

# Cato's Letter

A QUARTERLY  
MESSAGE  
ON LIBERTY

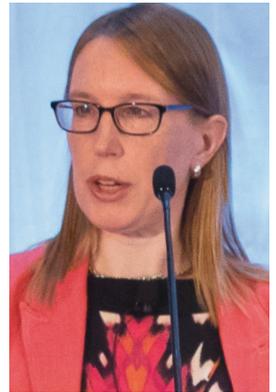
WINTER 2019  
VOLUME 17  
NUMBER 1

## Motherhood and Humble Pie

**HESTER PEIRCE**

In response to my dissent on the ruling to not allow Bitcoin ETFs (exchange-traded funds), I was dubbed Crypto-Mom. I've always wanted to be a mother, so this was really quite an honor for me. Admittedly, this is not the type of motherhood that I had dreamt of and imagined! But one of the wonderful aspects of being a mother is that you never know quite what you're going to get, but it's always more wonderful than you thought it would be.

If I were a mother, I suspect that I would be a free-range mother, rather than a helicopter mom. A helicopter mother hovers over her child in order to ensure the child's success, although this strategy often backfires. A free-range mother, by contrast, raises a child in the spirit of encouraging her to function independently, and with limited parental supervision, which includes a reasonable acceptance of realistic personal risks.



**HESTER PEIRCE** is a commissioner on the Securities and Exchange Commission. She spoke at Cato's Fintech Unbound conference in September.

**CATO**  
INSTITUTE

Japanese television affords us a real-life example of this type of parenting. There's a show called *My First Errand* in which children, some under the age of five, are sent off on their first errand by themselves. Episodes of the show are worth watching, not only for the inevitable laughter and tears they inspire, but also for the fact that they show that risk taking is not inherently bad. To the contrary, certain achievements are possible only if we take risks.

It's often difficult for parents to realize this, particularly in affluent, type-A areas like Washington D.C., and understandably so. Risks imply the possibility of harm. Most parents instinctively recoil from the possibility that their child will get hurt.

But it's not just parents. We regulators too have trouble with that concept. This discomfort is understandable, and not just because we live in D.C., and bring our helicopter parenting skills to work. The downside for the regulator is real. When investor risk-taking leads to investor losses, regulators inevitably face criticism for allowing the investors to take the risks, which in hindsight appear to have offered nothing but the downside.

“The downside for the regulator is real.  
We know we will be blamed when  
something goes wrong.”

We know what inevitably follows: a chorus of critics insisting that if you, Ms. Regulator, had simply told people they were not allowed to engage in this risky behavior, then nobody would have gotten hurt. We know we will be blamed when something goes wrong. This fear leads to the default suspicion of risk-taking, and a regulatory mindset that too often presumes that innovations designed to provide greater access to risk-taking are threatening, both to our own reputation, and to investor safety.

We naturally think it's better not to allow the toddler, I mean the investor, to leave the house, even for a quick trip down the street, unless properly helmeted, swaddled in regulatory protective gear, and strapped into a vaguely European car seat in the largest SUV that our incomes can afford. Then we convince ourselves that nothing can go wrong, at least until the little one starts driving herself, but that won't happen for another 30 years, so nothing to worry about right now.

The problem with such an approach, of course, is that something will go wrong. Something always goes wrong. Companies fail. Investors lose money.

---

Fraudsters cheat. Nature strikes, and market downturns happen. But the losses of prohibiting risk-taking are also real. Even when we cannot readily measure them, or even because we cannot readily measure them, these losses are potentially very threatening to investor welfare.

As a society we readily recognize this reality in other areas. Take driving for instance. Steering a speeding machine down the road is a very dangerous, and enormously complex, cognitive exercise. But we do permit people to drive, even though it means people will be injured, and people will die. Outlawing driving would save lives, but the cost in terms of the lost quality of life would be enormous, and difficult to quantify. So instead of banning it entirely, we place reasonable restrictions on it.

“Congress did not ask us to guarantee that investors would never lose money.”

Some of us may decide that we're not even going to take advantage of the full allowance that we're permitted. We might decide that we're not going to drive at night. We might not drive in bad weather. But the choice to make that decision is ours, it's not the government's.

