

# CATO INSTITUTE

2016

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ANNUAL REPORT



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# Message from the PRESIDENT and CHAIRMAN



Across the political and ideological spectrum, 2016 left many Americans disappointed. People on both the left and right felt unrepresented and unhappy with their political parties and candidates. But for the Cato Institute, disenchantment with politics merely affirms our core mission—to be the standard-bearers of ideas and principles, rather than crusaders for or against politicians and their parties. No matter the political climate, the Institute remains committed to producing principled, rigorous, and engaging libertarian scholarship to create a more free and open society.

In 2016, those ideas reached more people than ever before: Cato.org, Libertarianism.org, and HumanProgress.org all saw record-breaking traffic. And our scholars continued to be leading voices on key issues, from health care—where Michael Cannon remains a trailblazer in the push to fully repeal Obamacare—to taxes and spending—with Chris Edwards at the center of the



*Peter Goettler*  
**PETER GOETTLER**  
PRESIDENT

debates—to immigration—where Alex Nowrasteh's terrorism risk analysis was widely cited also by leading scholars and commentators, also by popular media figures, including CBS's Stephen Colbert, the *Daily Show's* Trevor Noah, ESPN's Stephen A. Smith, and Kareem Abdul-Jabbar in the pages of the *Washington Post*. Cato senior fellow Johan Norberg's newest book *Progress: Ten Reasons to Look Forward to the Future*, was named one of *The Economist's* 2016 Books of the Year (following a similar honor accorded in 2014 to Flemming Rose's *The Tyranny of Silence*). And Cato's role taking the case for liberty and human flourishing to young citizens reached new levels: Visits to Libertarianism.org and its online student courses more than doubled. Those are but a few examples of our broad impact, with more to come in the following pages.

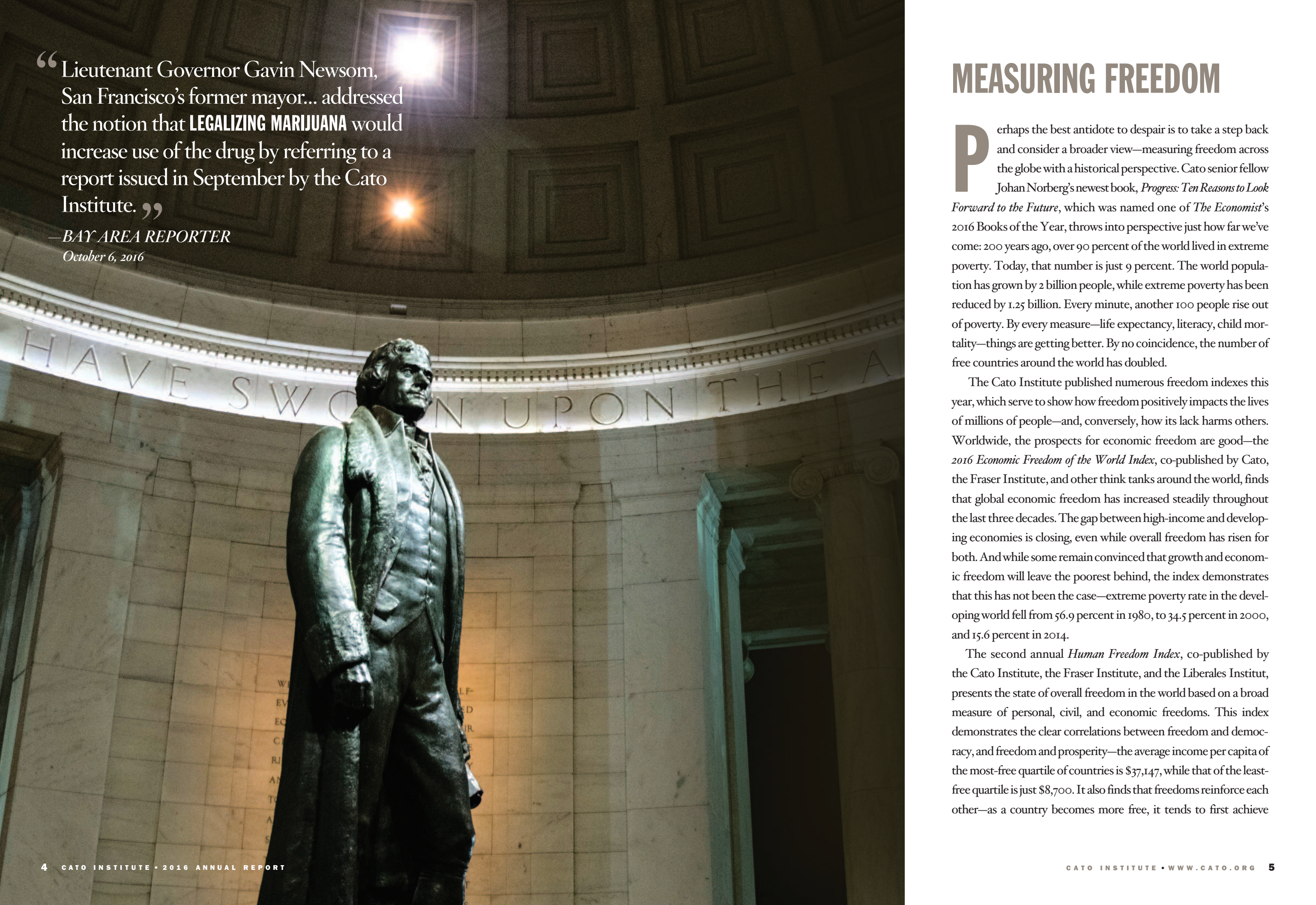


*Robert A. Levy*  
**ROBERT A. LEVY**  
CHAIRMAN

Our community of Sponsors and friends knows the energy and passion that we bring to our mission. Equally important, we are continually evaluating and improving our work and increasing our impact. As Cato marks its 40th year in 2017, we are reviewing all of our activities and reexamining how to maximize their effectiveness. The Institute's existing web platforms, inventive online content, and social media presence attest to a track record of innovation that we intend to perpetuate, while maintaining a commitment to excellence in all that we do.

Although we are justifiably proud of the short-term accomplishments of the Institute and our staff, our long-run goal of a free country and society remains top priority at Cato. That means staying true to Cato's timeless values and the high standards of our work. Those values and standards are what make us most proud to be a part of Cato, and most appreciative of our dedicated network of Sponsors, who are so passionately committed to defending liberty. Integrity is key to making—and keeping—Cato respected and effective. In turbulent political times, Cato reminds us that politics may disappoint, but the principles of liberty will never fail us.





“Lieutenant Governor Gavin Newsom, San Francisco’s former mayor... addressed the notion that **LEGALIZING MARIJUANA** would increase use of the drug by referring to a report issued in September by the Cato Institute.”

—BAY AREA REPORTER

October 6, 2016

## MEASURING FREEDOM

Perhaps the best antidote to despair is to take a step back and consider a broader view—measuring freedom across the globe with a historical perspective. Cato senior fellow Johan Norberg’s newest book, *Progress: Ten Reasons to Look Forward to the Future*, which was named one of *The Economist’s* 2016 Books of the Year, throws into perspective just how far we’ve come: 200 years ago, over 90 percent of the world lived in extreme poverty. Today, that number is just 9 percent. The world population has grown by 2 billion people, while extreme poverty has been reduced by 1.25 billion. Every minute, another 100 people rise out of poverty. By every measure—life expectancy, literacy, child mortality—things are getting better. By no coincidence, the number of free countries around the world has doubled.

