Suppose the muffler drops off your car in the middle of Iowa. You pull off the interstate and find Joe's Auto Repair. The mechanics at Joe's see that you are from out of state. They know that, regardless of how fairly they treat you, you will not be returning and will not be speaking to other potential customers. Hence, caution is advised. Then you notice a Meineke shop down the road. You will never be returning to that Meineke shop either, but for some reason you have more trust in Meineke. Although you will never return to that particular Meineke shop, you might reach a judgment about Meineke shops in general on the basis of your experience at that shop. The franchisee at that shop doesn't care whether you ever go to another Meineke shop, but the parent company does. The parent company wants that franchisee to treat you fairly, and it takes steps to make that happen. Meineke employs “mystery shoppers” who pose as ordinary consumers with broken cars. Also, the parent company receives and remediates customer complaints. Consumers might not be consciously aware of such trust-building practices, but they rightly intuit that some kind of assurance lies in familiarity. The company name is a bit like a friend, and the serviceman wearing the company logo is like the friend of a friend. He is not your bridge to Meineke; Meineke is your bridge to him.

As we all know from our personal experience, consumers seek trust. What is less obvious is that entrepreneurs endeavor to supply it. Meineke is at the interstate exit precisely because there is a trust problem to be solved, and profit to be had in solving it. The franchise relationship is just one trust-building practice. Consumers demand not only quality and safety; they demand quality and safety assurance. They demand trustworthiness. Entrepreneurs, who find profit in meeting that demand, have developed a vast array of practices and institutions for doing so.

Americans now endure a large number of governmental restrictions that are justified on the grounds that free, voluntary practices are not able to overcome adequately the problems of low-quality or unsafe products and services. The Food and Drug Administration restricts freedom of choice in pharmaceuticals; the Occupational Safety and Health Administration restricts freedom of contract in regard to workplace conditions; occupational licensing restricts the freedom to enter a trade; and so on. Economists have shown that those restrictions impose heavy costs on society. The FDA causes thousands of premature deaths every year, and occupational licensing raises the cost of services. If regulations lead to enhanced quality and safety, then the costs may be outweighed by the concomitant benefits. But if such benefits would have been achieved anyway by voluntary institutions, then there really are no benefits to balance against the costs.

**Trusters and Promisors**

The truster (referred to by feminine pronouns) may be the customer of a doctor, an auto mechanic, an accountant, a lawyer, or a securities broker. She may also be a landlord, a creditor, an employee at a potentially hazardous manufacturing plant, or an employer enrolling her workforce in a health-care organization. She must decide whether to entrust her resources to the promisor (referred to by masculine pronouns). Does the promisor have the incentive or inclination to honor...
The Era of Big Government Ain’t Over

Bill Clinton’s cynical disdain for the intelligence of the American people perhaps reached its apex with his 1995 State of the Union Address in which he solemnly proclaimed, “The era of big government is over.” That, just after having attempted to nationalize one-seventh of the American economy through his wife’s health care initiative. But it was also after the 1994 congressional elections that did, indeed, seem to indicate that Americans were ready for a radical downsizing of the federal government’s role in their lives.

Sad to say, Clinton grossly overestimated the seriousness with which the opposition party took its rhetoric. The Republican “revolution” of the 104th Congress turned out to be a revolution, as Rose Wilder Lane had put it so clearly decades before, “only in the sense that a wheel turns.” Focusing primarily on procedural issues, nominating a philosophically challenged presidential candidate in 1996, and following the “lead” of Newt Gingrich and Trent Lott, the Republican Party revealed itself as an empty suit.

As we approach the millennium, all Americans who take seriously our national heritage of individual liberty, of an expansive civil society protected by a minimal political society, should be deeply concerned with the direction in which both major political parties would take this country.

The distinguishing characteristic of the political class—Democratic or Republican—in America is its inability to appreciate the genius of the American Revolution. For all of its flaws, that was a political revolution predicated on recognizing the dignity of the individual. No longer would individual human beings be considered cannon fodder for monarchical family disputes or religious crusades. Instead, government would exist solely to protect our natural rights to life, liberty, and the pursuit of happiness. The logic of the American Revolution would ultimately overcome the contradictions of slavery and gender discrimination.

Indeed, the whole debate over the Constitution between the Federalists and the Anti-Federalists centered on how effective the Constitution would be in protecting those liberties. The Anti-Federalist skepticism has by now been justified, but most Federalists, with the exception of dissemblers like Alexander Hamilton, sincerely thought they were creating a document that was uniquely American in its respect for the rights of the individual. And for the first 150 years of our national existence, that more or less proved to be the case.

But the breakdown in that worldview is now evident everywhere. Today, there is no area of human existence on which the politicians of both parties fear to tread. On the Democratic side, the president chides the voters of Virginia for being “selfish” for favoring a tax cut. His wife kicks off a drive for a massive federal day care initiative without constitutional authority and despite the fact that more than 90 percent of Americans are satisfied with their children’s day care. The vice president gives a speech in Washington at a conference on ethics (of all things) in which he, in his inimitably patronizing tone, informs us that the federal government should be to the American people “more like grandparentsin the sense that grandparents perform a nurturing role.”

To expect the Republicans to put up a principled opposition to such nonsense is to expect too much. Earlier this year House Speaker Newt Gingrich gave a 45-minute talk to wealthy conservative GOPAC members in which he failed to cite a single spending cut he favored, with the exception of interest on the national debt. He did, however, say, “We need to save Amtrak.” And despite all the chest thumping on the part of GOP leaders, the budget deal increases spending without eliminating a single major program or department. Indeed, the Commerce Department, which the 104th Congress threatened to eliminate, was given a $300 million increase by the 105th Congress. Even the IRS got a whopping 9 percent budget increase.

To make matters worse, it seems that the only intellectual energy among conservatives these days comes from neoconservatives like Bill Kristol and Bill Bennett. Their latest theme is, as Bennett recently put it, “You cannot be cynical about government without becoming cynical about America.” Kristol, reading from the same script, writes in the Wall Street Journal, “How can Americans love their nation if they hate its government?” The answer is, easily. The Framers of the Constitution viewed government as a necessary evil, therefore to be kept as small as possible. Americans can easily love their country while being extremely cynical about a government that clearly ignores its constitutional constraints.

The seriousness of the trend toward big government conservatism was illustrated in a speech by Supreme Court Justice Antonin Scalia at a November dinner sponsored by the Manhattan Institute in New York. Scalia, lionized by conservatives, told a distinguished audience that among the many things the Constitution does not protect was our right to raise our children as we choose. I asked him if the Tenth Amendment didn’t cover that, since nowhere in the enumerated powers of Congress was control over how we raise our kids given to the federal government. Well, allowed Scalia, there is such a thing as the General Welfare Clause. I pointed out that none other than James Madison had said that an expansive view of the General Welfare Clause would make the Constitution incoherent. Scalia replied, in effect, that was then, this is now.

But as our Center for Constitutional Studies has been pointing out for years now, we will not be able to rein in big government unless we take seriously the constraints on federal power that the Framers placed in the Constitution to protect our liberties. All the more reason why we need term limits and an end to professional politicians. As Rep. David Obey (D-Wis.) said in a rare moment of candor on the House floor, “I dislike getting into constitutional arguments in Congress because we prove there are more Casey Stengels here than James Madison’s.” So true. Which is why the era of big government ain’t over.