It puzzles me that it's so difficult, for those of us who regulate the securities markets, to appreciate that capital markets are all about taking risk. The queasiness around risk-taking is particularly inapt for us. A key purpose of financial markets is to permit investors to take risks commensurate with their own risk appetites and circumstances, to earn returns on their investments. Investors commit their capital to projects with uncertain outcomes in the hope that there will be a return on their capital investment.

The SEC, as a regulator of capital markets, should understand the connection between risk and return, and resist the urge to coddle the American investor. Although helicopter parents convince themselves that they are helicoptering for the good of their children, such parenting sometimes serves the needs of the parents more than it serves the needs of the kids. Similarly, the actions that we take at the SEC to protect the American investor may reflect a desire to reduce certain types of investor risk, but it may also reflect a desire to reduce our own reputational risk in the event of investor losses.

Congress did not ask us to guarantee that investors would never lose money, nor did Congress direct us to substitute our own investment judgment for that of investors. Certainly, Congress has never suggested that avoiding or eliminat-

ing risks to the Commission should inform our approach to protecting investors. The SEC statutory mandates are modest. We're directed to protect investors, facilitate capital formation, and maintain fair, orderly, and efficient markets.

In my view, this threefold mission requires the Commission to ensure that investors have access to products and services that enable them to construct investment portfolios that meet their needs, expanding investors' options, and ensuring that they have the information they need to evaluate those options. This enables investors to build better portfolios that both reduce risks and produce better returns.



As the world becomes increasingly integrated, asset classes that that were once uncorrelated grow more correlated. This shift creates an appetite for new asset classes that can help to diversify portfolios, and cryptocurrency may be one such asset class. As with all other products, investors need to exercise care and judgment in choosing whether, and how, to invest in crypto. The use of cryptocurrencies to engage in fraud and theft—klepto-crypto—is a new way of stealing from investors. But investors can protect themselves by exercising an old-fashioned dose of skepticism.

Currently investors access cryptocurrencies primarily through direct purchases. Buying, holding, and selling cryptocurrencies, however, sometimes requires technical know-how. It carries with it record keeping headaches, and generally has to occur outside of one's other investment accounts. This complexity means that only a very particular type of investor can pursue diversification opportunities that such assets provide.

I won't attempt to characterize that type of investor, but I will tell you that it isn't me, despite the fact that I'm Crypto-Mom.

Entrepreneurs are developing new products through which people can access cryptocurrencies indirectly or hedge their cryptocurrency holdings. Bitcoin futures, for example, began to trade recently, but crypto-based securities are not allowed to trade in the United States, though not for want of entrepreneurial effort.

It's clear that there's strong interest among investors for investment products of this type. Innovators in the industry have made several attempts to respond to this interest, but so far the SEC has not shared the enthusiasm. To date, the SEC has stopped all such retail products from getting to market.

To shift my metaphor a bit, the SEC helicopters in with good intentions, but often without sufficient concern for the way its regulatory blades roil the markets, frustrate innovation, and potentially expose investors to greater risks. ■

*Richard Gabbert, a member of Commissioner Peirce's staff, assisted in preparing these remarks. Commissioner Peirce's full speech to Cato's Fintech Unbound Conference can be read in the Winter edition of Cato Journal, available at bookstores and at [www.cato.org](http://www.cato.org).*

# Giving Vehicles

Planned gifts are a creative way to pursue major improvements for liberty with contributions that meet your priorities.

Here are several ways you may become a Legacy Society Sponsor:

- A gift in your will
- Naming Cato as a beneficiary in your IRA and 401(K) plans
- Life income vehicles such as gift annuities and charitable trusts

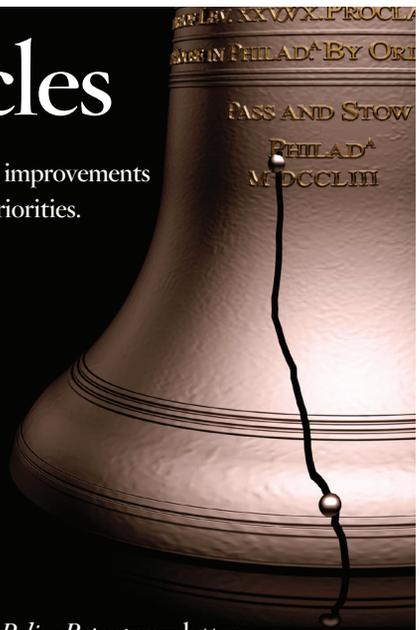
There are many benefits you may enjoy as a Legacy Society Sponsor:

- Copies of *Regulation* magazine and the *Cato Policy Report* newsletter
- President and CEO Peter Goettler's memos highlighting Cato activities, commentary, and educational programs
- Copies of all studies and briefing papers on important issues, and all Cato books
- Monthly editions of *Cato Audio*, the Institute's audio magazine (available on CD)

Legacy Society Sponsors also receive invitations to all Cato events, including the annual Benefactor Summit, featuring renowned speakers as well as senior Cato policy analysts!

Please contact Brian Mullis at [bmullis@cato.org](mailto:bmullis@cato.org) or 202-789-5263 for more information or to share your plans. We look forward to welcoming you into Cato's Legacy Society and working more closely to advance our core arguments, ideas, and policy solutions.

[cato.org/legacy](http://cato.org/legacy)





## SCHOLAR PROFILE

# Mustafa Akyol

MUSTAFA AKYOL is a senior fellow at the Cato Institute's Center for Global Liberty and Prosperity, where he focuses on the intersection of public policy, Islam, and modernity. A Turkish journalist and author, he is a contributing opinion writer for the *New York Times* and the author of *Islam without Extremes: A Muslim Case for Liberty*.

### **What attracted you to writing about Islam, freedom, and modernity?**

I grew up in Turkey, as a modern but faithful Muslim, and also the son of an intellectual father who taught me about Friedrich Hayek, Karl Popper and Edmund Burke. I saw how Islam can be inspiring for the soul, but also how it can be used to enslave people in collectivist groups or under authoritarian regimes. I gradually became convinced that the burning problem in the Muslim world is the lack of freedom—freedom of speech, freedom of religion, and also freedom from religion. Hence, I have spent the past two decades promoting a synthesis of Islam and classical liberalism—first in Turkey, and then abroad as well.

### **You've faced censorship and even been arrested for your work. Can you tell us specifically about your recent experience in Malaysia?**

I went to Malaysia in September 2017, for the fifth time in a decade, to give a series of lectures organized by a liberal Muslim group. I spoke on “apostasy,” and argued that it should be tolerated, as people should be free to either accept or reject a religion. The talk alarmed the “religion police,” who arrested me at the airport, locked me up, and soon took me to a “sharia court” for “teaching Islam without permission from the state.” Luckily I was released thanks to diplomacy—Turkey's former president called Malaysia's sultan to get me released. But they still banned my book, *Islam without Extremes*, finding it extremely liberal for Malaysia.

### **What sort of misconceptions do you face from non-Muslim Westerners about the possibility of Muslims embracing liberty and moderation?**

I think some Westerners see Islam as an alien religion, totally unlike the ones they know better, which are Christianity and Judaism. But in fact, Islam is yet another Abrahamic religion with many parallels to its predecessors, and its problems are not totally unique. Some Christians, for centuries, thought that it was a good idea to burn heretics at the stake. This changed with the Enlightenment, which established tolerance, and now Islam is struggling with having an enlightenment of its own.

### **How did you come to be at Cato, and how can the Institute help advance your vision for freedom in the Muslim world?**

I have been a friend of Cato for years, I spoke at Cato conferences, but I was based in Turkey. Turkey's democracy, however, recently collapsed into autocracy, ending my media career as well. I was hoping to have a secure base where I could continue promoting “Islamic liberalism,” without getting arrested for it! At that point, Cato's offer came as a blessing. My goal is to keep articulating and promoting freedom in the Muslim world, while also helping the West understand the nuances in Islam. And Cato, as a strong, principled beacon of liberty, is the perfect roof under which I can continue that effort. ■

---

# The John Russell Paslaqua Intern Seminar Series

Cato Institute Sponsors invest in our shared mission with the same spirit that compelled the American Founders: to secure the blessings of liberty. Since Cato's founding in 1977, the Institute has focused on promoting the principles of individual liberty, limited government, free markets, and peace to policy makers and others while also advancing our philosophy with up-and-coming leaders. Cato is recognized for these efforts regularly by the public policy leaders of today, who often highlight the Institute's role in shaping their ideas and careers. And it is Cato's Sponsors who make our influence possible. So we're particularly honored

to announce a leadership investment by the Paslaqua Charitable Foundation to establish the John Russell Paslaqua Intern Seminar Series. The Paslaqua family's funding for Cato's educational programs, and personal involvement in these activities, will play a major role in securing our work with young people for years to come.