The Cato Institute published numerous freedom indexes this year, which serve to show how freedom positively impacts the lives of millions of people—and, conversely, how its lack harms others. Worldwide, the prospects for economic freedom are good—the 2016 *Economic Freedom of the World Index*, co-published by Cato, the Fraser Institute, and other think tanks around the world, finds that global economic freedom has increased steadily throughout the last three decades. The gap between high-income and developing economies is closing, even while overall freedom has risen for both. And while some remain convinced that growth and economic freedom will leave the poorest behind, the index demonstrates that this has not been the case—extreme poverty rate in the developing world fell from 56.9 percent in 1980, to 34.5 percent in 2000, and 15.6 percent in 2014.

The second annual *Human Freedom Index*, co-published by the Cato Institute, the Fraser Institute, and the Liberales Institut, presents the state of overall freedom in the world based on a broad measure of personal, civil, and economic freedoms. This index demonstrates the clear correlations between freedom and democracy, and freedom and prosperity—the average income per capita of the most-free quartile of countries is \$37,147, while that of the least-free quartile is just \$8,700. It also finds that freedoms reinforce each other—as a country becomes more free, it tends to first achieve



greater economic freedom relative to personal freedom, and once it reaches a high level of economic freedom, it then achieves higher levels of personal freedom relative to economic freedom, with high freedom overall. “Put another way, if you want to live in a country with a high level of personal freedom, you better have a relatively high level of economic freedom,” wrote Ian Vásquez, the director of Cato’s Center for Global Liberty and Prosperity.

Unfortunately, in the United States, economic freedom has decreased—on the Economic Freedom Index, it remains at 16th place globally for the second year in a row, a steep decline since the year 2000, when it took second place. This decline is largely thanks to a weakening of the rule of law, increasing regulation, and the devastating effects of the wars on terrorism and drugs.

To analyze freedom across the states and show how to improve, Cato published *Freedom in the 50 States*, the most up-to-date and comprehensive freedom index available for the United States, with detailed rankings evaluating both economic and personal freedoms. It ranks American states on how their policies promote freedom in the fiscal, regulatory, and personal realms, based on data for more than 230 variables, from property rights and taxes to gun rights and alcohol and tobacco laws. Along with the rankings, it includes policy recommendations tailored to each state to improve its fiscal, regulatory, and personal freedoms. The index also tracks how the states have changed their relative positions over the years. Charles Arlinghaus of the *New Hampshire Union Leader* praised the study as a rare stand-out in a field of studies that often tends to rely on questionable and misleading methodology. “The other extreme in transparency and data is provided by William Ruger and Jason Sorens’ latest version of their *Freedom in the 50 States*, published this year by the Cato Institute,” he wrote. “Ruger and Sorens include 300 pages of explanation, including 121 footnotes and links to Excel spreadsheets with raw data. Better still, their narrative explains in great detail why they measured each item, rationales for that measurement, drawbacks to some measurements, citation of the academic work supporting their choices and specific weighting choices.”

## Extreme Poverty Rate in the Developing World

1980

56.9%

2000

34.5%

2014

15.6%

At a Capitol Hill briefing, **William Ruger** of the Charles Koch Institute discussed the 2016 edition of *Freedom in the 50 States*, which presents a thorough ranking of American states based on how their policies promote freedom in the fiscal, regulatory, and personal realms. **BOTTOM: Jose Piñera** (left), a distinguished senior fellow at the Cato Institute and the architect of Chile’s private retirement accounts, spoke at Cato in the fall at a lunch hosted by Cato’s **Ian Vásquez** (right). Chile has ranked among the top countries in the world in the *Economic Freedom of the World* index in recent years—in 2016 it stood in 13th place, compared to the United States’ 16th.





“I would like to tell you that as chairman of the House Financial Services Committee, before I decide to move out **ON ANY PARTICULAR ISSUE**, I certainly glean the scholarship of Cato in general and Mark Calabria in particular.”

—REP. JEB HENSARLING

*Chairman, House Committee on Financial Services*



## MONETARY AND FISCAL POLICY

Despite all the evidence that economic freedom brings greater personal freedom and prosperity, the United States continued to pursue reckless fiscal and monetary policies that reduce the power of the free market. As Jeffrey Miron, Cato’s director of economic studies as well as the director of undergraduate studies at Harvard’s economics department, wrote in a Cato White Paper: “Although some policymakers argue that fiscal meltdowns have never happened in U.S. history and that therefore ‘this time is no different,’ the reality is that the nation’s fiscal situation has been deteriorating since the mid-1960s, is far worse than ever before, and could lead to a fiscal crisis if no major spending adjustments occur in the next few decades.”

Reckless spending is occurring on both the federal and state levels, as Cato’s director of tax policy studies Chris Edwards observed in this year’s 13th biennial fiscal policy report card on America’s governors. For example, general fund revenues of state governments have grown 33 percent since 2010. Their spending grew 4.1 percent in 2013, 4.6 percent in 2014, 4.1 percent in 2015, and 5.6 percent in 2016, with a projected 2.5 percent increase in 2017. A key driver of all this state spending is Medicaid, which has grown rapidly for years, and was even more greatly expanded by the Affordable Care Act (ACA).

Whether or not the new administration will cut federal spending is an open question, but the new president has certainly fueled interest in spending reforms. Internet visits to Cato’s website DownsizingGovernment.org rose more than 20 percent in the weeks after the election. After the election, more people were Googling for information about cutting the government, and they were directed to DownsizingGovernment. If you Google “cut government spending,” the #1 ranked Google result is a DownsizingGovernment.org study. Meanwhile, at Harvard, Jeffrey Miron’s class Economics 1017, A Libertarian Perspective on Economic and Social Policy, is the college’s fourth most popular course, with attendance nearly doubling in the past year.



Privatization is also an area of increasing promise—Governments in more than 100 countries have transferred thousands of state-owned businesses to the private sector since the 1980s, including railroads, airports, postal services, and energy companies. Yet so far the United States has lagged behind in this trend. “Despite the global success of privatization, reforms have largely by-passed our own federal government,” Edwards wrote in a Cato Policy Analysis. “Privatization would allow entrepreneurs to take on challenges at which federal bureaucracies are failing.” The U.S. Post Office, for example, has lost over \$50 billion since 2007. Amtrak loses more than a billion dollars a year and trains are frequently late. And while it is always difficult to wrest businesses from the hands of the government, lawmakers may finally be paying attention to these issues. In that paper and others, Edwards advocated privatizing air traffic control, as Canada has successfully done, and in 2016 House Transportation Committee chairman Bill Shuster (R-PA) introduced a bill to move Air Traffic Control out of the Federal Aviation Administration and into a self-funded, nonprofit organization.

One of the biggest areas of fiscal irresponsibility remains welfare spending. This year marked 20 years since then-president Bill Clinton signed welfare reform into law. At a Cato conference, “Welfare Reform Turns 20: Looking Back, Going Forward,” experts reviewed the law’s legacy and effects, and discussed options for the future. The reality of welfare reform, according to Cato’s Michael Tanner, is that it failed to achieve radical change. “There are actually more than 100 federal anti-poverty programs,” said Tanner. The federal government spends more on welfare now than it did before reform—\$695 billion on these programs, along with another \$280 billion from state and local funding. And while poverty did decline initially after welfare reform, it has gradually increased since and remains roughly where it was before.