—Edward H. Crane
Branden, Kelley highlight 40th anniversary event

Hundreds Gather to Celebrate Atlas Shrugged

On October 4th, more than 400 people joined the Cato Institute and the Institute for Objectivist Studies at a day-long conference to celebrate the 40th anniversary of the publication of Ayn Rand's Atlas Shrugged.

The conference was kicked off with opening remarks by Frank Bond, chairman of IOS and member of the Cato Institute's Board of Directors, and Edward H. Crane, president of the Cato Institute. "Like any work of genius," Crane said, "Atlas continues to serve as a guide to current philosophical and cultural issues."

Edward L. Hudgins, director of regulatory studies at the Cato Institute, moderated the first panel discussion. In his remarks, Hudgins described the originality of Rand's work: "Economists like Mises, Hayek, and Friedman had shown the economic flaws of statism, but Rand was the first to show the ethical flaws."

Robert Poole, president of the Reason Foundation, discussed the influence of Atlas Shrugged, noting that "the current infrastructure of libertarian institutions was created by individuals inspired by the ideas of Ayn Rand." Howard Dickman of Reader's Digest reminded the audience that Atlas Shrugged had turned millions of readers on to the ideas of liberty but maintained that just as important was the book's message "that you have a profound right to be happy—that your own happiness is a value."

The final panel discussion included remarks from three businessmen who have been influenced by Ayn Rand: Ed Snider of Comcast Spectacor, Victor Niederhoffer of Niederhoffer Investments, and John Aglialoro of UM Holdings. Aglialoro stated that Rand's depiction of business as a heroic pursuit was important in shaping his worldview. "When I do good business, when I trade value for value, as Rand discussed in her novels, I feel optimistic, self-valued, and happy," Aglialoro also reported that he is negotiating to produce a film based on Atlas Shrugged.

David Kelley, president of IOS, spoke about why rational individualism—one of the principal tenets of objectivism—is so important in the electronic age. "The benefits of using your mind, and the perils of not doing so, are greater now than ever before," Kelley said. He also criticized both modern liberals and modern conservatives, pointing out that "neither side is committed to reason and individualism and thus both are ultimately hostile to capitalism."

Following Kelley's talk, there were a reception at the Cato Institute and a dinner dance. Nathaniel Branden, author of The Psychology of Self-Esteem and a long-time associate of Ayn Rand, discussed how The Fountainhead changed the way he looked at the world, why Rand's books continue to sell thousands of copies each year, and why objectivism should not be treated as a closed philosophical system, as some have done.
Speakers look at the budget surplus, campaign finance, and health care

Attorneys General Debate the Tobacco Deal

August 5: Four speakers considered the recent tobacco settlement at a Policy Forum titled "Tobacco Settlement: Sweetheart Deal, Health Imperative, or Legalized Extortion?" Dennis C. Vacco, attorney general of New York, and William D. Novelli, president of the Campaign for Tobacco-Free Kids, praised the settlement, arguing that it will do much to prevent children from using tobacco. William H. Pryor, attorney general of Alabama, one of the few states not to agree to the settlement, and Robert A. Levy, senior fellow in constitutional studies at the Cato Institute, argued that the agreement violates the rule of law and that it could have absurd implications. For example, it opens the door to cases against fast-food restaurants and other businesses that sell foods that are high in fat.

August 6: The Cato Institute hosted a Policy Forum on "The Regulatory State in Retrenchment: The Cases of Britain, France, and the United States" to examine whether, on balance, those three countries are continuing to move toward free markets. Ed Hudgins of the Cato Institute and Leonard Liggio of the Atlas Economic Research Foundation argued that the 1994 Republican takeover of the U.S. Congress and the 1995 election of Jacques Chirac as president of France have not brought the significant changes that many observers predicted. Nigel Ashford of Staffordshire University argued that, unlike France and the United States, Britain is continuing to move forward with such reforms as partial privatization of the public pension system.

August 7: Mark S. Rosentraub of Indiana University discussed his book Major League Losers: The Real Cost of Sports and Who's Paying for It at a Cato Institute Book Forum. Rosentraub argued that, in contrast to what many officeholders have claimed, public financing of sports stadiums does not make economic sense. The stadiums produce very little real economic development and often cost taxpayers hundreds of millions of dollars.

August 12: At a Policy Forum titled "Peacekeeping Flops: Implications for U.S. Policy," three speakers considered whether U.S. participation in future peacekeeping ventures is in America's interest. Morton Halperin of the Twentieth Century Fund and John Hillen of the Council on Foreign Relations argued that it is wise for the United States to intervenes in certain cases, although those missions need to be limited and well-defined. In contrast, Alan Tonelson of the U.S. Business Industrial Council Educational Foundation maintained that peacekeeping efforts are almost always doomed to failure and frequently lead to greater American military involvement.

August 18: New budget forecasts suggest that the budget could be in surplus within the next three years. The Cato Institute hosted a Policy Forum to discuss "What to Do about the Emerging Budget Surplus." Moderated by Fred Barnes of the Weekly Standard, the debate featured Rep. Mark Neumann (R-Wis.); Lawrence Kudlow, chief economist at American Skandia; William Niskanen, chairman of the Cato Institute; and Russ Verney, chairman of the Reform Party. Neumann and Verney argued that the surplus should be used to pay off the existing national debt. Kudlow maintained that a substantial tax cut is in order and that other
reforms such as the privatization of Social Security should be pursued.

August 20: Regina Herzlinger, Nancy R. McPherson Professor of Business Administration at the Harvard Business School, discussed her new book, Market-Driven Health Care: Who Wins, Who Loses in the Transformation of America's Largest Service Industry? at a Cato Institute Book Forum. She argued that the health care industry is going to be forced to move away from vertical integration. Instead of hospitals where nearly all medical procedures are performed under one roof, the market is going to demand what she called “focused factories,” institutions that specialize in one or two procedures. Moreover, she maintained that the insurance market is going to move away from defined-benefit policies toward defined-contribution policies.

August 26: Although President Clinton’s national health care proposal never came to a vote, congressional Republicans have signed nearly all its provisions into law during the past three years, according to three panelists at a Policy Forum titled “The Return of Clintoncare: Are We on the Road to National Health Care?” Robert Goldberg of George Washington University; Miguel Faria, editor of the Medical Sentinel; and Merrill Matthews of the National Center for Policy Analysis stated that by passing Kennedy-Kassebaum, which provides for guaranteed medical procedures, and Sue Blevins of the Institute for Health Freedom questioned the wisdom of granting the FDA the power to regulate 25 percent of all consumer goods and argued that the state should remove itself from the doctor-patient relationship.

September 4: Seven contributors to the new Cato Institute book Delusions of Grandeur: The United Nations and Global Intervention—Ted Galen Carpenter, Ronald Bailey, Nicholas Eberstadt, John Hillen, Robert Oakley, Sheldon Richman, and Alan Tonelson—spoke at a Book Forum. They critiqued the UN’s peacekeeping efforts as well as its environmental and development policies.

September 7: More than 350 Sponsors and friends of the Cato Institute attended the 13th annual Salmonfest hosted by Ed and Kristina Crane.

September 8: John L. Kelley, professor of history at Shawnee State University, discussed his new book, Bringing the Market Back In: The Political Revitalization of Market Liberalism, at a Book Forum. In his book, Kelley chronicles the intellectual and political development of the modern libertarian movement, discussing such figures and institutions as Ayn Rand, Ludwig von Mises, Milton Friedman, the Libertarian Party, and the Cato Institute.

