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New Challenges to the Nordic Welfare Model

by Bruce Bawer

Not much usually happens here in Norway, but something rather interesting has been taking place of late.

Until just the other day, this affluent and pleasantly civilized California-sized country of 4.5 million was—perhaps even more unqualifiedly than its Nordic sister states—ground zero for what people here call social democracy and what some outsiders have long decried as "nanny state" social engineering. You don't have to be a radical libertarian to feel that those outsiders have something of a point. Norway has many truly wonderful qualities, but to a resident foreigner this tidy, well-ordered, and surprisingly provincial nation can also feel at times like, well, a kindergarten. Certainly the natives have long taken for granted a degree of state control over everyday life that this lifetime New Yorker (who's lived in Oslo for two years) at times finds a tad oppressive and claustrophobic. The Norwegians, however, have tended to embrace state control with the equanimity of children who sleep soundly knowing that their parents are just outside the bedroom door.

Nearly everything here that doesn't belong to the government, it sometimes seems, is either taxed to death—which explains the common Norwegian practices of buying cars in Denmark and of making day trips to Sweden to stock up on beef and chicken—or lavishly subsidized by the government. And you come across unforeseen restrictions at every turn: if you need aspirin, you're obliged to wait in line for it at a government-owned pharmacy (supermarkets aren't allowed to carry such dangerous substances), and you're forbidden to buy more than 40 tablets at a time (which, with tax, will set you back six bucks). If you have a baby, you might want to check out the government's official list of acceptable names.

You almost expect to see a sign at Oslo's Gardermoen Airport reading "Welcome to Norway—A Law for Every Occasion."

All this is done in the name of *fellesskap*, which can be translated variously as "fellowship," "community," and "community spirit." Norway has an established church, but the real national religion here is *fellesskap*—which to Norwegians means not individual volunteerism (perish the thought!) but rather an acceptance of the idea that the government knows what's best for you in every area of your daily life and, accordingly, has not only a right but an obligation to do everything it can to try to direct the choices you make, through prohibitions, restrictions, grants, tariffs, or what have you.

Norwegians' traditional partiality toward state control is reflected in everything from their official Writers Union and rock-bot-

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Bruce Bawer is the author of **A Place at the Table** *and* **Stealing Jesus.**

José Piñera, architect of Chile's Social Security privatization and co-chair of Cato's Project on Social Security Privatization, never goes anywhere without his retirement account passbook. Here he displays it at the Cato conference, "Privatizing Social Security: Beyond the Theory," on February 6–7. See pages 3 and 6.

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The Dangers of Compassionate Conservatism

George W. Bush has restored dignity and integrity to the White House. That is no small feat in the wake of the Clintons, and something for which we should all be grateful. He's made positive contributions on the policy front the likes of which we haven't seen since Ronald Reagan's first term. Some, such as his plan to partially privatize Social Security, weren't even proposed by Reagan. His no-explanation-needed dismissal of the American Bar Association's role in "vetting" judicial candidates was heroic. So, too, his rejection of the junk science Kyoto Agreement on global warming. He knew he'd take endless heat from the establishment media for both and didn't flinch in doing the right thing.

That said, there is something deeply disturbing about the philosophy that underlies the Bush administration. "Compassionate conservatism," as defined by Bush during the presidential campaign and as proposed now as part of his legislative agenda, is a philosophy that says the federal government is going to be "strong and active"—in Bush's words—in involving itself in the lives of Americans. It is a philosophy that is closer to that of the New Democrats over at the Progressive Policy Institute than to the Goldwater-Reagan heritage of the GOP.

"In essence," says professional sound biter Marshall Wittman of the Hudson Institute, "what we're seeing is the triumph of big government conservatism. Everyone assumed devolution meant the absence of a government role. In fact, it means a continued presence." Bush's proposals for vastly increased federal spending on local education, his "faith-based" initiative to fund local religious charities, proposals for marriage counseling and teaching responsible fatherhood, Wittman told the *Washington Post*, all add up to "the death of libertarianism."