As for monetary policy, as Cato vice president for monetary studies Jim Dorn observed at the Institute’s 34th Annual Monetary Conference in November, we are in “uncharted monetary waters” since unconventional monetary policies began with the financial crisis. Over 200 people gathered at the conference to discuss the future of monetary policy with speakers including Thomas M. Hoenig, the vice chairman of the Federal Deposit Insurance Corporation, and former chair of the Senate Banking

# 20%

**Increase in traffic to  
DownsizingGovernment.org  
in the weeks following the  
election**

**TOP LEFT:** At Cato’s 34th Annual Monetary Conference, former BB&T CEO **John Allison** (left) discussed the impact of the Federal Reserve’s policies on market volatility, on a panel moderated by **Craig Torres** of Bloomberg News. **TOP RIGHT:** Also at Cato’s Monetary Conference, **Judy Shelton** of the Atlas Network moderated a panel discussing the problems of a centrally planned monetary system. **CENTER:** At a Cato conference, “Cryptocurrency: The Policy Challenges of a Decentralized Revolution,” (left to right) **Peter Van Valkenburgh** of the Coin Center moderated a discussion on the challenge of consumer protection in cryptocurrency, featuring **Margaret Liu** of the Conference of State Bank Supervisors, **Marco Santori** of Blockchain, CEO of Case **Melanie Shapiro**, and **Dana Syracuse**, the former associate general counsel of the New York State Department of Financial Services. **BOTTOM LEFT:** At a Cato Policy Forum moderated by Cato president **Peter Goettler** (left), **Steve Forbes** (right) discussed his new book on economic growth, *Reviving America*. **BOTTOM RIGHT:** Cato’s director of financial regulation studies **Mark Calabria** delivers welcoming remarks at “Futures Unbound: The Cato Summit on Financial Regulation” in Chicago.







Committee Phil Gramm.

Cato's Center for Monetary and Financial Alternatives held numerous well-attended events this year, proving itself an intellectual gathering place for experts who want to move toward a more free financial market system. At its conference "Cryptocurrency: The Policy Challenges of a Decentralized Revolution," more than 200 people gathered to listen to experts discuss the public policy implications of cryptocurrencies like Bitcoin and the underlying distributed ledger blockchain technology. Patrick Byrne, the founder and CEO of Overstock.com, predicted that Bitcoin will be "more disruptive than the Internet," with the potential to secure the transfer of much more than merely currency—stock, houses, copyrights, votes in elections. "That means there's all these centralized institutions civilization has accumulated for thousands of years, like barnacles on our hull, that are going to be disrupted," he said.

As we move into the future of monetary and financial policy, there is also a need for policymakers to understand the basic elements of what monetary policy is in the first place. George Selgin, the director of the Center for Monetary and Financial Alternatives, tackled this question in a series of blog posts that will eventually be turned into a booklet primer on monetary policy. He answers questions like why there is such a thing as monetary policy at all; what we should want to accomplish by it—and what we should *not* try to accomplish; and how private-market institutions might promote monetary stability. "It seems to me that in insisting that monetary policy is about regulating, not money, but interest rates, economists and monetary authorities have managed to obscure its true nature, making it appear both more potent and more mysterious than it is in fact," Selgin writes.

Similarly, Selgin published a new study that challenges popular beliefs about the creation of the Fed. Many accounts of the Fed's origins depict it as a necessary and desirable solution to pre-Fed crises—but the real story is very different. In reality, Selgin argues, the Federal Reserve Act was heavily influenced by persons more concerned with preserving the status of powerful New York banks than with achieving the best possible solution to pre-1914 U.S. financial instability.

**TOP:** At a Cato Policy Forum in May, economist **George Gilder** made the case for reconfiguring our notions of "wealth" and "growth" to go beyond merely goods and services. **CENTER LEFT:** At Cato's cryptocurrency conference, **Margaret Liu** of the Conference of State Bank Supervisors discussed how state regulators are approaching new cryptocurrency technology. **CENTER RIGHT:** At Cato's Summit on Financial Regulation in Chicago, **Omri Ben-Shahar**, author of *More Than You Wanted to Know: The Failure of Mandated Disclosure*, unfurled the printed version of iTunes's 10,000-word Terms and Conditions. **BOTTOM LEFT:** At Cato's cryptocurrency conference (left to right), Cato's **George Selgin** moderated a panel discussion on blockchain technology's potential to replace traditional money, featuring the founder of the Chamber of Digital Commerce **Perianne M. Boring** and Cato adjunct scholar **William Luther**. **BOTTOM RIGHT:** At Cato's 34th Annual Monetary Conference, **Mark Spitznagel** of Universa Investments discussed extreme risk in the marketplace from an Austrian perspective.



# PRESERVING THE RULE OF LAW

As the Obama administration drew to a close, Cato senior fellow Ilya Shapiro reflected on the administration's legal legacy in the 2015–2016 *Cato Supreme Court Review*. By historical standards, the Obama presidency has done very poorly—overall, the administration has only managed a win rate of just over 45 percent, including 44 unanimous losses—compared to George W. Bush's 60 percent win rate, Bill Clinton's 63 percent, or George H.W. Bush's 70 percent. In the most recent term, the federal government argued 10 cases without gaining even a single vote—not even from one of the president's own nominees. "The reason this president [Obama] has done so poorly is because he sees few limits on federal—especially prosecutorial—power and assumes for himself the power to enact his legislative agenda when Congress refuses to do so," Shapiro wrote. "If the next president wants to improve the government's record, I humbly suggest that it follow Cato's lead, advocating positions (and taking executive actions) that are grounded in law and that reinforce the Constitution's role in securing and protecting liberty."

As for this term, the Cato Institute managed to do better than the government, with a 4-4 record. Meanwhile, one of the Institute's most popular legal briefs ever, its humorous Supreme Court amicus brief mocking Ohio's law criminalizing false statements about politicians, was vindicated this year when a U.S. Court of Appeals affirmed that the state law is unconstitutional. As Cato's brief noted: "In modern times, 'truthiness'—a 'truth' asserted 'from the gut' or because it 'feels right,' without regard to evidence or logic—is ... a key part of political discourse. It is difficult to imagine life without it, and our political discourse is weakened by Orwellian laws that try to prohibit it."

Cato held its 15th annual Constitution Day conference in September to discuss the past and future of the Court and libertarian legal goals. Arizona Supreme Court Justice Clint Bolick delivered the annual B. Kenneth Simon Lecture, where he offered a message of optimism for libertarian lawyers, urging them not to forget the powerful tool of state constitutions in fighting

“The US libertarian think tank the Cato Institute—which incidentally offers **THE FIRST ANSWER** you get to this question if you do ask Google—doesn't mince its words about the **FAILURE OF PROHIBITION.**”

—THE GUARDIAN  
March 30, 2016







government overstepping. “State constitutions, like the national Constitution, were intended to protect individual rights and restrain government power,” he said. “Their potential to do so is vast and largely unrealized—yet hardly unrealizable.” State constitutions are able, for example, to set more robust protections for free speech, or to apply broader eminent domain protections than the U.S. Supreme Court. Bolick, like the Cato Institute, is hopeful that regardless of setbacks and challenges ahead, “we will, despite all odds, leave to our children and grandchildren a nation more free than we inherited.”

Other areas in which both federal and local governments have continued to display their disdain for the rule of law are policing and criminal justice. Several high-profile police shootings continued to bring questions of use-of-force and police procedure into the public debate. An invaluable resource throughout these debates has been Cato’s PoliceMisconduct.net. Former Seattle police chief Norm Stamper credits the site with helping change his mind on police issues in his most recent book, *Protect and Serve: How to Fix America’s Police*. He recounts how, as a “young idealistic” lieutenant, he once believed that reforms and improvements to police procedures were just around the corner—but instead, he writes, today’s law enforcement agencies are even more militarized, corrupt, and “trigger-happy” than they were in earlier decades. “How do we know this?” he continues. “Over three years ago, the libertarian Cato Institute developed the National Police Misconduct Reporting Project (PoliceMisconduct.net). Using primarily local news sources, the project gathers specific, credible case data from around the country. There is no other single source that provides such comprehensive information on trends and patterns of police misconduct.”

The Cato Institute also helped the Stamps family of Framingham, Massachusetts, in their lawsuit over the unjustified shooting of their 68-year-old grandfather, an elderly African-American man killed in a SWAT raid of his home. Stamps, who had been watching television in his bedroom, complied with officers’ requests to get on the ground—but an officer nevertheless aimed his rifle at his head with the safety off and his finger on the trigger. The officer subsequently claimed to have fired accidentally, and attempted to argue that he was immune from the suit. As the Cato Institute’s amicus curiae brief read: “Fourth Amendment protections against

# 66

**total amicus briefs filed:  
39 Supreme Court,  
21 U.S. Appeals, and  
6 in State Courts**

**TOP:** Associate Supreme Court Justice **Clarence Thomas** speaks at a lunch with Cato scholars.

**BOTTOM:** **Clint Bolick**, an Associate Justice of the Arizona Supreme Court and author of four Cato books, delivered the annual B. Kenneth Simon Lecture at Cato’s 15th annual Constitution Day conference, organized by Cato’s **Roger Pilon** (left). Bolick urged libertarian lawyers not to overlook state constitutions, which in some cases offer more robust protections for liberty than the national Constitution, in their efforts to better protect liberty.



being unreasonably targeted with a firearm don't evaporate when things turn out worse than an officer intended." The case was ultimately settled for \$3.75 million. The Stamps family thanked the Cato Institute, among other organizations, for supporting their case.

Governments around the world have also taken recently to policing not just crimes, but speech as well. In its continued efforts to support free speech around the globe, the Cato Institute hired renowned free speech advocate and author of *The Tyranny of Silence*, Flemming Rose, as a senior fellow based in Europe. Rose, formerly the editor of Danish newspaper *Jyllands-Posten*, gained international infamy in 2005 when he published cartoons of the prophet Muhammad as a response to growing self-censorship in Europe. The cartoons inspired international protests and repeated threats to Rose's life—years later, he must still be escorted by an armed guard for his safety. In recognition of Rose's bravery in continuing to stand for liberal values, Cato awarded him the 2016 Milton Friedman Prize for Advancing Liberty in May. Over 600 people attended the Milton Friedman Prize dinner at New York City's Waldorf Astoria, where Nadine Strossen, a nationally renowned lawyer who served as president of the American Civil Liberties Union from 1991 to 2008, presented Rose with the prize. "Flemming Rose embodies the courage that is the cornerstone of our liberties," she said. "Rose's outspoken advocacy is promoting not only individual liberty, but also equality and safety, the very concerns that are cited by those who practice and defend self-censorship." In his acceptance speech, Rose critiqued popular utilitarian defenses of free speech, arguing that free speech is valuable not merely because of what it accomplishes, but because of what it is—a fundamental human right rooted in human dignity. "Freedom of speech is a good in and of itself," he said. "It has intrinsic value."

This is what the Founders intended when they enshrined our inherent rights in the Constitution—and, while those rights may be under attack, the enduring beauty of the Constitution has not been forgotten. At the Democratic Convention in July, Khizr Khan, the father of fallen U.S. soldier Capt. Humayun Khan, held his pocket-size Constitution in the air as a challenge to President Trump's proposed ban on Muslim immigration. Immediately after his speech, Cato Pocket Constitutions began flying off the shelves, temporarily selling out our supply.

**TOP:** Cato senior fellow **Ilya Shapiro** holds up a copy of the 2015-2016 edition of the *Cato Supreme Court Review*. The *Review* is the first scholarly journal to appear after the Supreme Court term's end and the only one grounded in the nation's first principles, liberty and limited government.

**BOTTOM:** **Flemming Rose** was awarded the 2016 Milton Friedman Prize for Advancing Liberty in May 2016 in New York City. Rose, now a Cato senior fellow, became a champion of individual liberty and free speech when he published cartoons of the prophet Muhammad as a response to growing self-censorship in Europe.





“Over a span of about 15 years, the Cato Institute published **773,000 WORDS** and **768 DOCUMENTS** expressing climate skepticism.”

—SEN. GARY PETERS  
*Senate floor, July 13, 2016*

## PUTTING GOVERNMENT BACK IN ITS PLACE

**A**fter eight years of the Obama administration wielding government as a means to force its policy aims on the American public, many are hopeful that new opportunities for reform have opened up in a few key policy areas, where we can finally restore power and choice to individuals and their communities.

If there was one message that was clear in the most recent U.S. elections, it is that much of the country is not happy with the government's takeover of healthcare through the Affordable Care Act, or Obamacare. As Congress contemplates reforms, its members can look to Cato's director of health policy studies Michael Cannon, who has been called, and remains, "Obamacare's single most relentless antagonist." Just this year, Rep. Dave Brat (R-VA) and Sen. Jeff Flake (R-AZ) introduced legislation to replace Obamacare with "large" health savings accounts (HSAs)—that is, HSAs expanded into larger, more flexible accounts—an idea first proposed by Cannon. "Large' HSAs would deliver better, more affordable, and more secure health care, particularly for the most vulnerable," Cannon wrote in *Forbes*. "At the same time, large HSAs would give workers a larger effective tax cut than all the Reagan and Bush tax cuts combined, and nine times larger than repealing Obamacare."

One area of significant government bloat is education, where reform advocates are cautiously optimistic that the new administration and Congress will encourage policies friendly to school choice. Cato Institute analysts have been advocating such changes for years, and continue to produce essential analysis on how to make successful, constitutional reforms. Both Arkansas and Missouri are now considering legislation to create tax-credit-funded education savings accounts, an idea first described in an analysis published by Cato's Center for Educational Freedom. Authors Jason Bedrick of the Cato Institute, Jonathan Butcher of the Goldwater Institute, and Clint Bolick, formerly of the Goldwater Institute and since appointed to the Arizona Supreme Court, offered a blueprint for lawmakers to design education savings accounts that are privately





**TOP:** Cato's director of health policy studies **Michael Cannon** advocated "large" health savings accounts at a Capitol Hill Briefing with Sen. Jeff Flake (R-AZ) and Rep. Dave Brat (R-VA). **MIDDLE:** Cato's director of development **Sallie James** at Cato Club 200 in Park City, Utah. **BOTTOM:** **Pat Michaels**, Cato's director of the Center for the Study of Science, spoke at a Capitol Hill Briefing on the future of mineral resources.

funded through tax-credit-eligible contributions from taxpayers, thus solving state constitutional concerns over parents using public funds to have their children attend private, religious schools. "Since every child is different, these accounts allow families to find learning experiences for their children that are as unique as each child," they wrote. "They are an improvement on traditional school-choice programs because they enhance the freedom of parents to purchase a wide variety of educational products and services and save for educational expenses in future years, including college."

Another area ripe for reform is climate policy—the Obama administration imposed numerous burdensome and invasive regulations on businesses through its Climate Action Plan. Cato scholars have been key players in the pushback against these schemes—the new and expanded paperback edition of *Lukewarming*, by Cato's Pat Michaels and Chip Knappenberger, reached #1 on Amazon's bestseller lists for earth sciences, climatology, weather, and environmental policy, while the Kindle version was also #1 in weather. Climate scientist Judith Curry praised the book, saying that Michaels and Knappenberger "delve into the science in a comprehensive yet understandable way." They make the case that, while the media likes to divide the climate debate as one between "alarmists" versus "deniers," there's a third group—the lukewarmers, who acknowledge the evidence of some manmade climate change, but believe it is "hardly the alarming amount being predicted by the models."