September 9: Four speakers came to the Cato Institute to discuss “Whose Life Is It Anyway? The FDA v. Patient Choice.” Thomas D. Elias, author of The Burzynski Breakthrough. . . And the Government’s Campaign to Squelch It, chronicled the failed attempts by the FDA to jail Dr. Stanislaw Burzynski for providing an unapproved cancer treatment. Jonathan Emord, who has brought suit on behalf of numerous people who have been denied access to unapproved medical procedures, and Sue Blevins of the Institute for Health Freedom questioned the wisdom of granting the FDA the power to regulate 25 percent of all consumer goods and argued that the state should remove itself from the doctor-patient relationship.

September 10: The Cato Institute hosted a Capitol Hill Policy Forum, “Campaign Finance Reform: Does the Constitution Matter?” Sen. Mitch McConnell (R-KY), Lillian BeVier of the University of Virginia School of Law, Laura Murphy of the American Civil Liberties Union, and Douglas Johnson of the National Right to Life Committee argued that many of the leading campaign finance reform proposals in Congress are patently unconstitutional and would not survive a First Amendment challenge. BeVier and Johnson have recently published Cato Institute studies on campaign finance.

September 11–12: The Cato Institute hosted City Seminars in Dallas and Houston. Among the speakers were Cato scholars Stephen Moore, Michael Tanner, Patrick Michaels, and Robert L. Bradley Jr. José Piñera, co-chairman of the Cato Institute’s Project on Social Security Privatization, delivered the luncheon address at both events.

September 12: The Cato Institute hosted a day-long conference titled “Beyond the Telecommunications Act of 1996: The Future of Deregulation.” Among the topics discussed were whether government should ensure access to the Internet for all citizens, the optimal way to privatize spectrum, and whether the United States should abolish the Federal Communications Commission and let common law rule the telecoms. Alfred E. Kahn, former chairman of the Civil Aeronautics Board, delivered the luncheon address, “Resisting the Temptation to Micro-manage Deregulation: Lessons from Airline and Trucking Deregulation.”

September 18: Nien Cheng, author of Life and Death in Shanghai, spoke at a Roundtable Luncheon. She shared her understanding of the current political climate in China and how it might affect China’s continuing advancement toward economic and political liberalization.

September 23: The Cato Institute hosted a City Seminar in New York. Among the speakers were Cato’s Edward H. Crane, Robert A. Levy, and Michael Tanner. In addition, Ward Connerly of the American Civil Rights Institute spoke about his efforts to eliminate affirmative action in California’s public universities, and Mickey Levy of NationsBanc Capital Markets delivered the keynote address.

September 24: Cato Sponsor Ron Unz, chairman of California’s English for the Children campaign, spoke at a Roundtable Luncheon. He discussed his group’s efforts to require that all children in California’s public schools be taught in English. He reported that the initiative has gained more support from left-liberal Democrats than from conservative Republicans.

September 25: At a Roundtable Luncheon, Mancur Olson, professor of economics at the University of Maryland and author of The Logic of Collective Action and The Rise and Decline of Nations, discussed why institutional stability and third-party enforcement of contracts are critical to economic growth.

September 30: The Cato Institute hosted a meeting of the Advisory Committee of the Cato Project on Social Security Privatization. Michael Tanner updated committee members on the progress of Cato’s work; Laurence Kotlikoff of Boston University presented a plan for the transition to a privatized system; and Cato Sponsor Bert Ely spoke on how a privatized system could best provide a minimum benefit guarantee. In addition, Sam Beard of Economic Security 2000, Grover Norquist of the Independent Retirement Coalition, and Matt Kibbe of Citizens for a Sound Economy talked about their groups’ efforts to spur grassroots support for privatization.
On October 4 the Cato Institute and the Institute for Objectivist Studies cosponsored a conference at the Renaissance Washington Hotel to celebrate the 40th anniversary of the publication of Ayn Rand's Atlas Shrugged. Among the speakers were Frank Bond, founder of the Holiday Health Spas, a Cato Board member, and chairman of the IOS Board; Nathaniel Branden, author of many books including Judgment Day: My Years with Ayn Rand and, most recently, The Art of Living: Consciously; David Kelley, executive director of IOS; John Fund, an editorial writer at the Wall Street Journal; and Ed Snider, a member of the IOS Board, owner of Comcast Spectacor, and chairman of the Philadelphia Flyers.

Frank Bond: Atlas Shrugged, the masterwork of the late novelist and philosopher Ayn Rand, has been a phenomenon unprecedented in the history of literature and philosophy. At once a love story, a mystery thriller, a mythic morality tale about the collapse of civilization, and a revolutionary philosophical manifesto, Atlas Shrugged has affected our world like no other work since Marx's Das Capital. Although dismissed by much of the political and cultural establishment, it has been passionately embraced by two generations and millions of enthusiastic readers. Year after year, Atlas Shrugged continues to sell at near bestseller levels. A survey by the Library of Congress and the Book of the Month Club ranked this classic second only to the Bible as the book that readers say has made a difference in their lives.

Legions of people—from students, to truck drivers, to members of Congress, to businesspeople—have been captivated and inspired by the vision of life Ayn Rand presented in Atlas Shrugged. Its moral defense of reason, individualism, and capitalism helped launch the modern libertarian movement. And no one can deny that the ideas presented in the book are helping to shape the social debates of our time. As Federal Reserve chairman Alan Greenspan recently stated, "Atlas, which I read in galley proofs as it was being written, had a profound impact on my understanding of the roots of morality and free societies. I have no doubt Ayn Rand will similarly influence future generations."

This gala event held in the heart of our nation's capital not only provides further evidence of the impact of Rand's masterpiece; it also helps to rectify an injustice. We gather to pay a long-overdue tribute to a great book and to the great visionary who crafted it. Her spirit is here with us today.

As one whose life has been profoundly affected by Atlas Shrugged, I am honored and thrilled to welcome you here both to celebrate and to take the measure of the extraordinary impact of this extraordinary novel.

Nathaniel Branden: Between roughly 1953 and 1957, a group of us would meet at Ayn's house every Saturday night to read and reread different chapters of Atlas. So, by the time it was actually published, I don't think there was anybody in the original group who hadn't read the entire book at least 10 times. We lived in that world. It was like a private intellectual universe—not fully the universe of the novel, but also not the universe of what people would call real life. We lived in some very special place where John Galt, Hank Rearden, Francisco d'Ancona, and Dagny Taggart were personal friends.

The book had such an impact on us that we all believed it would change the world. We didn't think Atlas would convert the Pope or die-hard Marxists, but we thought that any remotely reasonable person would see the light. None of us—including Ayn—could have imagined quite how long and how complex the battle was going to be.

When the book came out, it sold enormously well and was on the bestseller list for a very long time. But it didn't affect intellectuals in general as we had hoped, or not to the degree that we had hoped, anyway. It took me a long time to understand that Atlas Shrugged—brilliant though it was as a philosophical work—was still a novel, a work of art, and that to produce the kind of cultural change that we all hoped for, many other kinds of activities were going to be needed. The one that I chose as my personal mission was, of course, the creation of what became known as the Nathaniel Branden Institute. I thought it would be useful to present a series of lectures that would explain objectivism in a more systematic way. We began at the beginning and worked our way from metaphysics to epistemology to aesthetics. I'm very proud of the number of people who took our courses and went on to do important things.