Well, Wittman's long-held enthusiasm for big government may blind him to the fact that libertarianism is a vibrant and growing part of the national debate these days. (Cato is, after all, the second most cited think tank in the nation.) Still, he has a point about this administration's representing a victory for big government in a *philosophical* sense. Bush's father was a big government man, but only in a kind of unthinking, ad hoc way. George W. Bush and his quite smart advisers are wrapping their proposed interventions in society in a framework that says the national government has the ability and the obligation to see how things are going locally and to fund what "works."

"It will be government that directs help to the inspired and the effective," Bush proclaimed on the campaign trail. That thought inspires neoconservatives who've never feared government power—only those misguided individuals who ran it. It also inspires New Democrats like David Osborne, whose book, *Reinventing Government*, reads like a script for the Bush administration. Osborne writes, "Those who steer the boat have far more power than those who row it"—meaning the federal government need not do everything, just control everything. "Governments that focus on steering actively shape their communities . . . make more policy decisions. They put more social and economic institutions into motion. . . . They make sure other institutions are delivering services and meeting communities' needs."

So much, then, for constitutionally limited government and the concept of federalism. As Osborne notes, if the federal government is paying for something, it's calling the shots. It is possible that President Bush is simply naive about the consequences of compassionate conservatism— that he doesn't realize funding will be determined politically and not by merit. Or that even if it were by merit the recipient organizations would be corrupted by a growing dependence on federal funds. Or that those funds will inevitably come with strings attached.

The real danger lies in the casual acceptance of the idea that the federal government should have an "active" role in everyday American life, that if there's a problem, why, the federal government will find some worthy organization to solve it. This is bound to undermine what little principle remains in the Republican Party today. Education is a case in point. After decades in the wilderness, the GOP regained control of Congress in 1994 with a platform that called for abolishing the Department of Education. And why not? There is not a word devoted to education in the Constitution, which means that under the Enumerated Powers Doctrine and the Tenth Amendment (for those too dense to understand the former) education is a responsibility of state and local government or, preferably, of no government at all.

"Compassionate conservatism is a philosophy that is closer to that of the New Democrats than to the Goldwater-Reagan heritage of the GOP."

That was then. This is now. Today we are faced with compassionate conservatism. So I was not surprised when I received a fax the other day from the Republican Policy Committee in the U.S. Senate boasting that "since Republicans took control of Congress in 1995, federal education spending has exploded." The headline: "GOP Outspends Democrats on Education."

—Edward H. Crane

Overflow crowd hears basic arguments, details

Cato Conference Boosts Social Security Debate

"I am convinced that the time has come to move from advocacy to implementation" of Social Security privatization, said Martin Feldstein of Harvard University, keynote speaker at the Cato Institute's February 6–7 conference, "Privatizing Social Security: Beyond the Theory." More than 250 attendees listened to and questioned experts on the practicalities of setting up a system of private individual retirement accounts.

Feldstein said that even with "very conservative assumptions, calculations show that the investment-based system can finance any stream of retirement benefits with contributions to personal retirement accounts equal to only about one-third of the taxes that would have to be paid in a pay-as-you-go system."

At Cato's February conference, former California welfare director Eloise Anderson discusses the impact of Social Security on minorities and the poor.

In a panel on the politics of privatization, Alan Crockett of Zogby International said that Social Security is no longer the "third rail" of politics. He announced the results of a Zogby-Cato poll that found that 70 percent of Americans favor letting workers invest a portion of their Social Security payroll taxes in personal retirement accounts. "Choice, choice, choice," is how Crockett summed up the views of those surveyed.

In a discussion of the transition from an unfunded, defined-benefit plan to a funded, defined-contribution plan, Andy Samwick of Dartmouth University said that there are three common objections to privatizing Social Security: risk exposure, administrative costs, and redistribution. He said that those concerns "are not insurmountable, and they certainly shouldn't stand in the way" of privatization. He noted that "if you take 2 percent of payroll and instead of using it to prop up the existing system, you use all the new money that comes into the system in a system of personal accounts, by 2045, the personal retirement accounts can pay benefits equal to 4.75 percent of payroll."

