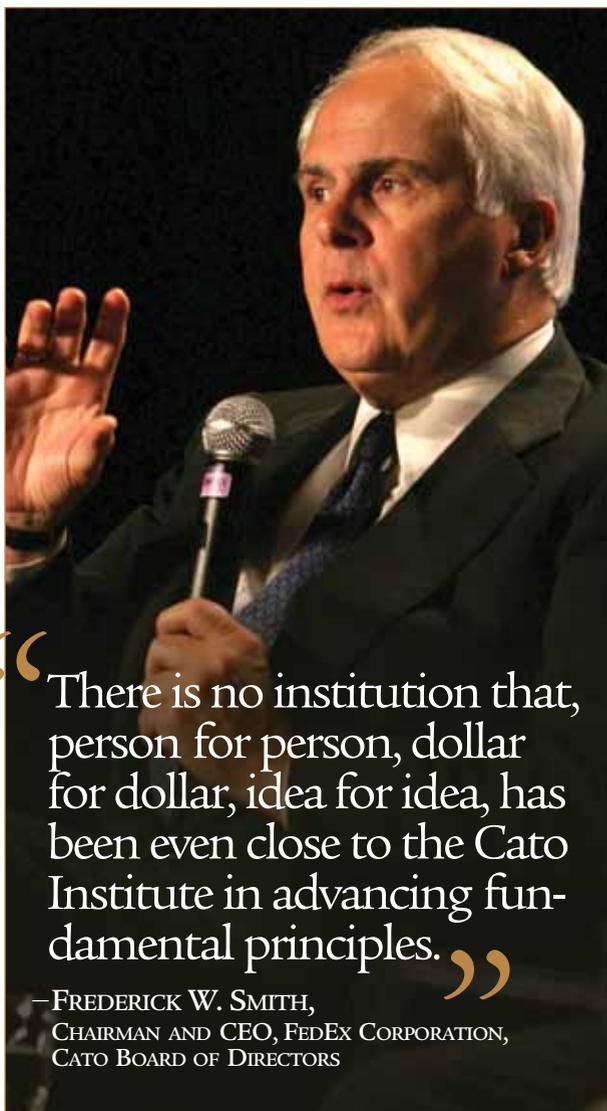
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2006 ANNUAL REPORT

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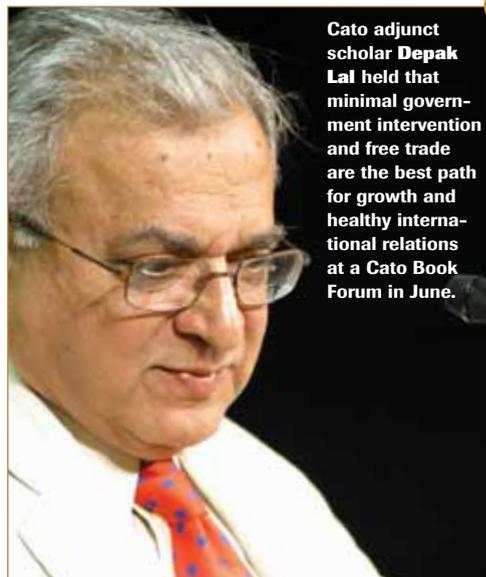
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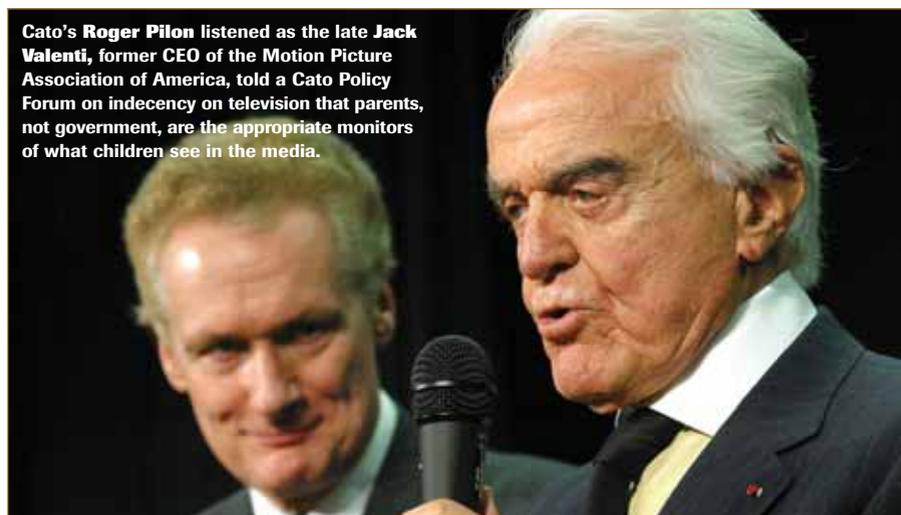
Secretary of Commerce **Carlos Gutierrez** reiterated his call for Congress to pass an immigration bill that protects borders while recognizing the needs of a growing economy at a Cato Policy Forum in August.