In the past several years, I have spent a lot of time thinking about what's needed to increase the impact of Rand's ideas, and I am convinced that it's scholarship. Objectivists need to make their voices heard in the academy. I don't mean merely new expositions of the ideas. I mean taking core ideas, amplifying them, and showing how they can be used to solve a wide variety of philosophical, moral, and social problems. Let me give an example. While a lot of libertarians are, obviously, very sympathetic to the idea of individual rights, often they don't feel completely satisfied that there has ever been an adequate philosophical justification for the idea of rights. I think that Ayn provided all the elements for a coherent theory of rights, but I'm not convinced she developed the case as clearly or as powerfully as is needed. A monograph that took the core ideas and presented a formal, carefully reasoned, and highly structured defense of...
right would be very valuable.

Many speakers have focused on the philosophy presented in Ayn Rand, and I would like to talk about the book from a slightly different angle—its impact as a novel, its impact as a work of art. Naturally, many of us here are interested in how many people Atlas Shrugged oriented in a libertarian direction, and we all know the answer is plenty. We also know that many people took from it a renewed appreciation and understanding of business activity. But one of the functions of great art is to inspire, to give courage, to light a fire in human souls, and I think that Atlas Shrugged did that for hundreds of thousands, perhaps millions, of people. As a psychotherapist, I have met many, many people who have been inspired by Atlas Shrugged in ways that have profoundly affected their lives. The book helped them to take chances, to start their own businesses, to pursue careers that were filled with challenges, to enter marriages they knew were destructive, and to strike out in some direction that might have scared them. You don't hear about those people very often; you don't know their stories. Yet I'm convinced that Atlas Shrugged has shown countless numbers of human beings that they are capable of achieving truly heroic things.

A lot of people who fell in love with Atlas Shrugged and The Fountainhead are shy about it. They feel a little funny about shouting from the rooftops how much they care about those works. And I think that's because the books touch something so deep inside our own souls that talking about it can make people feel naked. And they certainly don't know what kind of reception they're going to get from the listener. But if we're interested in advancing the ideas contained in the books, we need to be willing to be very vocal and very loud. We must let our love be stronger than our fear.

That leads me back to something I said earlier. Nowhere will the battle be tougher than in academia; nowhere is the whole style of thinking—the whole psycho-epistemology, if you wish—more hostile to objectivism than in the universities. But we're only going to be able to push the ideas so far without doing serious scholarly work.

Tonight marks the end of the beginning. It represents a turning point for objectivism and Atlas Shrugged, a turning point for the ideas that IOS and Cato have done so much to promote. None of us is going to live long enough to see the end of this story, but isn't it exciting to have been there at the beginning?

David Kelley: Atlas Shrugged is a timeless work because it's a philosophical work. Much in the book is dated, to be sure, but not its philosophical core. Atlas is a ringing defense of capitalism as the only social system consistent with human nature and human values. It lays out in dramatic form the worldview on which a capitalist society depends: that human life is the standard of

an absolute; reason as a source of knowledge and truth as against any appeals of faith or authority; reason as a guide to action, as a standard of value, as the basis for an objective moral code; and, above all, reason as a creative power, the source of all human achievements, from philosophy, to the sciences, to the arts, to industry and invention.

One of Rand's own great achievements was to dramatize the role of the mind in production. George Gilder has written eloquently about the dynamism of a capitalist economy, showing how wealth is not a static thing but a process driven by human intelligence and imagination. Julian Simon has written about why the mind—not iron ore, crude petroleum, or arable land—is the ultimate resource. Those truths are easy to understand today, in an information age when intelligence is stamped on a computer chip for even the slowest person to see. But Rand understood them 40 years ago.

The second great theme of Atlas Shrugged is individualism. Ayn Rand understood that thought, choice, and purpose are actions of the individual, not the group. Her heroes think for themselves rather than follow convention. Growing up, for example, Dagny always intended to run Taggart Transcontinental some day. "She was 15 when it occurred to her for the first time that women did not run railroads and that people might object. 'To hell with that,' she thought, and never worried about it again."

As individualists, Rand's heroes reject any demand for self-sacrifice. The novel is the story of a strike by "the men of the mind," the producers and achievers, to protest the idea that they have to serve others and that the greater their ability, the greater the debt they owe. Those who join the strike swear an oath, on their lives and their love of them, that they will not live for the sake of others nor ask others to live for them. No other philosopher has expressed so powerfully the individual's moral right to pursue his happiness.

The message of Atlas Shrugged is that capitalism is not just an efficient economic

Continued on page 8
"A free society depends on people who can define for themselves the values that give their lives meaning and then pursue those values autonomously."

John Fund: "Our public educational system is telling people, 'We will take care of you as long as you don't do anything to improve yourself.'"

A free society allows, encourages, and even depends on people who can define for themselves the values that give their lives meaning and then pursue those values autonomously. It relies on people who are entrepreneurs in their own lives, who have a sense of self-ownership and the drive to make the most of themselves. The ideas of today's cultural warriors on both sides of the conflict are completely out of touch with that reality.

John Fund: I have some good news and some bad news to report to you. The good news is that I think the influence of Atlas Shrugged is everywhere around us. I think that even people who have not fully accepted or fully believed what Ayn Rand wrote have been influenced by her. After all, hers are extremely popular works, and their ideas have literally seeped into the popular culture. And I have noticed that there are many people who have been able to find niches in this world in which they can cooperate with others and still remain true to the principles they learned from reading Ayn Rand.

Now the bad news. The bad news is that our public educational system is sending out the following message to people: "We will take care of you as long as you don't do anything to improve yourself." That is the bargain that I think paternalistic government is giving people now—don't bother to think about what you can accomplish in life because ultimately we are there to take care of you, as long as you don't push the envelope of our system, as long as you don't try to break out of the box.

I'll give you an anecdote that I think illustrates my point. A friend and I jumped into a group of school children on a trip to East Berlin in 1984. We shared stories. I showed them my passport; they showed me their identity papers. And they told us about what life was like growing up under a collectivist system and to what extent Western television was a window on the outside world and why they were insatiably curious about it.

When dusk came my friend and I had to go back across the wall into West Berlin. The students had never seen the wall, but they knew instinctively that it was coming. Finally we were about 50 yards away, and they stopped and turned to us and said, "It's probably best we not go any further. If we get too close to the wall they'll ask us questions." I will never forget that moment. I could go literally anywhere in the world from that point even though I was not a person of wealth, but they could not go another 50 yards. Their world stopped at that wall. So just to keep the moment going I asked them idly, "What do you all want to be when you grow up?"

One said a beautician and one said a nurse and one said a teacher. But the oldest and the wisest, whose name was Monika, said, "It doesn't make any difference what we become under this system because we will always be treated like children." People were not allowed, in the words of Ayn Rand, to be that which was the best within them.

I was just crushed by that, but Monika and I exchanged addresses, and over the next
few years I would occasionally send her a postcard or a letter to try to keep her spirits up. And then the day came: the wall came down and I wondered about Monika. Later that night I got a phone call. I picked up the phone and she said, “Hello, this is Monika. I’m over the wall.” At the end of the conversation I reminded her of our conversation on that street corner in East Berlin and I said to her, “Well, are you now no longer going to be treated like a child?” And she said, without skipping a beat, “I think my entire country has graduated from kindergarten to high school overnight.”