The John Russell Paslaqua Intern Seminar Series has been established by the Paslaqua family to honor the legacy of their son, John, and his passion for big ideas and individual liberty. John, a 2014 graduate of Colgate University, produced exceptional work for Cato's Center for Constitutional Studies as a member of the Spring 2015 intern class. Ilya Shapiro, director of the Center, remembers John as dedicated and hard-working, recalling, "John was quite thoughtful and had a bright future ahead of

him. He kept asking for more work and did it very well."

Tragically, John passed away suddenly in 2017. Kenneth Paslaqua, John's father, said proudly, "John had a clear libertarian legal mindset, and supported less government intervention into people's lives." When considering how to best honor John's legacy, the Paslaquas found that John embodied the



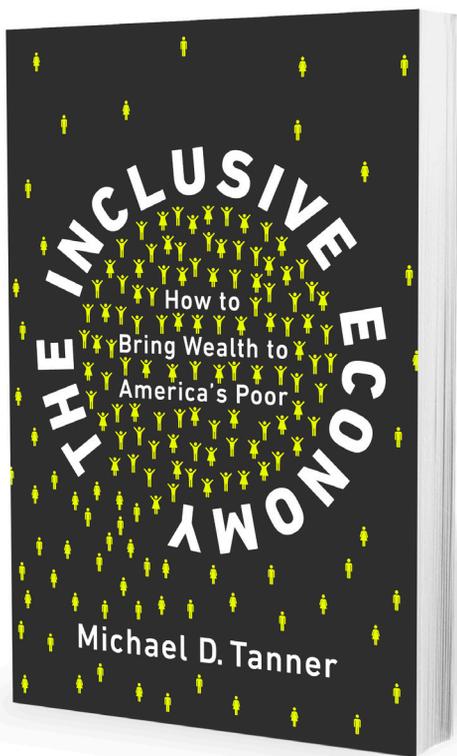
philosophical character that Cato aims to instill through the internship program. We are honored by the partnership the Paslaquas are making with Cato to uphold John's commitment to our shared values.

This year, the inaugural John Russell Paslaqua Intern Seminar Series has become a core component of a Cato inter-

nership. The Cato Internship Program offers a transformative experience in public policy, combining professional opportunities and skill development with a strong philosophical foundation. The John Russell Paslaqua Intern Seminar Series includes research tutorials and professional development workshops to deepen interns' knowledge and hone their skills. The curriculum encompasses public policy, economics, history, and political philosophy and will be presented by Cato's senior policy researchers across more than forty sessions per internship.

Thanks to a generous contribution by the Paslaqua Charitable Foundation in John's memory, Cato will continue to educate the next generation of leaders for a free, open, and civil society. Together, we will enhance the Cato intern experience that John enjoyed so much, and through which he is fondly remembered. ■

# Empowering people



“Extraordinarily thoughtful and comprehensive.”

—ANDREW STERN  
*President Emeritus, Service Employees International Union*

“Tanner’s excellent new book bypasses the left-right divide to take the problem of poverty seriously.”

—JASON BRENNAN, *Georgetown University*

**A**uthor Michael Tanner offers a new anti-poverty agenda that includes criminal justice reform, educational freedom, housing deregulation, banking reform, and more inclusive growth—all focused on empowering people, enabling them to take greater control of their lives.

**CATO**  
INSTITUTE

HARDBACK AND EBOOK  
AVAILABLE NATIONWIDE.  
AUDIOBOOK AT AUDIBLE.COM.

Nonprofit  
Organization  
U.S. Postage  
**PAID**  
Cato Institute

**CATO**  
INSTITUTE

1000 Massachusetts Ave., N.W.  
Washington, D.C. 20001  
[www.cato.org](http://www.cato.org)