While 2016 contained many disappointing moments for free-market advocates, one area stands out as a break in the clouds. Last summer, the Export-Import Bank shut down for the first time in its 81-year history. Congress departed for its summer recess without reauthorizing the bank, leaving its authority to issue loans to expire. While Congress did eventually fund and revive the bank, many conservatives in Congress remain opposed to it, and President Trump criticized the bank on the campaign trail. Just a few years ago, the idea of ditching Ex-Im would have been unthinkable, and certainly not something discussed at the highest ranks of government—so what changed? According to those most familiar with the battle, it all began with a paper from Cato's Sallie James. In 2011 James published her first in-depth critique of the bank, "Time to X Out the Ex-Im Bank," where she called out the bank for picking winners and losers in the U.S. economy. Veronique de Rugy, a Cato adjunct

scholar whose work has also been at the forefront of the Ex-Im debate, recalled James's "remarkable paper" in 2011 as one of the first shots fired in the Ex-Im fight, counting it "essential to explaining why so many people have come out against the Ex-Im Bank today." Andy Roth, vice president for government affairs at the Club for Growth, cited James's paper as the original inspiration for his group's campaign against Ex-Im. "I really wanted us to pick a fight on the issue because the arguments made by James were so simple and easy to understand," he said. A *Washington Post* article detailed the Club staff's reaction when they first began to delve into the details of Ex-Im after reading James's paper. "I'm sitting in my office, and I hear Barney [Keller, then communications director] screaming, 'This is unbelievable,'" Chris Chocola, the former president of the Club for Growth, told the *Post*.

Numerous Cato scholars over the years, including James, Ian Vásquez, Dan Ikenson, de Rugy, Aaron Lukas, Steve Slivinski, Chris Edwards, and Doug Bandow, unleashed a volley of criticism that captured Americans' attention. By December 2012, Bloomberg was describing Ex-Im supporters as "caught off guard" by the sudden groundswell of opposition. Up until now, they wrote, the bank's reauthorization had been "a matter of routine." Business groups were stunned when they finally faced a real challenge. "That there was a fight at all amazed the bank's backers," wrote Bloomberg. And thanks to Cato, the fight will continue—Americans have shown that they are not happy with the crony status quo.

Americans are also increasingly rejecting the status quo on foreign policy—for years, the two major parties have pursued essentially the same interventionist policies, sharing the same premise: that America must maintain primacy and assert dominance throughout the globe. Here, too, Cato scholars have been instrumental in changing the debate.

*Our Foreign Policy Choices*, a new guide to foreign policy edited by Cato's Christopher Preble, Emma Ashford, and Travis Evans, challenges the bipartisan consensus on foreign policy and offers an alternative policy of restraint—one that emphasizes that America's global influence is strongest when spread by peaceful rather than military means. *Our Foreign Policy Choices* features numerous Cato scholars and other experts tackling the top foreign policy concerns of today—from military budgets to NATO policy to strategies for handling ISIS, Iran, Russia, China, and more.

“This is UNBELIEVABLE.”

—BARNEY KELLER, *Communications Director, Club for Growth, regarding Sallie James's paper "Time to X Out the Ex-Im Bank"*

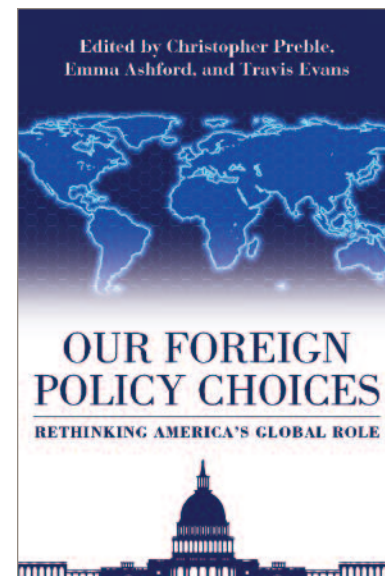


Libertarian presidential candidate Gary Johnson cited the guide's section on North Korea, which urges greater diplomacy with China in lieu of foolhardy interventionism, during his editorial board meeting with the *Washington Post*.

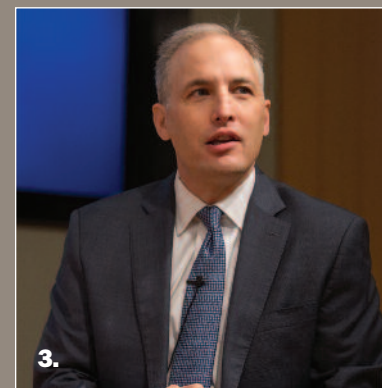
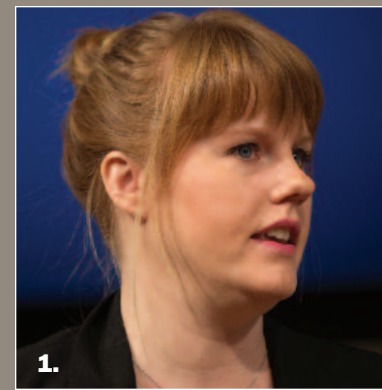
At the Republican National Convention, Ashford was featured on a *Washington Post Live* panel discussing the state of the GOP's foreign policy platform. "It's an interesting year for many Republican lawmakers, who now see their party's candidate differ substantially from them on foreign policy issues," said Ashford. "The new debates in foreign policy that are appearing this year also really highlight the fact that many Americans want a broader debate on foreign policy, instead of just politics as usual."

Cato Institute scholars have come to be considered top experts on issues of surveillance and national security—in 2016, for example, Cato senior fellow Julian Sanchez was one of six experts surveyed by the *Washington Post* on the presidential candidates' cybersecurity policies and practices. The other five were a former director of the Central Intelligence Agency (CIA) and the National Security Agency (NSA), a former general counsel of the NSA, a former privacy officer at Google, a former chief privacy counselor at the Office of Management and Budget, and a former assistant secretary of the Department of Homeland Security.

In its efforts to continue educating the public about the real dangers posed by unchecked surveillance, Cato launched its interactive surveillance timeline project, "American Big Brother: A Century of Political Surveillance and Repression," to document the U.S. government's long and unfortunate history of unjust surveillance and repression during wartime. The timeline tracks over a hundred years of the government surveilling those who hold controversial political views—from Christian pacifists in World War I, to Martin Luther King Jr. in the 1950s, to Arab/Muslim Americans in the present day. "The theme that emerges clearly from the timeline's episodes is that in many of these cases, federal surveillance and political repression were directed most forcefully at individuals and organizations that challenged the prevailing political paradigm on the issue at hand," wrote Cato policy analyst Patrick G. Eddington. The timeline features dozens of stories of surveillance, and is an ongoing project that will be updated regularly with archival research and new developments in the news.



Defense and Foreign Policy scholars Christopher Preble, Emma Ashford, and Travis Evans produced this guide to the challenges of diplomacy, military budgets, NATO policy, and policies for handling developments with ISIS, Iran, China, Russia, and more. *Our Foreign Policy Choices: Rethinking America's Global Role* was cited by presidential candidate Gary Johnson during his editorial board meeting with the *Washington Post*.



## THE 2016 SURVEILLANCE CONFERENCE

**1. Amie Stepanovich** of human rights group Access Now explained the risks of granting broad authorities for government hacking as a means of conducting searches. **2.** Montgomery County Police Department Assistant Chief **Luther Reynolds** discussed how law enforcement can best identify security risks without harming local communities. **3. Matthew Olsen**, the former director of the National Counterterrorism Center, remarked on the tension between the national surveillance community and the incoming Trump administration, and the need for checks and balances. **4.** Cato senior fellow **Julian Sanchez** introduced the annual conference, which explored the diverse legal, policy, and technological issues surrounding government surveillance. **5. Arjun Singh Sethi** of the Sikh Coalition critiqued the FBI's "Shared Responsibility Committees," designed to identify extremism, but which have turned members of local communities into federal informants and rely on dubious definitions of "extremism." **6.** Cato's **Patrick Eddington** moderated a diverse panel on the challenges of detecting violent extremism while protecting human rights. **7.** (Left to right) **Susan Hennessey** of the Brookings Institution, **Timothy Edgar** of Brown University, and **Shane Harris** of the *Wall Street Journal* participated in a panel discussion on what surveillance might look like under the Trump administration.