In 1994 Monika came to California to visit me and she had an unusual request. She wanted to speak to an American civics class at my old high school. I had gone back to speak at that high school, and every time I did so I was appalled by the decline in standards, discipline, and rigorous thinking. In fact, the last time I’d spoken at that high school, I said to myself as I came out, “John, thank goodness you’re not any younger because you could be like them.” But I swallowed my doubts and I let Monika speak to the high school class. It was a disaster. Perhaps it was the wrong day, but there was gum chewing and people were talking and interrupting her. At the end of her speech she took questions. The first question was from someone in the front row, who asked why in the world someone would want to build a wall down the middle of a city? Obviously, he had not listened to anything she had said, not comprehended any of it. So I left with Monika, shaking my head, feeling ashamed, and trying to explain that not all American students were like that. She looked at me with that same pained, sad expression that I read the book. I really wasn’t much of a reader, but I had a great deal of respect for the man who gave me that advice and so I read the book. It changed everything in my life from that day forward. For me, it was a revelation that explained things that I had heard all my life but did not understand.

Ed Snider: “Atlas explained that money is the reward but not the reason that we work.”

who can think for themselves because of the bargaining that the government has sold us.

Ed Snider: “When I was active in the National Hockey League, I was extremely puzzled because I thought many of the other owners consistently voted against their own self-interest. At a board meeting in the 1970s I expressed that sentiment to a colleague, and he said that if I really wanted to understand what was going on I should read Atlas Shrugged by Ayn Rand. I really wasn’t much of a reader, but I had a great deal of respect for the man who gave me that advice and so I read the book. It changed everything in my life from that day forward. For me, it was a revelation that explained things that I had heard all my life but did not understand.

Shortly after reading the book, I wrote an introduction to a pamphlet by Rand called “The Meaning of Money,” and I sent it to many businessmen that I knew. In that introduction I argued that not only had I never realized the importance of ideas and philosophy to my daily business decisions, but I had implicitly accepted ideas that were making me unhappy, much like Hank Rearden had. Although I enjoyed working and producing, I didn’t know why, and, in fact, I often felt guilty. Atlas changed that. It explained that money is the reward but not the reason we work, and it showed me why personal happiness is the proper goal in life.

After finishing Atlas, I wrote to Ayn Rand and told her that I would like to discuss the book with her and bring my sons up to meet her. To my amazement, she wrote back and said she would like to meet me, too. At that meeting, I asked her, “How do you understand what goes on in business and what goes on in the board rooms? Where did you get all that knowledge?” And she said, “I don’t understand anything about what goes on in the board rooms; I understand the nature of man.”

I told her that I would really like to see objectivism taught in every philosophy department in the United States and that I would like to work toward that goal. She started laughing and said, “Well, you can work on it, but I don’t think that you are going to be very successful. You are going to find that people are going to call me a fascist and a lot of other things.” Well, lo and behold, I went to the University of Pennsylvania and met with the president and the people in the philosophy department and encountered the type of resistance that Rand had warned me about.

But, finally, it was decided that we would have a test and that the philosophy department would sponsor a lecture by Ayn Rand or someone of her choosing, and that if the lecture was a huge success, we would take the next step. So we sponsored a lecture titled “The Virtue of Selfishness.” The lecture hall was overcrowded and the event was a resounding success. I went to the cocktail party after the lecture and one of the professors in the philosophy department walked up to me and said, “Do you believe this garbage? Do you realize that she believes that if someone invents a cure for cancer that he could just destroy it and not give it to the world?” I said, “No, that is not really what she believes. She believes that if someone invents a cure for cancer it belongs to them and no one has the right to take it away. And that any rational man who would come up with such a remarkable invention would want to profit from his efforts—not to waste them.” To which he said, “Well, if you really think that way, why don’t you just give a million dollars and have a chair?”

I said I have a better idea: “Why don’t we just replace you?”
her trust?

One way to alter the structure of interaction so as to lessen the dependence on trust is for the truster to keep some advantage until satisfaction is complete. An elementary solution is simply to have the promisor—whether he be a building contractor, a taxicab driver, or a lawyer—provide the service first and bill the truster afterward. A tenant, in the role of promisor, gives a security deposit to the landlord. In the case of products and services, manufacturers and practitioners can offer guarantees and warranties. Finally, there is the tort system.

Remaining in business for a prolonged time gives rise to the businessman’s reputation—that is, the general opinion of his trustworthiness. Continuity and repetition are fertile ground for trust. In a sense, one’s power to damage a promisor’s reputation or to withdraw from dealing with him serves to hold him to his promises. Promisors build and protect their reputations, knowing that “time wounds all heels.”

Reputational Nexus and the Middleman

In every area of life—the family, the church, the social club, the neighborhood, the workplace, the marketplace—we find a network of extended dealings, or a reputational nexus. Sociologists figure that any pair of adult Americans can be linked by three or fewer intermediary acquaintances.

Businesses can make a profit from providing reputational networks. The livelihood of the middleman often depends on creating a bridge of trust between two traders.

The Meineke Company, the franchisor, provides a reputational bridge between the motorist and the franchisee, who meet only in passing. Franchised motels, restaurants, and convenience stores also profit from trust based on infrequent dealings with many customers.

The role of the reputational bridge is best demonstrated by the retailer, who, a hundred times daily, serves as the link between a consumer and a producer. Many of the matches between consumers and producers are infrequent—for example, a consumer’s purchase of a washing machine or an ulcer medication—but the consumer has extended dealings with the retailer, who in turn has extended dealings with the producer. By carrying the appropriate array of products, middlemen can make a profit by creating trust in the consumer who has an occasional need of a specialized commodity.

Besides straddling two distinct extended relationships, the middleman also acts as a knower—by recognizing brand names and seals of approval, by conducting his own tests and inspections, by keeping track of customer complaints and purchase returns, by hiring testing services, by following trade literature or consumer literature, by studying whether other retailers carry the product, and so on.

In his role as knower, the middleman specializes in an information service that is often too costly for the consumer to provide for herself. In a sense, the premium she pays to the middleman, whether he be an established retailer, a brand-name manufacturer, or a contracting organization like a health maintenance organization, is a fee for the luxury of being both uninformed and assured of quality.

The information service provided by retailers is welcomed also by manufacturers of good products, who depend on the services and institutions that permit the goodness of their products to be recognized. By creating trust, effective retailers and middlemen sell more of the product at higher prices.

The Umbrella of the Brand Name

In the late 19th century, as transportation systems and mass production created a national market in America, consumers confronted many unstandardized goods and unfamiliar marketing techniques. Consumers had difficulty judging the freshness of foods or the durability of clothing. The consumer historian Norman Silver tells how the market responded:

To ease the minds of customers about problems of quality, reliability, and safety, manufacturers and advertisers appealed to consumers to buy according to brand names. National Biscuit, Heinz Soup, Armour Meat, Standard Oil, and other companies placed one banner on many different products. The consumer who found one product of a brand to be satisfactory, those companies suggested, could assume that all other products also would be suitable.

A brand name is a way of gathering together an array of services that make for frequent dealings. A machine-tool company like Black & Decker may market 30 different products, but its customers will make generalizations about all 30 on the basis of experience with only a few. By enlarging its product base, the company creates frequent dealings with many of its customers, giving them a better opportunity to evaluate its trustworthiness. In that way, Black & Decker becomes an institution providing the essential service of trust. The inventor-genius may create a fantastic new tool in his basement workshop, but he cannot create trust in his workshop.

Trust emerges only as institutions age and markets adapt. The genius in his basement has created a great invention, but he has not produced a great product. To achieve the latter he must collaborate with those who have achieved trust; he will find it advantageous to sell his invention to Black & Decker and let the firm offer it under the umbrella of its brand name. In a sense, Black & Decker is the expert knower that tells the truster that the inventor’s new gizmo is trustworthy. Black & Decker is not only a manufacturer and distributor; it is also a knower organization granting its own seal of approval.