Daniel Lederman of the Synergy Group Inc. said that Americans shouldn't fear the transition to private accounts. He pointed out that Mexico was able to make the transition, even though it lacks the U.S. financial infrastructure, of 70 million accounts. He said that the United States

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Andrew Biggs

Tim Penny

Andrew Biggs, assistant director of Cato's Project on Social Security Privatization, is on leave to serve on the staff of the White House Commission on Social Security reform. Several members of the commission also have Cato ties. Former representative **Tim Penny** (D-Minn.) has been a fellow in fiscal policy studies at Cato. Penny and Sam Beard serve on the Advisory Board of the Cato project. Carolyn Weaver of the American Enterprise Institute wrote the lead article in the first issue of *Cato Policy Report* in 1979: "Social Security: Has the Crisis Passed?" Beard and Social Security trustee Thomas Saving were among the speakers at Cato's February conference, "Privatizing Social Security: Beyond the Theory."

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Cellucci gets his "A"

Gov. Gary Johnson Keynotes California Seminars

◆**February 6–7:** The Cato Institute held a two-day conference, **"Privatizing Social Security: Beyond the Theory,"** to examine ways to translate the theory of Social Security privatization into a working system of individually owned, privately invested accounts. Martin Feldstein of Harvard University gave the keynote address. Donald Marron, chairman of USB PaineWebber, and Thomas Saving of the Social Security Board of Trustees gave luncheon addresses.

◆**February 12:** Cato senior fellow Stephen Moore and fiscal policy analyst Stephen Slivinski awarded an "A" to Gov. Paul Cellucci of Massachusetts at a press conference, **"Fiscal Policy Report Card on America's Governors: 2000,"** at the National Press Club.

Sue Blevins, author of Cato's forthcoming book *Medicare's Midlife Crisis*, discusses medical privacy regulations at a Policy Forum.

◆**February 15:** The Clinton administration's final rules, released in 2000 and meant to protect the confidentiality of patients' medical records , are a one-size-fits-all remedy. Private contracts would be a better way to ensure privacy, said Tom Miller, Cato's director of health policy studies, at a Cato Policy Forum, **"The New Medical Privacy Regulations: Will They Protect Our Most Personal Information?"** Attorney Ronald Weich defended the new rules, noting that "there are principles of privacy enshrined in this legislation that [did] not exist."

◆**February 20:** "The steel industry stands out as the clearest example of the folly of protectionism," said David Phelps, of the American Institute for International Steel, at a Cato Policy Forum, **"What's Wrong with the Steel Industry—Again."** For the second time in less than three years, the U.S. steel industry is in crisis mode. Charles Bradford, a steel industry analyst, agreed, saying: "I can't remember any time during [the last three decades] when the steel industry hasn't sought protection from imports. Every time, the industry's been weaker after protection than before." Thomas Danjczek of the Steel Manufacturers Association argued that the steel industry needs "import relief" to recover from a flood of imports.

◆**February 20:** President Bush's proposal to provide federal support for faith-based community services "may be one of the worst ideas ever conceived by the federal government," said Michael Tanner at a Cato Policy Forum, **"Government Funding of Faith-Based Initiatives: Compassionate Conservatism or Corrupting Charity?"** Tanner, director of health and welfare studies at the Cato Institute, warned that charities will waste valuable resources coping with disclosure requirements and that government will gradually exert control over the faith-based institutions. Marvin Olasky, Melissa Rogers, Keith Pavlischek, Barry Lynn and Joe Loconte also participated.

◆**February 21–25:** The Cato Institute held its 13th annual **Benefactor Summit** in Cancún, Mexico. Bradley A. Smith of the Federal Election Commission gave a speech titled "Campaign Finance and the Decline of Grassroots Politics." Hernando de Soto discussed his new book, *The Mystery of Capital.* Cato staff explained the Institute's accomplishments during the past year as well as Cato's future plans, highlighted by Cato president Ed Crane's annual "State of the Institute Address."

◆**February 26:** Washington's policy toward Iraq has been focused "more on scoring tactical victories than on crafting a cogent strategy," said Ivan Eland, Cato's director of defense policy studies, at a Cato Policy Forum, **"10 Years after the Gulf War: The Lessons and Future of Washington's Iraq Policy."** Edward Peck, former chief of mission at the U.S. embassy in Iraq, said that Washington should talk directly to Saddam Hussein, just as it continues to speak to other tyrants. Laurie Mylroie, author of *Study of Revenge: Saddam Hussein's Unfinished War against America,* said that Saddam has continued an undercover war against America with terrorism and weapons of mass destruction.

◆**February 27:** On the 50th anniversary of the ratification of the Twenty-Second Amendment, which limited presidents to two terms in office, the Cato Institute held a Policy Forum, **"Term Limits and American Government,"** to examine the need for term limits for lawmakers. Term limits on politicians would dramatically change the prevailing "culture of ruling" on Capitol Hill, said Edward H. Crane, president of the Cato Institute. Rep. Ric Keller (R-Fla.) argued that politicians who limit their own terms "have the freedom to do what's right."

◆**March 1:** To mark the 250th anniversary of the birth of James Madison, the Cato Institute held a conference, **"James Madison and the Future of Limited Government."** Featured speakers included Judge Alex Kozinski, who gave the keynote address; Nobel laureat James Buchanan, who delivered the luncheon address; and Bruce Bueno de Mesquita of Stanford University.

◆**March 7:** Although the conventional wisdom is that labor regulations from the Progressive Era helped African Americans, David E. Bernstein of George Mason Law School argued at a Cato Book Forum, **"African Americans, Labor Regulations, and the Courts: From Reconstruction to the New Deal,"** that African Americans benefited from rules that allowed liberty of contract. In discussing his book, *Only One Place of Redress*, Bernstein said that the Davis-Bacon Act and the National Recovery Act harmed African Americans; in contrast, the *Lochner* decision protected free labor markets.

◆**March 13:** Countries must move away from politically managed exchange rates that have been a principal source of financial turmoil in emerging markets, said David DeRosa of Yale University at a Cato Book Forum, *In Defense of Free Capital Mar-*

Debra Dickerson of the New America Foundation tells a Cato Forum, "Governing a Divided America," that the nation thrives on its differences.

George Mason University law professor David Bernstein discusses his book *Only One Place of Redress: African-Americans, Labor Regulations, and the Courts from Reconstruction to the New Deal.*

kets: The Case against a New International Financial Architecture.

◆**March 13:** Washington's decision to send $1.3 billion in military and foreign aid to Colombia to fight drug trafficking was analyzed at a Cato Policy Forum, **"Plan Colombia: Should We Escalate the War on Drugs?"** Ian Vásquez, director of the Cato Institute's Project on Global Economic Liberty, said, "It is difficult to come up with a more destructive policy toward Colombian society than the policy of the United States in recent years." James Mack of the U.S. Department of State said that Washington should attempt to cut off drugs at their source.

◆**March 15:** NASA has gone from science and exploration to bureaucracy and politics, said several speakers at the Cato Institute's conference **"Space: The Free-Market Frontier."** Featured speakers included former representative Bob Walker (R-Pa.), Rick Tumlinson of the Space Frontier Foundation, and Robert Poole of the Reason Foundation.

◆**March 20:** At a Cato Policy Forum, **"Should the Government Regulate Online Privacy? A Tech Industry Debate,"** John Palafoutas of the American Electronics Association warned that even though many of the fears about invasion of privacy are unfounded, his organization supports federal privacy legislation because states have been "adventuresome and foolish" in passing privacy laws. Mark Uncapher of the Information Technology Association of America and Jim Harper of Privacilla.org opposed federal legislation.

◆**March 21:** Federal Election Commissioner Bradley A. Smith spoke at a Cato Book Forum, *Unfree Speech: The Folly of Campaign Finance Reform*. Smith, a former Cato adjunct scholar, rejected calls for limits and disclosure. In dissecting the McCain-Feingold campaign finance reform bill, Smith said the measure would infringe on free speech as protected by the Constitution. In commenting on Smith's book, Jamin Raskin called for a voluntary public financing option for challengers to offset the "self-subsidy" of incumbents—franking privileges and the ability to raise money from interest groups.

◆**March 22:** Gov. