



We the People

# CATO INSTITUTE Annual Report 2010

In witness



“LITTLE ELSE IS REQUISITE TO CARRY  
A STATE TO THE HIGHEST DEGREE  
OF OPULENCE FROM THE LOWEST  
BARBARISM, BUT PEACE, EASY TAXES  
AND A TOLERABLE ADMINISTRATION  
OF JUSTICE.”

—ADAM SMITH

We the People

insure domestic Tranquility, provide  
and our Posterity, do ordain and establish  
Article I

Section 1. All legislative Powers herein granted shall be vested in a Congress of the United States, which shall consist of a Senate and House of Representatives.

Section 2. The House of Representatives shall be composed of Members chosen every second Year by the People of the several States, and the Electors in each State shall have the Qualifications requisite for Electors of the most numerous Branch in that State.

No Person shall be a Representative who shall not have attained to the Age of twenty five Years, seven Years, and who shall not, when elected, be an Inhabitant of that State in which he shall be chosen.

Representatives and direct Taxes shall be apportioned among the several States which may be added within the said Time, according to their respective Numbers, which shall be determined by adding to the whole Number of free Persons, including Indians not taxed, three fifths of all other Persons.

The actual Enumeration shall be made within three Years after the first Meeting of the House of Representatives, and within every subsequent Term of seven Years, in such Manner as they shall by Law direct.

Every State shall have at least one Representative, and until such Enumeration, the actual Enumeration shall be made within three Years after the first Meeting of the House of Representatives, and within every subsequent Term of seven Years, in such Manner as they shall by Law direct.





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## MESSAGE FROM THE PRESIDENT AND THE CHAIRMAN

**T**he rule of law, as opposed to the rule of man, is essential to a free and prosperous society. Americans have, since our beginnings as a nation, taken for granted that we are governed by laws that are prospective, clear, stable, and equally applied—not by the arbitrary edicts of politicians and bureaucrats. Today, however, more and more Americans are having second thoughts about the nature of our governance. While statist trends have been developing for decades, the George W. Bush and Barack Obama administrations have endorsed unimaginable and pernicious government controls over our society.

President Bush claimed constitutional authority to arrest an American citizen on American soil without charging him with a crime, and then hold him indefinitely without access to an attorney or the right of habeas corpus. Bush also insisted he could engage in electronic surveillance without a warrant, convene

military tribunals without congressional approval, establish secret CIA prisons, declare that all battlefield detainees are enemy combatants, and employ interrogation techniques that may have violated our treaty commitments banning torture. On the domestic front, Bush initiated taxpayer bailouts of corporate America. His unconstitutional expansion of executive authority was unprecedented (and well-documented in our colleague Gene Healy's excellent book, *The Cult of the Presidency*).



*Ed Crane*  
EDWARD H. CRANE  
PRESIDENT AND CEO

If anything, the Obama administration has upped the ante. The lawless bombing of Libya began 90 minutes after a brief heads-up to congressional leaders, with no intent to seek approval. Civil liberties abuses under the Patriot Act are ongoing—roving wiretaps without named suspects; searches of library, bookstore, and tax records without links to terrorism; inadequate oversight of national security letters; and more. The president

has continued multibillion-dollar bailouts of major corporations in finance and the automobile industry. His distribution of “stimulus” funding to favored companies and unions took place with Third World audacity—not to mention the administration’s appalling treatment of Chrysler’s bondholders in a blatant attempt to curry favor with the United Auto Workers.

The list of unauthorized actions by the federal government is, if not endless, extensive. Which explains the remarkable renewal of interest in the United States Constitution. Cato has distributed more than five million copies of our pocket Declaration of Independence and Constitution. Meanwhile, Tea Party activists organize Constitution study groups. Our citizens intuitively understand that the Constitution *is* the rule of law in America. As James Madison pointed out, the powers of the federal government enumerated in the Constitution are “few and defined.”

Our new-found respect for the Constitution means a new-found respect for federalism, as individual states lead the charge to fend off the seemingly unbridled power of the federal government. Cato’s Center for Constitutional Studies, under the guidance of vice president Roger Pilon, has been a major player. During the past 12 months, the Center filed 24 *amicus* briefs, on issues ranging from carbon limits (*American Electric Power v. Connecticut*) to freedom of speech (*McComish v. Bennett*) to the federal takeover of

health care (*Virginia v. Sebelius*). Our scholarship was cited in the landmark opinion on ObamaCare by Florida federal judge Roger Vinson.

That decision reflects, in part, the prodigious efforts of our health care scholars, Michael Tanner and Michael Cannon. In the early '90s Tanner was a leader in derailing HillaryCare. He is now joined by Cannon to fight this new battle against a national health care scheme. Part of that battle is to convince the states not to set up so-called insurance exchanges that will make it easier for ObamaCare to take over local health care management.

On the international trade front, Dan Griswold, Dan Ikenson, and Sallie James have done yeoman's work to hold the Obama administration's feet to the fire in pursuing free trade agreements with South Korea, Colombia, and other nations. Union influence has led the current administration to take protectionist measures, which have slowed economic recovery from the deep recession that federal housing policies created.

While much of the "debate" over reducing federal spending centers on overall percentage declines in abstract spending categories, Cato's fiscal policy work during the past year named names. Our DownsizingGovernment.org website, under the editorship of Chris Edwards and Tad DeHaven, features an agency-by-agency, department-by-department blueprint for major spending cuts, often involving the elimination of programs and agencies (and the occasional department!). The website has been a much-cited resource by Tea Party activists and members of Congress serious about returning to constitutional and fiscally responsible government.

This Annual Report highlights much of the domestic and foreign policy work that Cato undertakes—from civil liberties to privacy issues to energy policy—and we won't duplicate that material here. It is important to note, however, that Cato now has the most effective policy team in its history. With a \$23 million budget, 120 full-time employees and dozens of fellows and adjunct scholars, Cato is well equipped to deal with the constant challenges to freedom that Americans face.

But \$23 million is a small number when dealing with a \$3.7 trillion federal budget and the Beltway Bandits who feed off of it. Our competition—billion-dollar foundations, larger think tanks, activist organizations and the government itself—is imposing. Yet, Ezra Klein, the liberal columnist for the *Washington Post*, recently wrote in that paper that "The Cato Institute is Washington's leading advocate for smaller government."

We plan to become even more effective. Our headquarters expansion is scheduled for completion in spring 2012. Due to the generosity of Cato Sponsors, we have raised \$39.1 million toward the \$50 million goal of our capital campaign, which we have named *Liberating the Future*. Our new building will feature a larger Hayek Auditorium, a conference facility for 500 attendees (200 for dinners and lunches), a roof garden for receptions, an expanded intern facility, a new policy center, state-of-the-art television and radio studios, and much more.

We are proud of our colleagues and grateful to our Sponsors. The future for the Cato Institute is both challenging and exciting.



*Robert A. Levy*  
ROBERT A. LEVY  
CHAIRMAN



“IN A FREE  
SOCIETY  
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—WALTER LIPPMANN





The first decade of the 21st century, instead of representing a clean break with the failed big government policies of yesterday, looked like a continuation of the 20th. President Bush increased discretionary domestic spending more than any president since LBJ and launched two expensive wars. In just the first two years of his term, President Obama oversaw a \$700 billion stimulus, a state takeover of much of the domestic automotive industry, the expansion of government into the health care sector to a breathtaking degree, the largest increase in financial regulation since the Great Depression, and the continuation of Bush's Middle East wars.

The columnist George F. Will remarked: "Given freedom, the American people will flower. Given the Cato Institute, the American people will, in time, secure freedom." Throughout 2010, Cato scholars worked to promote the message of liberty, limited government, free markets, and peace, showing that the Constitution matters, wars are costly, entitlements have to be paid for, health care ought to hinge on individual choice, environmental concerns are better ameliorated outside of Washington, and education works best when left to the ingenuity of the free market.



# Constitutional Authority.

Citing it is important. Understanding it is critical.

“**T**he powers delegated by the proposed Constitution to the federal government are few and defined,” James Madison wrote in *The Federalist Papers*. In fact, Congress has only 18 such powers, enumerated in Article I, section 8.

But since the New Deal, several of those provisions have been read as authorizing Congress to do far more than was ever imagined by those who wrote the Constitution. This has led to a government that’s effectively unlimited—and increasingly unaffordable.

A new House rule requires members of the 112th Congress to cite specific constitutional authority when introducing any new legislation. That’s a start, but restoring limited constitutional government will require more than simply “checking a box.”

If legislators respond to that requirement by reflexively citing the Constitution’s three most widely misunderstood clauses—the General Welfare, Commerce, and Necessary and Proper clauses—they’ll violate the document they’ve sworn to uphold. Instead, to restore a constitutional culture and roll back intrusive government, it’s important that we understand those clauses as the Framers understood them:

## THE GENERAL WELFARE CLAUSE

**Art. I, sec. 8, cl. 1: Congress has the power to collect taxes “to pay the Debts and provide for the common Defence and general Welfare of the United States.”**

- Contrary to modern readings, this clause doesn’t grant Congress an independent power to tax and spend for the “general welfare.” If it did, there would be no need to enumerate any other powers.
- Rather, it authorizes Congress to raise revenue in support of the specifically enumerated powers that follow it. And Congress’s power to tax for the “general welfare” precludes it from taxing to provide for *special* parties or interests.

## THE COMMERCE CLAUSE

**Art. I, sec. 8, cl. 3: “[Congress shall have Power] To regulate Commerce ... among the several States.”**

- Nor was the Commerce Power designed to provide Congress an open-ended mandate to regulate anything and everything that “affects commerce.” Instead, the Framers aimed at creating a national “free-trade zone,” putting an end to the interstate protectionism allowed under the Articles of Confederation. To ensure free trade among the states, Congress was given the power to regulate, or “make regular,” such commerce—the main sense of “regulate” at the time. If the clause had been understood to grant Congress the boundless regulatory power it exercises today, the Constitution would never have been ratified.

## THE NECESSARY AND PROPER CLAUSE

**Art. I, sec. 8, cl. 18: “[Congress shall have Power] To make all Laws which shall be necessary and proper for carrying into Execution the foregoing Powers.”**

- This clause grants Congress the means to execute its enumerated powers ends. It adds no new ends. And those means must be “necessary and proper.” That means they must respect the Constitution’s structure and spirit of limited government, they must respect federalist principles, and they must respect rights retained by the people.

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THESE ADS RAN IN  
NEWSPAPERS NATION-  
WIDE, INCLUDING THE  
WASHINGTON POST  
AND POLITICO.

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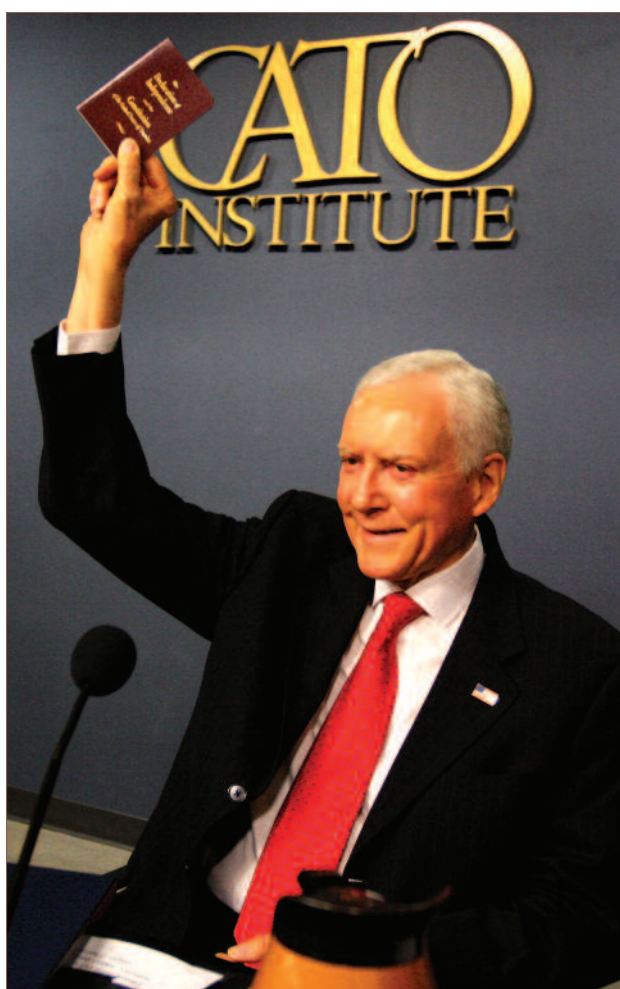
## THE CONSTITUTIONAL SURGE

**O**n September 17, 1787, the delegates to the Constitutional Convention gathered in Philadelphia's Independence Hall to sign the newly drafted U.S. Constitution. Every year, to celebrate that momentous date in liberty's history, the Cato Institute hosts a daylong conference. This year marked the ninth, and coincided with the release of the 2009–2010 *Cato Supreme Court Review*. The conference, "The Supreme Court: Past and Prologue: A Look at the October 2009 and October 2010 Terms," featured panels of legal experts discussing the most important cases of the last term and what we can expect from the Supreme Court in the near future. James Bopp Jr., the country's leading campaign finance attorney, addressed the landmark decision in *Citizens United v. Federal Election Commission*. Alan Gura, who argued before the Supreme Court in the *Heller* gun rights case, talked about his latest groundbreaking case, *McDonald v. Chicago*, which extended to states and localities the Second Amendment right resurrected in *Heller*. Constitution Day closed with the annual B. Kenneth Simon Lecture. This year, the lecturer was William Van Alstyne, professor of law at William & Mary Law School, who discussed the role of the Supreme Court in checking the power of Congress.

The enthusiasm on display at the conference was mirrored outside of Cato, with an explosion of interest in the Constitution. For decades, Cato's most popular publication has been the handsome Pocket Constitution. In 2010 its popularity reached new heights, when Cato sold a quarter of a million Pocket Constitutions, more than double the number sold the year before. Cato placed tens of thousands more with citizen groups, schools, and military personnel. This brought the total number of Pocket Constitutions distributed to more than 5 million.

Although getting the Constitution into the hands of everyday Americans—and then assisting them in understanding that document—is crucial, the Cato Institute's legal scholars worked to assure that the courts, too, interpret our founding document accurately. Two major





The Pocket Constitution continues to be Cato's most popular publication. **ABOVE:** Cato Institute senior fellow in constitutional studies ILYA SHAPIRO (left) listens as STEPHEN COLBERT reads the text of the Second Amendment from a copy during an episode of *The Colbert Report* in July. **LEFT:** SEN. ORRIN HATCH (R-UT) proudly displayed his copy at a Cato-hosted event in May. **FACING TOP:** At a Policy Forum on January 26, SEN. RON WYDEN (D-OR) called for reform of the laws governing access to information from location-tracking technology such as GPS by law enforcement officers. "I look forward to the leadership of Cato on this issue," he said, "as Cato has led us so often in the past." **FACING MIDDLE:** At an event on Capitol Hill, BRADLEY A. SMITH, former chairman of the Federal Election Commission, warned against attempts to reinvigorate campaign finance regulation in response to the Supreme Court's *Citizens United* decision. **FACING BOTTOM:** ALAN GURA, who represented the plaintiffs in the landmark Second Amendment cases *Heller* and *McDonald*, discussed the future of the right to bear arms at a Cato Policy Forum in January 2011.





decisions by the Supreme Court reflected the principled constitutionalism of Roger Pilon, Ilya Shapiro, and the Cato Institute Center for Constitutional Studies.

Following its *Heller* decision in 2008, a case that interpreted the Second Amendment as protecting the citizen's right to possess firearms without restriction by the federal government (a case spearheaded by Cato's chairman, Bob Levy), the Supreme Court, in *McDonald v. City of Chicago*, held that the same right is protected from state and local authorities. Cato's legal scholars filed two briefs with the Court, which handed down its decision in June 2010.

Senior fellow in constitutional studies Ilya Shapiro called *McDonald* "a big victory for gun rights and a bigger one for liberty." By extending *Heller*, "the Supreme Court has correctly decided that state actions violating the right to keep and bear arms are no more valid than those taken by the federal government."

The second blockbuster Supreme Court decision of 2010 came in *Citizens United v. Federal Election Commission*, when the Court held that certain limits on spending by corporations and unions during elections were unconstitutional abridgments of free speech. In a Cato brief filed with the Court, Ilya Shapiro argued that the campaign finance regulations in question weren't about limiting corruption but were motivated instead by the desire of incumbents to remain free from citizen criticism. "This candid fear of dissent or criticism—an 'interest' clearly not recognized by this Court at any point in its history—is the true animating force behind [the law]," Shapiro wrote.

Incumbents in Congress reacted quickly to the *Citizens United* ruling, proposing a new law, the DISCLOSE Act, to mandate disclosure of corporate sources of independent spending on speech. In a paper published in June, John Samples, director of Cato's Center for Representative Government, showed how, "in deep and unsettling ways, DISCLOSE seeks to overturn *Citizens United*, a decision based on two propositions: 'speech is vital to republican government' and 'it's only speech.'" In September, the Senate failed to pass DISCLOSE.









“WHEN  
POLITICS  
ARE USED  
TO ALLOCATE  
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THE  
RESOURCES  
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TO POLITICS.”

—P. J. O'ROURKE

## LEVIATHAN'S BLOAT

The size of government matters, because when government grows, it crowds out civil society. When that growth is fueled by unsustainable, debt-financed spending, government risks dragging civil society with it into bankruptcy. The debate over ObamaCare, which defined much of the policy debate in the first months of 2010, brought these issues to the fore.

In July, senior fellow Michael D. Tanner published “Bad Medicine: A Guide to the Real Costs and Consequences of the New Health Care Law.” In the study, he showed how ObamaCare will cost more than \$2.7 trillion over the next 10 years, while adding \$352 billion to the national debt—and do nothing to control health care costs. Not only will premiums continue to rise, but so will taxes, by more than \$669 billion by 2019. “There will be time to repeal or at least make significant changes to the legislation before most of it takes effect,” Tanner wrote. “If not, this legislation will be very bad news for American taxpayers, businesses, health care providers, and patients.”

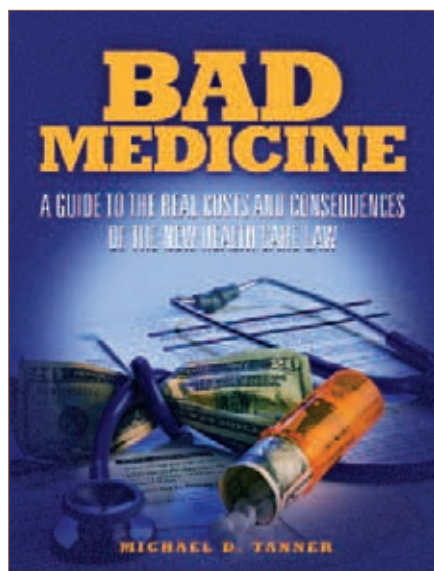
The financial crisis in Europe demonstrated the need to control entitlement spending in the United States. But the biggest items in the budget—Social Security, Medicare, and Medicaid—have the support of powerful political constituencies. Cato scholars, throughout 2010, reminded thought leaders and policymakers that the bill comes due someday and that even the most popular programs have to be sustainable.

What began in the first issue of *Cato Policy Report* in 1979, with the article “Social Security: Has the Crisis Passed?” by Carolyn Weaver, and expanded a year later with Cato’s first policy book, *Social Security: The Inherent Contradiction* by Peter J. Ferrara, continued in April with the release of a new book by Cato senior fellow Jagadeesh Gokhale. *Social Security: A Fresh Look at Political Alternatives* offers a detailed analysis of the fiscal future of this massive entitlement, and does so through the use of a new model that offers a considerable increase in accuracy over what came before.

To further an understanding of the size and scope



While President Obama may have ignored his campaign promise—which Cato reminded him of in a nationwide newspaper ad—to eliminate unnecessary federal programs, Cato Institute scholars did not. **FACING TOP:** Director of Health Policy Studies **MICHAEL F. CANNON** spoke to the International Federation of Pension Fund Administrators in Viña del Mar, Chile, about the budget benefits of replacing compulsory health insurance schemes with personal medical accounts. **FACING MIDDLE:** Director of Tax Policy Studies **CHRIS EDWARDS** called attention again and again to the fiscal burdens created by runaway public sector employee compensation and the ill-advised stimulus package. **FACING BOTTOM:** Senior fellow **MICHAEL D. TANNER** exposed the grim fiscal consequences of the Patient Protection and Affordable Care Act in major studies and dozens of op-eds.



“We will go through our federal budget—page by page, line by line—eliminating those programs we don’t need.”

— PRESIDENT-ELECT BARACK OBAMA, NOVEMBER 2008

## With all due respect Mr. President, we’re still waiting.

It’s been nearly two years since you made that pledge, Mr. President. Since then, you’ve signed into law an \$800 billion “stimulus” package and a massive new health care entitlement—adding trillions of dollars in unfunded liabilities to our grandchildren’s tab.

Our looming debt crisis threatens to destroy the American dream for future generations. Yet your administration continues piling up deficits of over a trillion dollars a year. By 2012 our national debt will be larger than the entire U.S. economy. Isn’t it past time you identified the programs you’d cut?

In all fairness, both parties got us into this mess. “Deficits don’t matter,” Vice President Dick Cheney scoffed as the Bush administration and a Republican Congress led one of the biggest spending sprees in American history, nearly doubling federal outlays over eight years. Our bipartisan flight from responsibility is a national disgrace—and it’s fast becoming a national disaster. Vague promises to eliminate “waste, fraud, and abuse” won’t cut it any more. Both parties need to step up with specific and substantial cuts.

As a start, they can consult [DownsizingGovernment.org](http://DownsizingGovernment.org), where the Cato Institute has begun posting the results of our page by page, line by line review of the federal budget. With the Constitution as our guide, we’ve identified scores of agencies to eliminate and programs to zero out, putting America on the path toward fiscal sanity.

### Education Subsidies

Education is a state, local, and private matter—and that’s where the Constitution left it. Federal K-12 education programs have cost American taxpayers \$1.85 trillion since 1965 without noticeably improving outcomes. Eliminating them will save **\$40 billion annually**.

### Farm Subsidies

Far from “saving the family farm,” federal agricultural subsidies are environmentally destructive corporate welfare, with more than 70 percent of aid going to the largest 10 percent of ag businesses. Zeroing out farm welfare will save **\$25 billion annually**.

### Military Overreach

The Constitution envisions a U.S. military that “provide[s] for the common defense” of the United States, not one that serves as the world’s policeman and nation-builder. By withdrawing our troops from Iraq and Afghanistan, we could save at least **\$125 billion next year**. Eliminating other unnecessary overseas missions would allow for a leaner force structure and defense budget, saving at least **\$100 billion a year** without undermining U.S. security.

### Transportation Programs

The federal government has no business funding the state and local projects that make up the bulk of federal transportation spending. Federal involvement results in pork-barrel spending, excess bureaucracy, and costly one-size-fits-all regulations. Moving funding for activities such as highways to the states and air traffic control to the private sector would spur greater innovation while also saving **\$85 billion a year**.

### Housing Subsidies

Federal interference in housing markets has done enormous damage to our cities and the economy at large. HUD subsidies have concentrated poverty and fed urban blight, while Fannie Mae and Freddie Mac stoked the financial crisis by putting millions of people into homes they couldn’t afford. Getting the government out of the housing business will save **\$45 billion annually**.

### Federal Worker Pay

Federal workers enjoy far greater job security than their private-sector counterparts—and far better total compensation: an average of \$120,000 a year in wages and benefits. Cut federal compensation by 10 percent to save **\$20 billion annually**.

### Energy Subsidies

The 30-year legacy of federal energy subsidies is ripe for corporate corruption and failed “investments.” Entrepreneurs with their own capital have incentives to develop viable alternative energy sources. Ending federal energy subsidies would save **\$20 billion a year**.

### Government-run Health Care

Medicare and Medicaid are driving the explosion in federal debt. The 2010 health care law should be repealed, but the same level of Medicare cost savings can be realized by moving to a consumer-driven health plan through vouchers, which would protect the elderly from government mismanagement. Medicaid should be converted to a fixed block grant to save money and encourage state innovation. Total savings would be more than **\$1 trillion** over the next decade.

### Drug War

Since the start of the federal War on Drugs in 1970, we’ve spent hundreds of billions on a futile crusade that’s done little to curb drug use and much to impair our civil liberties. In fact, a Cato study showed that Portugal’s decriminalization of drugs actually lowered drug-related problems. Returning drug policy to the states—where it belongs—would save at least **\$15 billion annually**.

### Social Security

As the Baby Boom generation retires, our largest entitlement program lurches toward crisis. Social Security should be phased out as a mandatory program and an alternative voluntary system of private accounts, providing for ownership and inheritability, should be offered. Current obligations can be reduced by tying annual benefit growth to price inflation rather than wage growth, saving **\$50 billion annually** by 2020.

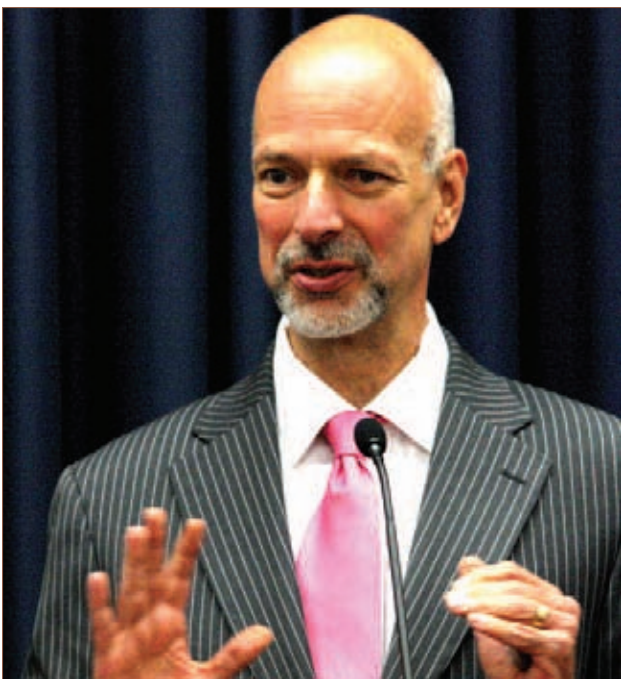


Visit [DownsizingGovernment.org](http://DownsizingGovernment.org) for a free download of the Cato Institute’s acclaimed book *The Struggle to Limit Government*.

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**LEFT:** **MICHAEL D. TANNER’S** “Bad Medicine: A Guide to the Real Costs and Consequences of the New Health Care Law,” released in February 2011, peeled away the rhetoric to discover the actual costs of President Obama’s health care overhaul. **ABOVE:** Suggestions on how to reduce government spending were the focus of a full-page ad the Cato Institute placed in newspapers nationwide, including the *Wall Street Journal*, the *Washington Post*, the *Los Angeles Times*, and the *New York Times*.





of the federal government, the Cato Institute launched [DownsizingGovernment.org](http://DownsizingGovernment.org) in early 2010. Created by director of tax policy studies Chris Edwards and budget analyst Tad DeHaven, the site is designed to help policymakers and the public understand where federal funds are being spent and how to reform each government department. It describes the failings of federal agencies and identifies specific programs to cut. It also discusses the systematic reasons why government programs are often obsolete, mismanaged, or otherwise dysfunctional. Edwards describes the site with more brevity, calling it “a great aid to help the layman understand where his money goes in Washington.”

During his campaign, candidate Obama pledged to “go through our federal budget page by page, line by line—eliminating those programs we don’t need.” His second year in office demonstrated his unwillingness to keep that promise, for which the Cato Institute took him to task in a full-page newspaper ad. The ad set out hundreds of billions in potential budget cuts—cuts explained in greater detail at [DownsizingGovernment.org](http://DownsizingGovernment.org)—and ran in major newspapers nationwide, including the *Wall Street Journal*, the *Washington Post*, the *Los Angeles Times*, the *New York Times*, the *Washington Examiner*, *Politico*, the *Houston Chronicle*, the *Dallas Morning News*, the *Minneapolis Tribune*, the *Burlington Free Press*, the *Oregonian* (Portland), the *Santa Barbara News Press*, the *Charlotte Observer*, the *Baton Rouge Morning Advocate*, and the *Lexington Herald-Leader*.

Throughout the year, Edwards also maintained pressure on state employees, particularly public sector unions. “In 2008, wages and benefits of \$1.1 trillion accounted for half of total state and local government spending,” he explained in a *Tax & Budget Bulletin* published in January. He expanded on the message in op-eds, talks on Capitol Hill, and two articles in the *Cato Journal*. The year ended with an indication that Edwards’s message is getting through, as the Obama administration announced a two-year pay freeze for federal workers, adopting a policy first called for by Chris Edwards in an op-ed in the *Washington Post* in 2006. “Hopefully, that will be the first of many budget savings that the administration and Republicans in Congress can





**LEFT:** November marked the 28th year of Cato's Annual Monetary Conference, directed by Cato vice president for academic affairs JAMES A. DORN. **ABOVE:** The conference, "drew a standing-room-only crowd," as the *New York Times* noted, including former Federal Reserve Bank presidents WILLIAM POOLE and JERRY L. JORDAN, MICKEY D. LEVY of Bank of America, and Cato senior fellow GERALD P. O'DRISCOLL, JR. **FACING TOP:** At the reception following the conference, MANUEL SÁNCHEZ (left), deputy governor of the Bank of Mexico, chatted with MARY ANASTASIA O'GRADY, editor of the *Wall Street Journal's* "Americas" column. **FACING BOTTOM:** Trade policy analyst SALLIE JAMES addressed the need to reform the U.S. Generalized System of Preferences at an event in December.





work on together in coming months,” Edwards said when the freeze was announced.

Education is one area especially harmed by its inclusion in the public sector workforce. In 2010 Congress sent a \$10 billion bailout to states and districts to prevent them from laying off teachers. Cato scholars Andrew J. Coulson, director of the Center for Educational Freedom, and Neal McCluskey, associate director, published op-eds and made several media appearances arguing the folly of this move. McCluskey also released an important policy paper debunking the arguments for national standards, another federal power grab masquerading as educational reform. Adam B. Schaeffer, policy analyst with the center, published “They Spend WHAT? The Real Cost of Public Schools,” in which he dug into the often-obfuscated numbers behind public school financing in the nation’s five largest metro areas and the District of Columbia and found that, “on average, per-pupil spending in these areas is 44 percent higher than officially reported.” But there were signs of progress, too. School choice continues to grow at the state level. Schaeffer wrote in the *Wall Street Journal* about the encouraging progress in Florida, while Coulson coauthored an amicus brief defending the constitutionality of Arizona’s school choice tax credit program.

November marked the 28th year of Cato’s Annual Monetary Conference, directed by Cato vice president for academic affairs James A. Dorn. The conference, which “drew a standing-room-only crowd,” as the *New York Times* noted, addressed a key issue underlying the 2008 financial crisis: Did the Federal Reserve contribute to the crisis by keeping interest rates too low for too long? Would a more restrictive monetary policy have prevented the asset-price bubble in housing? Among those who spoke were Jerry L. Jordan, former president of the Federal Reserve Bank of Cleveland; Carmen M. Reinhart, coauthor (with Kenneth Rogoff) of *This Time Is Different: Eight Centuries of Financial Folly*; Lawrence H. White, Mercatus Professor of Economics at George Mason University; and George S. Tavlas, director general of the Bank of Greece—who said he “felt right at home in the United States.”



“COMMERCE WITH ALL NATIONS,  
ALLIANCE WITH NONE, SHOULD  
BE OUR MOTTO.”  
—THOMAS JEFFERSON



CATO SCHOLAR  
CHRIS PREBLE  
IN RIYADH





## BEYOND OUR BORDERS

**T**he disastrous war in Iraq and the endless attrition of Afghanistan sparked intense reaction from the public, first on the anti-Bush left and then, increasingly, on the right. In fact, at a Cato Institute conference in March, Rep. Dana Rohrabacher (R-CA) said of his colleagues' views on Iraq, "Everybody I know [now] thinks it was a mistake to go in." Rep. Tom McClintock (R-CA) agreed. "I think everyone would agree Iraq was a mistake," he said, and added, "And, you know, again, I think virtually everyone would agree going into Afghanistan the way we did was a mistake."

While ending the wars remains crucial, attention must also be paid to the size of the military. In September, Benjamin Friedman, research fellow in defense and homeland security studies, and Christopher Preble, director of foreign policy studies, released an important policy study proposing more than \$1.2 trillion in cuts over the next 10 years. "The United States does not need to spend \$700 billion a year—nearly half of global military spending—to preserve its security," they wrote.

As the United States continues to wage wars overseas, global freedom is in decline. The *Economic Freedom of the World: 2010 Annual Report* brings the bad news. Copublished by the Cato Institute, the Fraser Institute in Canada, and more than 70 think tanks around the world, the new edition shows the first global setback for economic freedom in decades. The average economic freedom score rose from 5.55 (out of 10) in 1980 to 6.70 in 2007, but fell back to 6.67 in 2008, the most recent year for which data are available. Of the 123 countries with economic freedom rankings dating back to 1980, 88 saw their rankings decrease, while only 35 recorded increases. In this year's index, Hong Kong retains the highest rating for economic freedom, 9.05 out of 10, followed by Singapore, New Zealand, Switzerland, Chile, the United States, Canada, Australia, Mauritius, and the United Kingdom.

But even if the trends are against them, many individuals continue to fight for freedom. Every two years, the Cato





**ABOVE:** AKBAR GANJI, joined by his wife, MASSOUMEH SHAFII, celebrates winning the 2010 Milton Friedman Prize for Advancing Liberty. Ganji was presented with the award, which recognized his contributions to advancing human rights and democracy in his native Iran, at a gala dinner ceremony hosted by the Cato Institute in May.

**LEFT:** Columnist GEORGE WILL gave the evening's keynote address, explicating the European financial crisis and America's growing welfare state by way of baseball anecdotes. Speaking to a room filled with nearly 1,000 Cato Sponsors and friends, Will thanked the people of Greece "who, in recent weeks, have toiled to demonstrate in a timely manner why Cato is necessary."





Institute recognizes one of these crusaders by awarding the Milton Friedman Prize for Advancing Liberty. The prize, named in honor of perhaps the greatest champion of liberty in the 20th century, was given in May to Akbar Ganji, its fifth recipient. An Iranian writer and journalist, Ganji spent six years in a Tehran prison for advocating a secular democracy and exposing government involvement in the assassination of individuals who opposed Iran's theocratic regime.

Free trade remains the most effective means of promoting both global peace and prosperity. But it faces constant attack from those who would protect producers at the cost of consumers and prop up local companies in the face of competition. The scholars in Cato's Herbert A. Stiefel Center for Trade Policy Studies offered a consistent, pro-trade viewpoint to counter these protectionist impulses. The center's director, Daniel Griswold, continued his speaking tour for his 2009 book, *Mad about Trade*, talking to civic and professional groups in Miami, Nashville, Chicago, Denver, San Diego, and 15 other cities. In June, he debated the benefits of NAFTA live on C-SPAN's *Washington Journal*. Associate director Daniel J. Ikenson published the briefing paper "Manufacturing Discord: Growing Tensions Threaten the U.S.-China Economic Relationship," while policy analyst Sallie James wrote "The U.S. Generalized System of Preferences: Helping the Poor, But at What Price?" in which she argued that the United States should continue to use multilateral agreements to bring down trade barriers, but not abandon true, unilateral reform.



**TOP:** IAN VÁSQUEZ, director of Cato's Center for Global Liberty and Prosperity, greets former British prime minister Margaret Thatcher at the European Resource Bank meeting in London in September. **MIDDLE:** Foreign policy analyst MALOU INNOCENT (middle) and senior fellow DOUG BANDOW (far right) pose with Afghan police several miles outside of Kabul near Qargha Lake. **BOTTOM:** SUSAN EISENHOWER, chairman emeritus of the Eisenhower Institute and granddaughter of the president, delivered the introductory remarks at "The Military-Industrial Complex at 50: Assessing the Meaning and Impact of Eisenhower's Farewell Address," a Cato Institute conference in January 2011.





CATO EXPANSION  
SCHEDULED FOR  
COMPLETION IN 2012





## LIBERATING THE FUTURE

**A**s the year closed, the Cato Institute looked toward the future. In September, Cato broke ground on our expanded headquarters. As part of the “Liberating the Future” campaign, Cato will use the space to dramatically expand policy coverage and multimedia facilities.

Liberating the Future will see the launch of new policy centers on money and banking, drug policy, labor and employment policy, environmental and energy policy, government transparency, the defense budget, bioethics, science and risk studies, and regulatory policy reform. It will expand the Young Leaders Program Fund because liberating the future depends on convincing the next generation of the importance of limited government, peace, and free enterprise. Cato also plans to intensify its efforts to recruit leading thinkers to affiliate with us as Cato Fellows, strengthening the Institute’s reputation as the institutional center of the libertarian vision.

Although the passage of ObamaCare marred the start of 2010, and while the year contained numerous setbacks to the cause of freedom, the American people remain committed to the path of limited government and prosperity promised to them by the nation’s founding documents—and vigorously defended by the Cato Institute.

In September, the Cato Institute broke ground on our expanded headquarters, part of our “Liberating the Future” capital campaign. When completed in 2012, the building will feature a new and larger F. A. Hayek Auditorium, a research library housing the Roy A. Childs Jr. Collection, the George M. Yeager Conference Center, and an upgraded multimedia center. In addition to these new facilities, the campaign will see a 50 percent increase in policy and support staff.

KRISTINA and EDWARD H. CRANE join BILL ERICKSON for the topping out ceremony, signing the last beam to be placed atop the building.



“LIBERTY IS NOT A  
MEANS TO A HIGHER  
POLITICAL END. IT IS  
ITSELF THE HIGHEST  
POLITICAL END.”  
—LORD ACTON

CATO CITY SEMINAR  
IN NAPLES, FLORIDA -  
600 ATTENDEES







## OUTREACH AND EDUCATION

In 2010 Cato energetically responded to how resources are accessed by supporters, researchers, policymakers, the media, students, and so many others—successfully integrating outreach technologies that anticipated and took full advantage of the changing technological landscape. The results: nearly 2 million downloads of Cato-published articles and studies in 2010, nearly one-half million specific online searches for “Cato Institute” in 2010—double the number of only two years ago, twice as many viewers of Cato’s work on YouTube this year over last, and a 90 percent increase in regular visitors to Cato’s blog. And the list—as you will read below—goes on.

One critical area that exemplifies Cato’s efforts in 2010: health care reform. Merging policies and expert analysis with innovative outreach, Cato’s policy experts made over 1,100 appearances in a wide array of formats—including articles, editorials, op-eds, new media posts, radio and television interviews, speeches, live events, and more. It was one of the most significant and coordinated efforts Cato has ever made on an issue, combining a paid ad campaign and original online material with an extensive presence on new and established media outlets. The amount of awareness this effort generated underscores the results of Cato’s overall efforts throughout 2010: more than ever before, with political discourse so often shrill and unproductive, people are turning to Cato’s work for its clarity, perspective, and integrity.

### WEBSITE

Cato’s main Web presence, Cato.org, continued to attract tens of thousands of daily users and millions of annual visits. Its capabilities are regularly expanded through new and enhanced multimedia features, special sections, custom-produced video and audio programs, and a growing online archive of research materials.

### SOCIAL MEDIA

Cato’s presence on and use of Facebook and Twitter, the





**SEN. RAND PAUL (R-KY)** spoke at the Cato Institute's Benefactor Summit held in February. Paul discussed the need to cut spending—and how difficult accomplishing that can be in the culture of Washington.

two social networking giants, increased significantly in 2010, with the number of individuals joining the Cato community on both sites nearly doubling. In addition, Cato's YouTube channel, containing an increasing number of high-quality videos for diverse audiences, retained its prominence as one of the top sites for nonprofit organizations. Its user base doubled in 2010, making it the 22nd most-subscribed-to nonprofit on YouTube.

### **CATO@LIBERTY AND CATO UNBOUND**

Cato's acclaimed blog, Cato@Liberty, experienced nearly 90 percent growth in traffic during 2010, with well over 3 million visits. Cato Unbound, the monthly online forum for the exchange of ideas, continued to feature prominent guests addressing significant issues from highly compelling perspectives and included discussions on digital surveillance, discrimination and liberty, Darwin and politics, and campaign finance disclosure.

### **NEW AND EMERGING DEVICES**

Because of the continual expansion of new ways to access online resources, individuals are increasingly accessing Cato's website through a growing myriad of devices, including droid phones, iPhones, iPads, blackberries, and more, in addition to "traditional" computers. As a result, Cato is creating specific formats and applications for these devices, an effort that was energetically pursued in 2010 and will be intensified throughout 2011. The free application generated for iPhone and iPad users was, for example, immediately downloaded by thousands when made available in 2010, and was listed on a "Top Ten List of Apps for Political Junkies."

### **E-BOOKS**

E-book editions of Cato books have been growing in popularity and sales—both through the newly



redesigned online Cato Store and through commercial vendors. The modest number of copies sold only 18 months ago has now become thousands of copies sold. In addition, free, limited postings of e-books on the Cato website in 2010—including electronic copies of *The Cult of the Presidency*, *The Struggle to Limit Government*, and *Downsizing the Federal Government*—resulted in more than 10,000 downloads.

### PODCASTS AND MULTIMEDIA RESOURCES

Cato's highly acclaimed podcast series now has more than 10,000 subscribers, with tens of thousands of other listeners regularly accessing individual programs. Recorded by Cato policy experts and nationally known speakers, the podcasts are also available on iTunes. Further, there was a 22 percent increase in online subscribers in 2010 to RSS feeds of Cato programming—with a corresponding growth in the number of individuals accessing event podcasts, event videos, posted op-eds, Weekly Dispatch, the Weekly Video series, and Homepage Headlines.

### CATO ON CAMPUS

Connecting students across the globe with the Cato Institute, CatoOnCampus.org is both an autonomous site and a bridge to the main Cato site. It offers links to research materials; student resources; live online programming; opportunities for students across the country to coordinate and organize events; links with libertarian organizations worldwide; and access to a vast range of materials on economics, liberty, philosophy, history, and government.

### MEDIA HIGHLIGHTS

With a combined total of more than 1,100 articles, op-eds, new media posts, and radio and television broadcast appearances in 2010 on the issue of health care alone, Cato's policy experts were a driving presence on newscasts, talk shows, interview programs, and more.



**NEILL FRANKLIN** (right), executive director of Law Enforcement against Prohibition, talks with Cato's **TIM LYNCH** after a Cato Policy Forum in September. Franklin, along with Cato legal policy analyst David Rittgers and Joseph I. Cassilly, state's attorney of Harford County, Maryland, discussed the controversy over citizens recording the police.





Cato's continuing outreach efforts for young people included an intern reunion in May. HELEN WHALEN-COHEN, SUSAN BANKO, DAFINA MULAJ, AMY JOY MANDLER, and SARIA SHEIKH joined more than 150 other intern alumni at a reception in the Wintergarden.

### INTERNSHIPS AND OTHER PROGRAMS FOR STUDENTS

Throughout 2010, Cato's programs for students grew rapidly, and in addition to the CatoOnCampus website now include lectures, newsletters, original articles by Cato scholars, participation in on-campus events, supplying resources to student groups, and a highly competitive internship program—with over 2,000 college students and recent graduates from around the world applying each year for 66 intern positions.

### CATO FORUMS, CONFERENCES AND EVENTS

Cato's events combine public programming with innovations in reaching audiences and viewers around the world. The 10,000 individuals who attended the nearly 100 public events held at Cato in 2010 are only part of the total audience. Thousands more view the events live on the Cato website and when they are posted on Cato's YouTube channel, and there have been double-digit increases in the number of downloads of Cato's event podcasts and videos. Tens of thousands—and in the case of podcast totals, *millions*—of online event presentations are now accessed online annually.

Cato's programs continue to be renowned for their diverse range of subjects and outstanding speakers. In 2010 presenters included MSNBC's Joe Scarborough on the war in Afghanistan; Rep. Barney Frank (D-MA) on cutting the federal budget; Daniel Hannan, member of the European Parliament, on his book *The New Road to Serfdom*; John Fund and Jon Hilsenrath of the *Wall Street Journal*; Rep. James Sensenbrenner (R-WI) on the struggle to limit government; Sen. Orrin Hatch (R-UT) on health care reform; and Simeon Djankov, minister of finance and deputy prime minister of Bulgaria. In addition, several hundred attended a new conference—"The Obama Administration's Counterterrorism Policy at One Year"—which included a keynote address by Daniel Benjamin, coordinator for counterterrorism, U.S. Department of State.



## CITY SEMINARS

City Seminars in 2010 were presented in New York City, San Francisco, Los Angeles, Dallas, Houston, and Chicago. Nearly 2,000 attended the programs, which included presentations by Cato Mencken Research Fellow P.J. O'Rourke; John McWhorter, professor at Columbia University and contributing editor, the *New Republic* and *City Journal*; Gary Johnson, former governor of New Mexico; and Cato fellow Tucker Carlson.

## CATO UNIVERSITY

Cato University 2010 provided a week-long immersion for over 150 participants in the foundations of libertarianism and individual liberty and the threats posed by unchecked government growth.

## HILL BRIEFINGS

In 2010, Cato's highly respected Hill Briefings brought Cato policy experts' analysis to the heart of the policymaking process. Joined by a number of outside speakers, including Reps. Jeff Flake (R-AZ), James Sensenbrenner (R-WI), and Rob Bishop (R-UT), the events addressed critical subjects and policies—health care, counterterrorism, education, Social Security, nuclear weapons, immigration, federal spending, and taxes.

## PUBLICATIONS

The impact of online access on the readership of Cato's publications has been remarkable. By way of example, each issue of *Cato Journal* is printed and mailed to subscribers, scholars, policy experts, libraries, and others. Now, print editions are only the start. In 2010 over one-half million *Cato Journal* articles were downloaded from Cato.org—which represents tens of thousands of readers using Cato's work. The same for Cato's magazine *Regulation*. While thousands receive a printed edition, over 350,000



Executive Vice President **DAVID BOAZ** signs a copy of his book, *The Politics of Freedom: Taking on the Left, the Right, and Threats to Our Liberties*, after speaking to congressional staff as part of Cato University at Capitol Hill. Boaz's talk was one of a series, held in August and September, featuring several Cato scholars. Cato University at Capitol Hill emphasized a better understanding of the importance of a free society, approaching public policy issues from a limited-government perspective.





**ABOVE:** “It’s difficult to address issues of drug violence and lawlessness when you’re trying to stop someone who just wants to come mow a lawn,” REP. JEFF FLAKE (R-AZ) said at a Cato event on immigration reform in July. **BELOW:** Cato chairman ROBERT A. LEVY (left) greets Florida’s new governor, RICK SCOTT, at a Cato seminar and luncheon in Naples in March. Governor Scott delivered the event’s keynote address, summarizing his plans for reforming government, reducing spending, and boosting the economy in his state.



articles were downloaded this past year. In addition, *Cato Policy Report* and *Cato’s Letter* were downloaded nearly 150,000 times during 2010.