Information for Sale

Trusters dislike being cheated. They will pay good money for information that protects them. The provision of information itself becomes a source of profit.

Information provision can be divided into two stages: generation and conveyance. The generation of information can take the form of testing, inspecting, researching, evaluating, or interpreting. For example, Consumers Union does all of those things when generating product ratings to be published in Consumer Reports. CU makes profits by selling its magazine to trusters. Is its information a “public good”? No, because the information is proprietary, and to a large extent excludable. CU suits companies that use its ratings in advertisements, as well others who appropriate and pass on its information.

Once a person has the CU ratings, she can indeed share them with her friends and acquaintances—she may even sell her exper-
“Trusters dislike being cheated. They will pay good money for information that protects them.”

tise in some manner. But she is prevented by law from reproducing the information and selling it. If you can protect information at the conveyance stage, then you can appropriate its value at the generation stage.

In the case of Consumer Reports, excludability is achieved in large measure by legal sanctions. But excludability is often simply a matter of technical limitations on the part of would-be free riders. Information conveyance requires information receiving, organization, storing, retrieval, and transmission. For example, credit bureaus like Equifax sell credit reports to trusters. They make profits by facilitating dealing, just as Manhattan parking entrepreneurs make profits by facilitating dealing. Equifax releases valuable information to millions of parties every month, but that does not mean that those parties can appropriate the value of the information by reselling it to others. Besides proprietary constraints, there is the fact that Equifax is providing highly individualized information. Its strength is in making information complete, timely, and accurate. For someone to free ride on Equifax, she would have to invest in vast data-processing systems.

Information, No Charge: Self-Disclosure by Promisors

Promisors also may be keenly interested in hiring knowers to generate information about them and to convey that information as widely and freely as possible. Sellers employ salespeople to demonstrate and describe the product, they set up displays, they advertise product characteristics, they recruit the services of referral agencies, they offer guarantees and warranties.

But can the information be trusted? Marketing claims of “New and Improved” give cause for suspicion. Promisors often mislead and deceive trusters. But trusters know their vulnerability and look for solid evidence. In consequence, promisors who can give evidence of trustworthiness are rewarded in business traffic.

One sort of evidence is demonstration of traits that are indicative of trustworthiness, such as announcing, “Established in 1924,” or engaging in a heavy promotional campaign that would be lucrative only for a worthy promise. Thus consumers make inferences, if only subconsciously, from the life of the firm, the size of the firm, and the extent of advertising.

Another sort of evidence is the word of an independent knower, someone who can evaluate the product but who does not reap gains from its success. If the word is favorable, the promisor will spread it far and wide.

It is good fortune to win an award or be praised by the critics. But sometimes promisors do not wait around for fortune to find them. They simply hire a knower to make an evaluation. The knower is remunerated for generating the information, and, if the word is favorable, the promisor invests in conveying it to trusters. For example, electronics manufacturers hire Underwriters' Laboratories to test and inspect their products and grant a UL mark upon approval. Companies and governments hire Moody's to rate their securities, and the rating is then used in marketing the securities. Another class of independent knower organizations remunerated by promisors is made up of professional schools, technical schools, and institutes that grant degrees and certificates. Those credentials are then prominently displayed on office walls and listed in curricula vitae. Transcripts and academic honors give a sort of rating system to the degrees. Each of those organizations grants its own seal of approval.

A Classification of Independent Knower Organizations

Two distinctions aid us in thinking about knower organizations: first, whether the knower is engaged in information generation or conveyance, or both, and second, whether the knower is remunerated by trusters or by promisors. Using the two distinctions, we get the classification scheme shown in the figure.

The left-hand column of the figure shows knower organizations that are remunerated by trusters. Those that generate highly individualized information, like hired inspectors and people who give second opinions, do not face free-rider problems simply because the information buyer cannot hope that someone else will pay to have the pertinent information generated. Knowers that generate information about standardized products, of interest to many trusters, generally make

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November/December 1997 Cato Policy Report • 11
"Replace the FCC with common law"

Is the Telecom Act of 1996 a Failure?

The telecom is too large, too heterogeneous, too turbulent, too creatively chaotic to be governed wholesale, from the top down," said Peter Huber at a September 12th Cato Institute conference, "Beyond the Telecommunications Act of 1996: The Future of Deregulation." Huber, senior fellow at the Manhattan Institute and author of Orwell's Revenge, and Tom Hazlett, professor of economics at the University of California at Davis, maintained that the Federal Communications Commission should be eliminated and regulation of the concentrated markets, such as the telecom industry, is needed "to protect captive consumers and to provide equal access to essential facilities." But, he said, the FCC has done much more than that. "They have engaged in inexcusably gross handicapping of the competitive process. They have cartelized the industry and protected inefficient competitors from well-deserved extinction."

Evan Kwerel and John Williams of the FCC conceded that their agency has done much to prevent the efficient use of spectrum. In addition to retaining large amounts of spectrum, the government has too narrowly circumscribed the manner in which privately managed bands can be used. "An essential step toward an efficient market allocation process," said Kwerel, "is to exclusively assign all or virtually all spectrum rights. These rights include all uses at all points in time, frequencies, and geographic locations."

Broadcasting pioneer Stanley Hubbard agreed with Kwerel and Williams, stating, "Broadcasters should be free to do whatever they wish within the confines of the general laws of the land." He argued that "those individuals and companies that pioneered and own radio and television stations should have clear title to their licenses just as if the licenses were land grants."

With the growth of the Internet, many people have argued that government should provide everyone free access to the Web, much like it provides a high school education. Lawrence Gasman, senior fellow at the Cato Institute, challenged that idea. He maintained that the "real reason why government programs for helping information have-nots enjoy so much support is not because those programs make any economic or moral sense but because they are politically profitable. Leftish Democrats can be seen as doing something for the poor, while conservative Republicans can be seen as doing something for their rural constituents."

The papers presented at the conference will be published as a book next year.

MARKETS & TRUST  Continued from page 11

money from conveying the information, and to do so they must enjoy a measure of exclusion. Their information may be protected by law (e.g., Consumer Reports ratings, any type of copyrighted review) or difficult to reconvey (e.g., credit reports, gossip). The right-hand column shows knower organizations that are remunerated by promisors. Promisors may pay them for generating a seal of approval (certifiers, inspectors, credential givers), for conveying information (referral agencies, advertising firms), or for both (information bureaus).

Trustworthy promisors have every incentive to self-disclose, and they employ a wide variety of means to do so. What about the untrustworthy? They do not strive to self-disclose; in fact, they have a special incentive to deceive. How do trusters apprehend the untrustworthy?

One way is to make inferences from the dog that didn't bark: the missing accolades, seals of approval, and endorsements. When we view a curriculum vitae, a lack of distinctions will make itself evident and lead us to doubt outstanding talent. Similarly, trusters remain wary of a restaurant with no posted reviews, an appliance without a UL mark, or a mechanic without a company name.

Another way to apprehend untrustworthiness is, of course, through the knower services remunerated by trusters. Hired inspectors, Consumer Reports, Dun & Bradstreet, Equifax, Siskel & Ebert, and the neighborhood gossip all report on the trustworthy and untrustworthy alike.