“According to a report last week from the Cato Institute, the odds of an American being killed in a terrorist attack by a refugee is **1 IN 3.64 BILLION** in any given year.”

—KAREEM ABDUL-JABBAR  
*Washington Post*, September 22, 2016



## FREE TRADE & FREE MOVEMENT

Throughout a turbulent election cycle, trade and immigration proved two of the most controversial issues, with the liberal ideals of free exchange and free association constantly under attack from both sides of the political aisle. Cato analysts provided voices of clarity on these topics, separating fact from fiction.

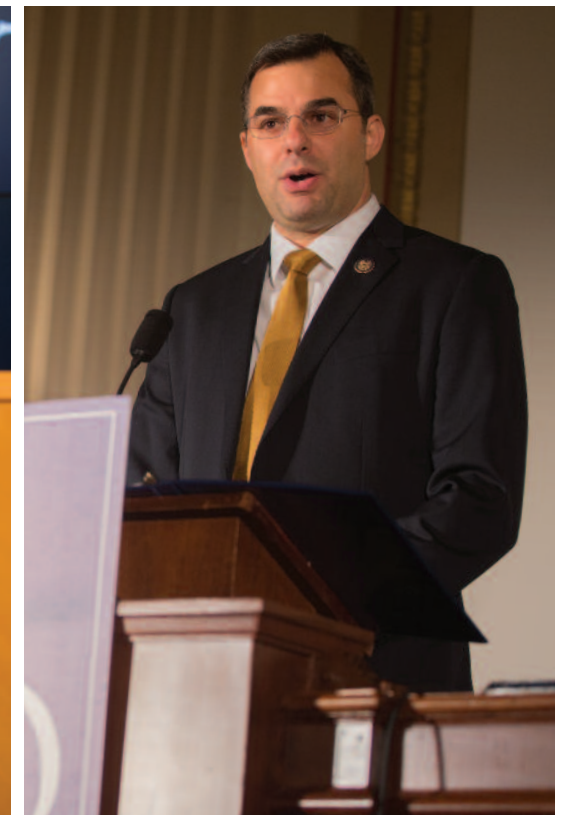
Both populists on the right and anti-trade activists on the left stridently opposed the controversial Trans-Pacific Partnership (TPP) agreement, for example. But what does the 5,500-page trade deal actually mean for free trade? Cato's trade scholars conducted a chapter-by-chapter analysis of the deal, scoring its provisions on a scale of 0 (protectionist) to 10 (free trade), along with detailed information on their scores. While no politically feasible trade deal is perfect, on the whole they found the deal liberalizing, and urged free traders not to make the perfect the enemy of the good. "If the TPP will deliver more trade liberalization than restriction, and realistic alternatives for more comprehensive liberalization are unavailable, why not support the TPP?" they wrote. Noah Rothman of *Commentary* hailed their study as "enlightening," lamenting that opportunistic politicians have "oversimplified the debate over free trade and rendered the discussion around it cartoonish." As Dan Ikenson, the director of Cato's Herbert A. Stiefel Center for Trade Policy Studies, wrote in *Cato Policy Report*, "When the evidence of the economic benefits of liberalization is weighed against the myths and political aspersions, trade is exonerated on all counts." Even as others vilify free trade to gain political points, Cato scholars will continue to shed light on its true nature—not a competition of "us" versus "them," where trade deficits are the scoreboard, but the free exchange of goods across borders that enriches people on either side.

Many of those rejecting free trade also attacked the principles of free immigration—denying the freedom of Americans to hire, associate with, and work with whomever they choose. False claims of rampant immigrant crime and terrorism, in particular, were used to stir up fear over refugees, even as millions of Syrians



remain homeless and in need of aid after fleeing their war-torn country. In response to these fears, Cato's Alex Nowrasteh published the first-ever risk analysis of the visa categories that foreign-born terrorists have used to enter the United States. His findings were widely used to refute Donald Trump Jr.'s controversial Skittles analogy—a picture of a bowl of Skittles that Trump had tweeted, with the caption “If I had a bowl of Skittles and I told you just three would kill you, would you take a handful? That’s our Syrian refugee problem.” Nowrasteh used data from his study to rewrite the Skittles analogy: “The chance of any American actually eating the fatal Skittle and perishing is about one in 3.64 billion a year during the [past] 41-year time period. Do you eat from the bowl without quaking in your boots? I would.” His work was featured on both the *Late Show with Stephen Colbert* and the *Daily Show with Trevor Noah*, as well as being cited by numerous other media outlets and by Kareem Abdul-Jabbar in his *Washington Post* column. In 2016 the State Department began studying a proposal to allow private refugee sponsorship, an idea first promoted by Nowrasteh and fellow Cato immigration analyst David Bier, as a means of expanding our refugee program if charitable individuals volunteer to take on the cost and responsibility for prescreened refugees. Meanwhile, Bier published the first legal analysis explaining why Trump's proposed ban on immigration from certain countries is illegal, having been explicitly prohibited by Congress for decades.

**BOTTOM LEFT:** An audience member asks a question for Wikipedia founder Jimmy Wales, who delivered the inaugural Joseph K. McLaughlin lecture at Cato in November. **TOP LEFT:** Cato's **Alex Nowrasteh** delivers welcoming remarks at Cato's conference “Immigration Economics.” **TOP RIGHT: Rep. Justin Amash (R-MI)** spoke at Cato University 2016, where he discussed his strategy for defending liberty in Congress. **BOTTOM RIGHT:** Cato senior fellow **Daniel Mitchell** speaks at Cato University on the Hill.

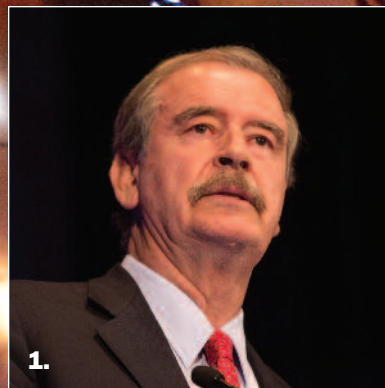




# THE 2016 MILTON FRIEDMAN PRIZE FOR ADVANCING LIBERTY

On May 25, 2016, The Milton Friedman Prize for Advancing Liberty was awarded to Flemming Rose at the Waldorf Astoria Hotel in New York City. Rose, a former editor at the Danish newspaper *Jyllands-Posten*, sparked worldwide controversy in 2005 when he published 12 cartoons meant to depict the prophet Muhammad. The illustrations provoked deadly chaos in the Islamic world and put Rose at the center of a global debate about the limits to free speech.

**1. Vicente Fox**, former president of Mexico, delivered the keynote address at Cato's biennial Friedman Prize dinner at New York City's Waldorf Astoria, urging Americans to build "bridges instead of walls." **2.** Cato awarded the 2016 Milton Friedman Prize for Advancing Liberty to **Flemming Rose**, the former editor of *Jyllands-Posten* who published the Muhammad cartoons that generated threats on Rose's life. Rose later joined Cato as a senior fellow. **3. Mary Anastasia O'Grady** of the *Wall Street Journal* introduced keynote speaker Vicente Fox. **4. Nadine Strossen** (left), a nationally renowned lawyer who served as president of the American Civil Liberties Union from 1991 to 2008, presented Flemming Rose with the prize. **5.** Cato Institute president **Peter Goettler**. **6.** Cato executive vice president **David Boaz** (left) with **Flemming Rose**.