Cato adjunct scholar **Depak Lal** held that minimal government intervention and free trade are the best path for growth and healthy international relations at a Cato Book Forum in June.

“Cato is ahead of everyone else in what it does, and there would be a big loss without Cato. Cato is not only leading the pack but encouraging everyone else to come along.”

—ALBERT BROWN,
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Cato's **Roger Pilon** listened as the late **Jack Valenti**, former CEO of the Motion Picture Association of America, told a Cato Policy Forum on indecency on television that parents, not government, are the appropriate monitors of what children see in the media.

FINANCES

On April 1, 2006, the Cato Institute changed its financial reporting from the calendar year to the fiscal year starting April 1 and ending March 31.

The numbers below are for the fiscal year ending March 31, 2007, and are consequently unaudited. Total revenue for fiscal 2007 was \$20.4 million with individual contributions accounting for 74.3 percent. Expenses for fiscal 2007 have not been finalized as of the annual report's printing, but our estimates are about \$19.4 million, resulting in a surplus of approximately \$1 million.

Our balance sheet remains strong with net assets of \$23.7 million. This, in itself, is an understated value, in that our wholly owned headquarters on Massachusetts Avenue in Washington is carried on the books at depreciated cost as opposed to market value.

2007 INCOME

Individuals.....	\$15,185,000
Foundations.....	3,113,000
Corporations.....	571,000
Program Revenue.....	867,000
Other Income.....	711,000

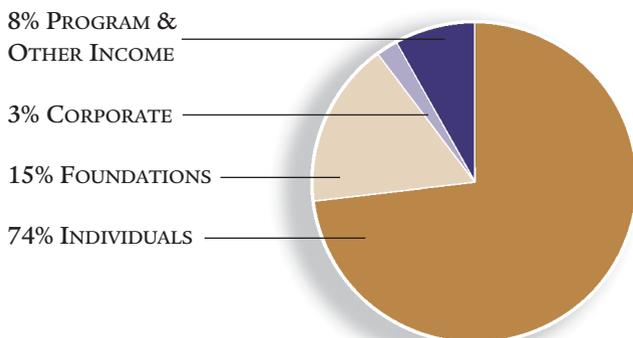
INCOME.....\$20,447,000

ASSETS AND LIABILITIES

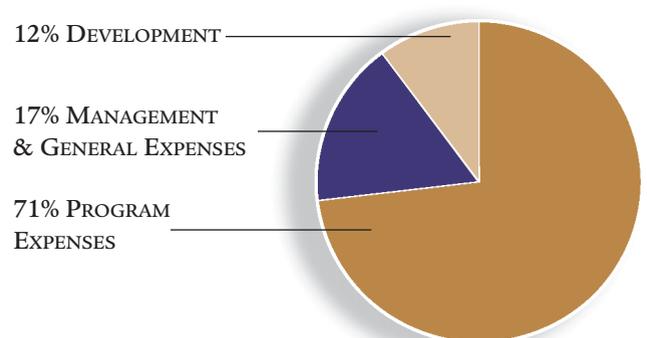
Cash and Equivalents.....	\$17,217,000
Net Fixed Assets.....	6,158,000
Other Assets.....	1,299,000
Liabilities.....	(907,000)

NET ASSETS.....\$23,767,000

2007 INCOME



2007 EXPENSES



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—LUIS HENRIQUE BALL,
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“Taking its name from a series of anti-tyranny pamphlets published in the early 18th century, the libertarian Cato Institute is the foremost advocate for small-government principles in American life.”

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