Concluding Remarks

When consumers demand toothpaste, that demand creates opportunities for entrepreneurs to profit by providing toothpaste. When individuals demand trust, that creates opportunities to profit by providing trust. Voluntary institutions—including knower organizations, firms, market forms, and social networks—evolve, not merely to provide quality and safety, but to provide quality and safety assurance. The desire for profit causes firms to develop brand names, networks, and other institutions that can supply reliability, which then generates a greater degree of trust. Voluntary cooperation in civil society can generate reliability and trust without coercive government regulation and the bad consequences that such regulation often generates.
Athough the budget deficit is lower than it has been in many years and some observers are even talking about an impending budget surplus, federal social spending is at a record high, both in real dollars and as a share of national output, reports Stephen Moore in the new Cato Institute study “How the Budget Revolution Was Lost” (Policy Analysis no. 281). According to Moore, director of fiscal policy studies at Cato, federal domestic expenditures have risen by 34 percent after inflation during the past 10 years. In its first three budgets (fiscal years 1996–98), the Newt Gingrich-led Republican Congress increased domestic spending by $183 billion compared to a $155 billion increase in the three years prior to GOP control of Congress. Not a single cabinet agency has been eliminated, and only a few of the 300 federal programs that were targeted for closure have been terminated.

**Campaign Finance Reform and the First Amendment**

Current congressional proposals to further regulate campaign finance are patently unconstitutional, writes Lillian R. BeVier of the University of Virginia Law School in the new Cato Institute study “Campaign Finance Reform Proposals: A First Amendment Analysis” (Policy Analysis no. 282). She argues that a ban on political action committees, restrictions on soft money, regulation of issue advocacy, and expansion of the enforcement powers of the Federal Election Commission all substantially infringe on core First Amendment rights. Moreover, she maintains that requiring broadcasters to provide free television time to federal candidates is constitutionally impermissible.

**Government Crowds Out Private Education**

Large subsidies to public colleges and universities are threatening the viability of private institutions of higher learning, says Gary Wolfram, George Munson Professor of Political Economy at Hillsdale College, in the new Cato Institute study “The Threat to Independent Education: Public Subsidies and Private Colleges” (Policy Analysis no. 278). According to Wolfram, subsidies have made it possible for public institutions to charge below-market rates of tuition. Indeed, on average, in-state tuition covers only about 28 percent of the costs of providing an education at a public university. Between 1969 and 1993 more than 300 private colleges in the United States closed their doors. Wolfram argues that the ultimate solution to the problems facing American higher education is to remove the government entirely. However, since that scenario is unlikely, he recommends that legislators eliminate “the direct subsidies to public universities, require the universities to charge tuition sufficient to cover costs, and give financial aid to the students.”

**The Power of Incumbency**

In the new Cato paper “The End of Representation: How Congress Stifles Electoral Competition” (Policy Analysis no. 279), Eric O’Keefe, treasurer of U.S. Term Limits, and Aaron Steelman, staff writer at the Cato Institute, argue that high reelection rates for members of Congress are due to anti-competitive reforms of the past several decades. Members of Congress spend hundreds of thousands of taxpayer dollars on franked mail, personal staff, and travel, all of which help them keep in touch with, and provide service for, their constituents. Limits on individual contributions deter many potential challengers from entering the political arena and greatly reduce the electoral chances of those who do run.ceilings on total campaign spending would make incumbents all but invincible. O’Keefe and Steelman conclude that to “restore representative government in the United States, voters must initiate a national movement to reject those seeking a career in Congress in favor of those pledged to using their short service in Washington to return the federal government to its limited, constitutional role.”

**State-Backed Energy Programs Prove Inefficient**

In the new Cato paper “Renewable Energy: Not Cheap, Not ‘Green’” (Cato Institute Policy Analysis no. 280), Robert L. Bradley Jr., president of the Institute for Energy Research and author of the two-volume Oil, Gas, and Government: The U.S. Experience, argues that “a multi-billion-dollar government crusade to promote renewable energy for electricity generation, now in its third decade, has resulted in major economic costs and unintended environmental consequences.” According to Bradley, even improved new-generation renewable capacity is, on average, twice as expensive as new capacity from the most economical fossil-fuel alternative and triple the cost of surplus electricity. In addition to being economically inefficient, renewable energy sources are also frequently destructive to the environment.

**Debunking Myths about Derivatives**

In the new Cato Institute paper “10 Myths about Financial Derivatives” (Cato Institute Policy Analysis no. 283), Thomas F. Siems, senior economist and policy adviser at the Federal Reserve Bank of Dallas, debunks a number of claims about derivatives and concludes that the “development of derivatives was brought about by a need to isolate and hedge against specific risks. Derivatives offer a proven method of breaking risk into component pieces and managing those components independently.”

**NATO Enlargement Could Prove Risky**

Admission of Poland, Hungary, and the Czech Republic to NATO would create the prospect of far-reaching, dangerous security obligations for the United States in Eastern Europe, write Ted Galen Carpenter and Andrew Stone in the new Cato paper “NATO Expansion Flashpoint No. 1: The Border between Poland and Belarus” (Foreign Policy Briefing no. 44). Part of NATO’s expanded defensive perimeter would lie along the border between Poland and Belarus. Because of Belarus’s erratic political leadership and stagnant economy, the country is a “volcano waiting to erupt,” argue Carpenter, Cato’s vice president for defense and foreign policy studies, and Stone, a former research assistant at Cato. If Belarus were to explode, Poland would expect help from its NATO allies. “At the very least,” write Carpenter and Stone, “that would mean a Bosnia-style morass for NATO. Even worse, Belarus is Russia’s last remaining security ally in Eastern Europe. A NATO military presence along the Polish-Belarusan border, much less any attempted coercion of Belarus by NATO, risks a collision with a nuclear-armed Russia.”
There is no crisis, and never was

Energy: No Need for Regulation

We need to fix energy policy. And what we need to do to fix the policy problem is simple in concept but politically dramatic in practice: repeal all the state and federal laws that regulate energy, including those authorizing both state and federal utility regulatory commissions," writes Paul Ballonoff in the new Cato book Energy: Ending the Never-Ending Crisis.

In the first four chapters of the book, Ballonoff, an energy consultant in Washington, D.C., discusses the myths on which present energy policy is based; in the closing three chapters, he argues that nearly all energy regulation is unconstitutional and considers what should be done.

Regulation of energy is based on two myths: that energy supplies are "finite" and need to be conserved lest prices skyrocket and that the monopoly industry is likely to be dominated by monopoly. Ballonoff finds both of those arguments dubious.

Energy supplies, Ballonoff argues, are goods like any other. As demand increases, so will supply. "Petroleum," he maintains, "is a technological product. It differs little from computer chips or any other manufactured product in its basic economics. True enough, we cannot produce any more petroleum today than is available from existing known, connected, operating, proven wells. But we can drill more wells in the future and we can drill them at lower costs as our knowledge increases. In addition, we can expand the life of existing wells by adapting their operation as knowledge increases. And we can invent new forms of energy to substitute for petroleum, just as petroleum was itself a substitute for whale oil."

How about the natural monopoly argument? Even if resources are not finite, the energy industry still needs to be regulated because it has a natural tendency toward concentration, right? Wrong, responds Ballonoff. "Utility costs are not characterized by the economies of scale that we expect to find in a natural monopoly. We would expect the data to show that the larger the utility, the lower its distribution costs. Empirical studies, however, show a statistically insignificant relationship between average cost and number of customers."

"The political lesson of this century," Ballonoff concludes, "is that the best way to reinvent government is to reduce what it does. But if electoral pressure forces government to act, we must constrain the intervention by establishing institutions that do the least harm."

Energy: Ending the Never-Ending Crisis can be purchased for $18.95 (cloth) or $9.95 (paper) by calling 1-800-767-1241.