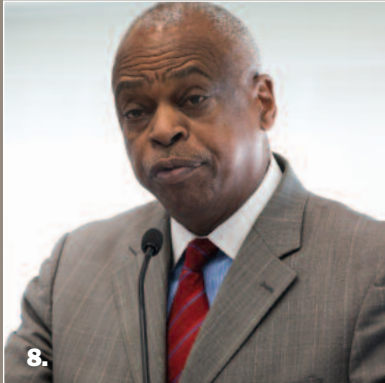
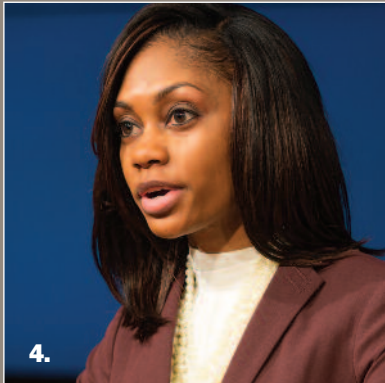
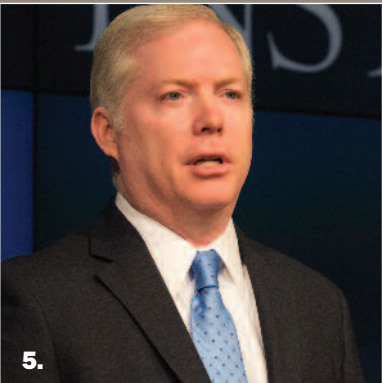




# OUTREACH, EDUCATION, & EVENTS

Sponsors, friends, and advocates of liberty came together at Cato events around the country in 2016. In addition to the Milton Friedman Prize for Advancing Liberty, highlights of the year included the 15th annual Constitution Day Symposium held in conjunction with the 15th annual *Cato Supreme Court Review*, the 34th Annual Monetary Conference, the second Cato Institute Surveillance Conference, Cato University, and a spirited debate titled “Was the ‘Libertarian Moment’ Wishful Thinking?” In total, 199 events were held in 2016, each designed to showcase the work of Cato scholars in a wide range of topics for policymakers, academics, journalists, students, philanthropists, and guests.

**1. Benjamin Powell** of Texas Tech University discussed how immigration affects economic and political institutions at Cato’s conference “Immigration Economics.” **2.** Cato vice president **David Kirby** holds up a copy of a 2014 issue of the *New York Times Magazine*, featuring Rand Paul on the cover, at Cato’s March event “Was the ‘Libertarian Moment’ Wishful Thinking? A Debate.” **3.** Cato’s director of tax policy studies **Chris Edwards** speaks at Cato University on the Hill. **4.** At a Cato conference, “The State of American Criminal Justice,” Nashville public defender **Keeda Haynes** discussed her experience being wrongfully imprisoned. **5. Tim Lynch**, the director of Cato’s



**1,860**  
TV & RADIO HITS  
**1,363**  
BLOG POSTS  
**1,538**  
OP-EDS

**Book Forums: 27**  
**Policy Forums: 54**  
**Capitol Hill Briefings: 24**  
**City Seminars/Retreats: 10**  
**Conferences: 17**  
**Special Events: 10**  
**Sponsor e-Seminars: 4**



project on criminal justice, delivered opening remarks at Cato’s conference on criminal justice in December. **6. Jim Caruso**, the CEO of Flying Dog Brewery (left), speaks with Cato president **Peter Goettler** (right) during Cato University. **7.** Participants in 2016’s Cato University gather for a reception in Cato’s Wintergarden. **8. Wade Henderson**, the president of the Leadership Conference on Civil Rights, delivered the keynote address at the 2016 Cato Surveillance Conference. **9.** Cato executive vice president **David Boaz** speaks at a memorial for Andrew Coulson, the late director of Cato’s Center for Educational Freedom. **10.** Argentine ambassador **Martín Lousteau** speaks at a Cato luncheon. **11. Rep. Darrell Issa (R-CA)**, former chairman of the House Oversight and Government Reform Committee, records an episode of the Cato Daily Podcast. **12.** This year marked the first Joseph K. McLaughlin Lecture at the Cato Institute. Dr. McLaughlin’s wife **Jeanne Rosenthal** (left) and daughter **Alison McLaughlin** attended the inaugural lecture in November. **13.** Wikipedia founder **Jimmy Wales** delivered the inaugural Joseph K. McLaughlin Lecture at Cato, where he discussed Hayek’s influence on his thinking.

**24%**  
increase in visits  
to all Cato websites  
over 2015



# CATO BOOKS

## THE CATO SUPREME COURT REVIEW (2015–2016)

Edited by Ilya Shapiro

Analysis from leading scholars of key cases from the Court's most recent term and a preview of the year ahead.

## LUKEWARMING

By Patrick J. Michaels and Paul C. Knappenberger

Originally published in 2015 as an ebook, this expanded print edition explores the science and spin behind global warming headlines, showing how climate change is real, partially manmade, but far less severe than catastrophic and implausible predictions would have us believe.

## THE ECONOMIC FREEDOM OF THE WORLD 2016

(COPUBLISHED WITH THE FRASER INSTITUTE)

By James Gwartney, Joshua Hall, and Robert Lawson

The leading index, measuring the degree to which policies and institutions of countries are supportive of economic freedom and its cornerstones.

## THE TYRANNY OF SILENCE

By Flemming Rose

A powerful, updated edition of the personal account by Danish journalist Flemming Rose (recipient of the 2016 Milton Friedman Prize for Advancing Liberty), who published cartoons of the prophet Muhammad in 2005, on the nature of free speech and on coexisting in an increasingly multicultural, multireligious world.

## THE HUMAN FREEDOM INDEX - 2016

By Ian Vásquez and Tanja Porcnik

*The Human Freedom Index* (HFI) is the most comprehensive measure of freedom ever created for a large number of countries around the globe, ranking 159 countries based on 79 distinct indicators of personal, civil, and economic freedom, using data from 2008 to 2014, the most recent year for which sufficient data is available. The report is co-published by the Cato Institute, the Fraser Institute, and the Liberales Institut at the

Friedrich Naumann Foundation for Freedom.

## THE WELFARE OF NATIONS

By James Bartholomew

Traveling around the globe, James Bartholomew examines welfare models, searching for the best education, health care, and support services in 11 vastly different countries; illuminating the advantages and disadvantages of other nations' welfare states; and delving into crucial issues such as literacy, poverty, and inequality.

## SPECIALIZATION AND TRADE

By Arnold Kling

Focusing on how the economy is an evolutionary system with constantly changing patterns of specialization and trade, Arnold Kling provides new ways to think about issues like sustainability, financial instability, job creation, and inflation, providing a multidimensional perspective on a continually evolving system.

## ARGUMENTS FOR LIBERTY

Edited by Aaron Ross Powell and Grant Babcock

What's the best political system? What standards should we use to decide, and why? In each of this book's nine chapters a different political philosopher discusses how his or her preferred school of thought judges political institutions and why libertarianism best meets that standard. Though they end up in the same place, the paths they take diverge in fascinating ways.

## FREEDOM IN THE 50 STATES

By Will P. Ruger and Jason Sorens

An index of personal and economic freedom—and a companion text to an extensive website on Cato.org—this study ranks the American states according to how their public policies affect individual freedoms across a wide range of policy categories—including tax burdens, court systems, eminent domain laws,

occupational licensing, drug policy, and more.