### **CATO POLICY STUDIES**

Nearly 50 studies were published in 2010, providing rigorous research on a wide range of issues. Tens of thousands of printed editions were distributed and read, and through their postings on Cato.org over three-quarters of a million copies were downloaded. Cato’s studies—Policy Analysis, Briefing Papers, Development Policy Analysis, Trade Briefing Papers, Free Trade Bulletin, and others—examined health care, climate policy, education, taxes, the libertarian vote, Darfur, the Federal Reserve, South Korea, globalization, military spending, and transportation, among other topics. In addition, publication of the 10th biennial Fiscal Policy Report Card on America’s Governors generated extensive media attention. Cato also published two landmark White Papers in 2010: “Bad Medicine: A Guide to the Real Costs and Consequences of the New Health Care Law,” and “The Budgetary Impact of Ending Drug Prohibition.”



# CATO BOOKS

## THE RIGHT TO EARN A LIVING: ECONOMIC FREEDOM AND THE LAW

by Timothy Sandefur

"Sandefur's comprehensive and thoughtful book provides a wealth of insights into why constitutional protection for economic liberty is so important and how the Supreme Court destroyed that protection. This book makes the legal and moral case for economic liberty in provocative ways that lawyers and nonlawyers will enjoy, regardless of their philosophical predispositions."

—WILLIAM MELLOR, PRESIDENT AND GENERAL COUNSEL, INSTITUTE FOR JUSTICE

## SHIFTING SUPERPOWERS: THE NEW AND EMERGING RELATIONSHIP BETWEEN THE UNITED STATES, CHINA, AND INDIA

by Martin Sieff

"Well researched and clearly argued. . . a great read. Pulls together wonderful historical bits and pieces to give us critically needed perspective on the challenging

global trends that frame our lives in the 21st century."

—STEFAN HALPER, SENIOR FELLOW, CENTRE OF INTERNATIONAL STUDIES, CAMBRIDGE UNIVERSITY

## TERRORIZING OURSELVES: WHY U.S. COUNTERTERRORISM POLICY IS FAILING AND HOW TO FIX IT

edited by Benjamin H. Friedman, Jim Harper, and Christopher A. Preble

"The authors and outlooks collected in this volume represent the clearest, most realistic, most penetrating thought about America's response to terrorist threats. The wider the audience is for views like these, the closer the country will come to an effective, sustainable policy for protecting its people and defending its values."

—JAMES FALLOWS, NATIONAL CORRESPONDENT, ATLANTIC MONTHLY

## THE STRUGGLE TO LIMIT GOVERNMENT: A MODERN POLITICAL HISTORY

by John Samples

"Cato Institute scholar Samples decries seven decades of 'progress-

sive' government, from the New Deal to today's giant bailouts in this story of soaring taxes, spending, and deficits in which both parties come out tarnished. Samples shrewdly analyzes the politics behind government expansion."

—PUBLISHERS WEEKLY

## CATO SUPREME COURT REVIEW: 2009–2010

edited by Ilya Shapiro

Now in its ninth year, this acclaimed annual publication, which comes out every September, brings together leading national scholars to analyze the Supreme Court's most important decisions from the term just ended and preview the year ahead.

## ECONOMIC FREEDOM OF THE WORLD: 2010 ANNUAL REPORT

by James Gwartney, Joshua Hall, and Robert Lawson

(COPUBLISHED WITH THE FRASER INSTITUTE)

"The conclusion is abundantly clear: the freer the economy, the higher the growth and the richer the people."

—THE ECONOMIST

**A SPECIAL NOTE:** Published in 2009 by the Cato Institute, *The Beautiful Tree: A Personal Journey into How the World's Poorest People Are Educating Themselves*, by James Tooley, was winner of the Atlas Economic Research Foundation's 2010 Sir Antony Fisher International Memorial Award, which recognizes outstanding works that enhance the public understanding of a free society.





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The unaudited financial information below indicates that Cato's operating revenues were stable in fiscal 2011. Since the inception of its capital campaign the Institute has raised over \$39 million of its \$50 million goal. Construction of our expanded headquarters is under way and is scheduled for completion in 2012. Construction costs to date are reflected on our balance sheet under "building expansion." Cato's fiscal year runs from April 1 to March 31.

### FISCAL YEAR 2011 OPERATING REVENUE

INDIVIDUALS.....	\$16,611,000
FOUNDATIONS.....	\$1,873,000
CORPORATIONS.....	\$342,000
PROGRAM REVENUE.....	\$1,187,000
OTHER INCOME.....	\$390,000
TOTAL.....	\$20,403,000

### FISCAL YEAR 2011 CAPITAL CAMPAIGN REVENUE

CAPITAL CAMPAIGN.....	\$20,437,000
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### FISCAL YEAR 2011 OPERATING EXPENSES

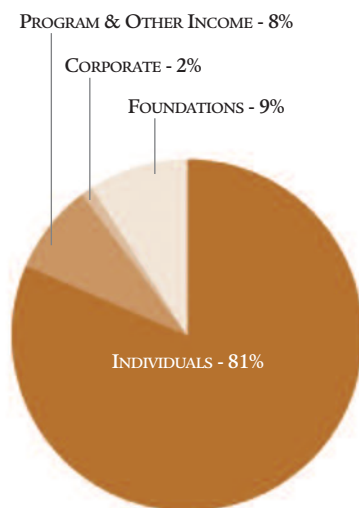
PROGRAM.....	\$19,112,000
MANAGEMENT & GENERAL.....	\$2,213,000
DEVELOPMENT.....	\$1,975,000
TOTAL.....	\$23,300,000

### ASSETS AND LIABILITIES

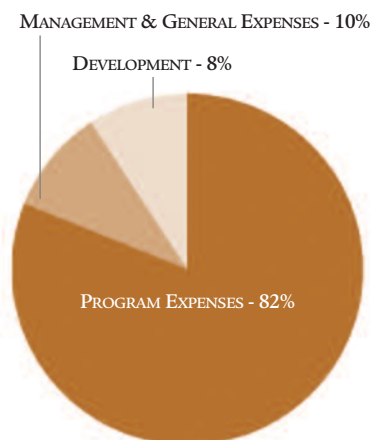
CASH AND EQUIVALENTS.....	\$22,750,000
NET FIXED ASSETS.....	\$5,663,000
BUILDING EXPANSION.....	\$18,209,000
OTHER ASSETS.....	\$10,592,000
LIABILITIES.....	(\$4,723,000)
NET ASSETS.....	\$52,491,000

Prepared on a modified cash basis

### FISCAL YEAR 2011 OPERATING REVENUE



### FISCAL YEAR 2011 OPERATING EXPENSES



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