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Cato Congressional Testimony

Campaign finance, Social Security, global warming, and medical marijuana

Cato Scholars a Presence on Capitol Hill

As members of Congress returned from their summer break, Cato scholars were there to remind them of the importance of market-liberal principles.

Cato's president Ed Crane; Roger Pilon, director of Cato's Center for Constitutional Studies; and Cato adjunct scholar Bradley A. Smith testified on the need to deregulate, not tighten the controls on, campaign finance. Crane, testifying before the Senate Governmental Affairs Committee, pointed out that "there is a very dangerous precedent set by acting on the hysterical desire to take money out of politics. The people in this country have a constitutional right to petition their government." Smith told members of the Subcommittee on the Constitution of the House Judiciary Committee that "the First Amendment exists to prevent the government from attempting to distinguish 'legitimate' from 'nonlegitimate' commentary on public issues."

Cato also hosted a September 10th Policy Forum on Capitol Hill to discuss the constitutional implications of campaign finance reform. Among the speakers were Sen. Mitch McConnell (R-Ky.); Laura Murphy of the American Civil Liberties Union; and Lillian BeVier, author of the recent Cato paper "Campaign Finance 'Reform' Proposals: A First Amendment Analysis." McConnell later cited BeVier's paper in debate on the floor of the Senate and entered it in the Congressional Record.

On September 25th, as Crane testified before Sen. Fred Thompson (R-Tenn.), José Piñera, co-chairman of the Cato Proj-
New staff in defense, education, information

Murdoch Joins Board of Directors

Rupert Murdoch, chairman and CEO of News Corporation, has joined the Cato Institute’s Board of Directors. Welcoming Murdoch to the Board, Cato president Edward H. Crane said, “Rupert Murdoch is one of the most successful entrepreneurs in the world, a strong advocate of the free market, and a committed civil libertarian. We’re very proud to have him join the very distinguished men and women who guide the Cato Institute in its ongoing pursuit of the traditional American principles of limited government, individual liberty, and a free-market economy.”

Earlier this year, in an article in the online magazine Slate, journalist David Plotz described Murdoch as “the global capitalist par excellence, the very model of free enterprise and entrepreneurship. Everywhere Murdoch has gone, competition, efficiency, and consumer choice (and profit) have followed.”

In a speech at the Edinburgh International Television Festival eight years ago, Murdoch told broadcasters who were fighting to retain near-monopoly control over British television, “I start from a simple principle: in every area of economic activity in which competition is attainable, it is much to be preferred to monopoly.” And he reminded the audience that “across the world there is a realization that only market economies can deliver both political freedom and economic well-being.”

Murdoch entered the media industry more than 30 years ago with several small television and newspaper holdings. Today, News Corp. has properties in every part of the world. Among Murdoch’s holdings are Fox TV and the recently acquired Los Angeles Dodgers.

Cain Leaves Board
Gordon Cain, chairman of the Sterling Group and a pioneer of leveraged buyouts in the 1980s, has retired from the Cato Board after seven years. Crane commented, “Gordon Cain was instrumental in the success of the drive to build our headquarters in the early 1990s, and he encouraged us to take up the issues of term limits and the unconstitutional delegation of legislative powers. We will miss his insight and wisdom at Board meetings.”

Staff Changes
Ivan Eland
Ivan Eland has joined the Cato Institute as director of defense policy studies. His work will focus on the Pentagon budget. Before joining Cato, Eland was a principal defense analyst at the Congressional Budget Office and an analyst in the National Security and International Affairs Division of the General Accounting Office. He holds a Ph.D. from George Washington University.

Solveig Singleton has been promoted from associate director of telecommunications and technology studies to the newly created position of director of information studies, which reflects Cato’s growing interest in technology and information issues. A graduate of Cornell Law School, she worked with Peter Huber and Greg Sidak on several books before joining Cato in 1996. In her new position she will focus on privacy issues and continue to work closely with Tom W. Bell, Cato’s director of telecommunications and technology studies.

Jennifer Grossman has been named director of education policy at Cato. She is a weekly contributor to and columnist for MSNBC. From 1990 to 1992 she worked as a White House researcher and speechwriter. In 1996, on the recommendation of Sen. Bob Dole and Rep. Newt Gingrich, she was appointed senior writer at the National Commission on Economic Growth and Tax Reform. A graduate of Harvard College, Grossman serves as an adviser to Cato Board member Theodore J. Forstmann on policy and philanthropic issues. Most recently she helped to launch a $6 million private school choice initiative—jointly funded by Forstmann and John Walton—to provide 1,000 scholarships to low-income children in Washington, D.C.
She got a rat in her pocket?

Harford County Executive Eileen Rehrmann (D), who has announced plans to challenge [Maryland governor Parris] Glendening, said she isn't bothered by those who say she lacks the name recognition and political clout to oust the governor. "We made a decision that we're running for governor, and that's what we're doing, full steam ahead," she said.

—Washington Post, Aug. 16, 1997

A new danger in school reform

Some private money creates unfairly good schools, district warns

—Headline in the (Norwalk, Conn.) Hour, Mar. 12, 1997

No rule of law for you

Surely, no one thinks that gun owners in this country are an oppressed minority, needing shelter from the nation's highest court.

—Mary McGrory in the Washington Post, July 6, 1997

The Constitution, R.I.P.

Thinking national performance tests will improve education is "akin to claiming that better speedometers make for faster cars," said Rep. William F. Goodling (R-Pa.). "The president's plan is a waste of taxpayers' money and won't do anything except increase federal involvement in our schools." . . .

"House Republicans would rather send federal dollars directly to the classroom," Goodling said.


Socialism we can live with

China's leaders have agreed to sell off the bulk of the nation's big state-owned industries [in] a ground-breaking shift from socialist-style state ownership to a system of share-holding. . . .

Still ruled by a party that calls itself communist, however, [President Jiang Zemin and his] allies are relying on semantical gymnastics to justify the move. Avoiding the word "privatization," they instead insist that when ordinary people buy shares of stock it is a form of "public ownership."


Quick! Find that leash

You unleash the potential of government when there are no barriers to information.

—Billboard advertisement for Oracle Corp., Washington, September 1997

We wouldn't dare write a headline

As marches to celebrate chastity, pure love and sexual fidelity go, this one was real freaky. . . .

The enthusiastic marchers screamed, yelled and chanted loudly about family values and morality as they waited . . . for the featured speaker. "Respect love, respect sex, respect each other, love each other," intoned D.C. Mayor Marion Barry at Judiciary Square, where he engaged in a call-and-response session with the crowd. After reciting the "Pure Love Pledge" and reading a proclamation declaring "Pure Love Day," he was loudly adored. . . . Organizers hoped to give the pledge to President Clinton later in the day.

—Washington Post, Aug. 16, 1997

It could be worse: they could be regulating

County and state employees made 6,000 more long distance phone calls per month during a time when a call-tracking system was down in Montgomery County, Md.


Are they nuts?

Joey Hoeffter says he was handing out the tiny white tablets like they were candy. As it turns out, that's what they were.

—Washington Post, Sept. 23, 1997

A mantra for Washington

Give me enough time, and I can slip anything past the economy.

—Former under secretary of commerce Everett Ehrlich discussing the costs of gasoline tax increases on WAMU public radio, Oct. 1, 1997

A story for every day

President Clinton will ask Congress today for more money and power. . . .


Good guess

Tax cuts not expected to hurt economy

—Headline in USA Today, July 30, 1997

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