## ECO-NOMICS

By Richard L. Stroup

With many environmental laws being ineffective and others having unintended consequences, Richard Stroup explains, in this updated edition of his highly regarded book, how economics applies to environmental decisionmaking, why many of our environmental laws have failed us, and how we might go about doing a better job of protecting nature.

## POLITICAL PHILOSOPHY

By Jason Brennan

With one role of political philosophy being a substantive way to judge different institutions good or bad, just or unjust, this book serves as an introduction to some of the major theories of justice, and to the arguments philosophers have made for and against these theories.

## UNRAVELED

(A CATO INSTITUTE BOOK, PUBLISHED BY CAMBRIDGE UNIVERSITY PRESS)

By Josh Blackman

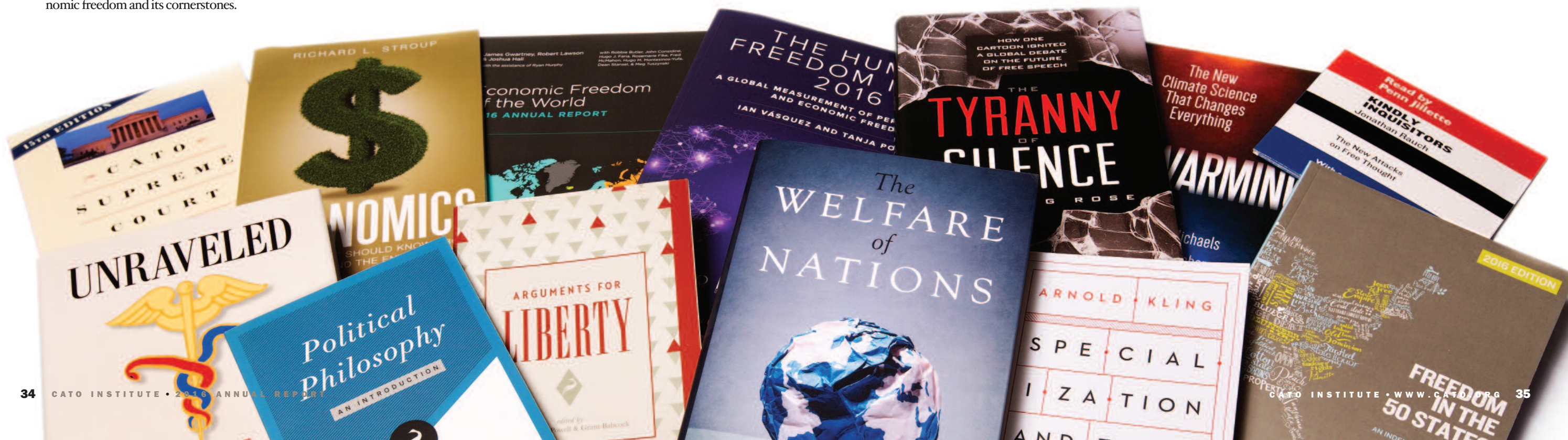
Detailing Obamacare's string of broken promises about canceled insurance policies, leaps beyond the traditional bounds of executive power, and infringements on religious liberty, this book is a definitive account of the battle to stop Obamacare and on understanding the future of the Affordable Care Act.

## KINDLY INQUISITORS

By Jonathan Rauch

Read by Penn Jillette

In print for more than 20 years, and now available as a Cato audiobook, this classic work is more relevant than ever with its exploration of attempts to limit free speech and its call, when faced with bias and prejudice, for direct and vigorous discussions rather than attempts to legislate them out of existence.





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# FISCAL YEAR 2017 FINANCIAL RESULTS

Cato’s unaudited financial information for fiscal year 2017 (April 1, 2016 to March 31, 2017) is presented below. Operating income was \$38,210,000, and net assets totaled \$75,715,000. Program expenses made up 79 percent of operating expenses. The Cato Institute accepts no government funding. Contributions from individuals, foundations, and corporations make possible our mission to lead important policy debates to Cato’s key principles of limited government, free markets, individual liberty, and peace.

## OPERATING REVENUE

INDIVIDUAL .....	\$30,692,000
FOUNDATION .....	\$5,708,000
CORPORATE.....	\$441,000
PROGRAM.....	\$932,000
OTHER.....	\$437,000
TOTAL.....	\$38,210,000

## OPERATING EXPENSES

PROGRAM.....	\$24,777,000
MANAGEMENT & GENERAL.....	\$2,237,000
DEVELOPMENT.....	\$4,456,000
TOTAL.....	\$31,470,000

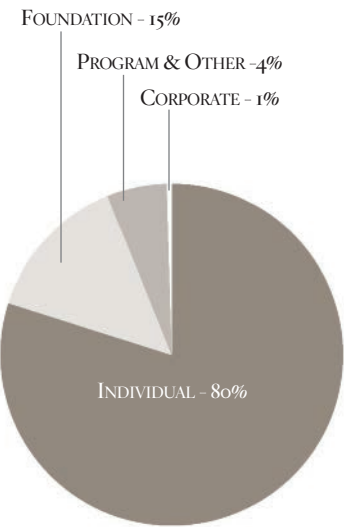
## ASSETS

CASH AND EQUIVALENTS.....	\$8,336,000
INVESTMENTS.....	\$31,264,000
FIXED ASSETS.....	\$34,332,000
OTHER ASSETS.....	\$4,603,000
TOTAL.....	\$78,535,000

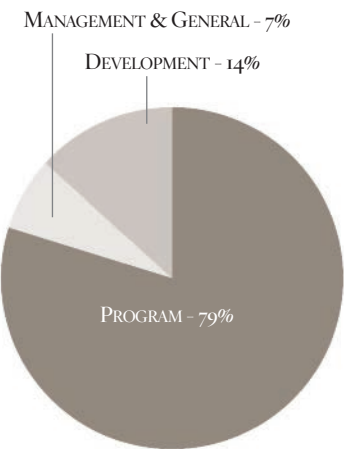
## LIABILITIES AND NET ASSETS

LIABILITIES.....	\$2,820,000
NET ASSETS.....	\$75,715,000
TOTAL.....	\$78,535,000

## OPERATING REVENUE



## OPERATING EXPENSES





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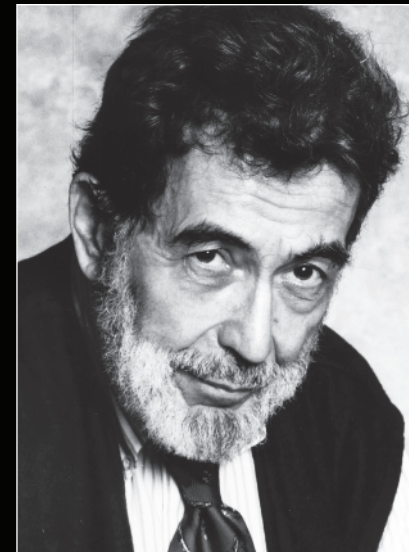
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## NAT HENTOFF

1925 – 2017

This year, we say farewell to our colleague Nat Hentoff, one of the nation’s foremost authorities on the First Amendment. Nat had written for the *Village Voice* for over 50 years before he joined Cato in 2009. “Becoming a senior fellow of the Cato Institute—from whose publications I’ve often quoted—enables me to continue following the advice of my earliest mentor, Duke Ellington, who told me never to be caught up in a musical or any other category,” Hentoff said at the time. “Duke said that it’s always the individual’s expression that defines his identity. All these years later, if I had to describe myself, it would be as an uncategorizable libertarian—and that’s why I’m delighted to be at the Cato Institute, where freedom rings.”



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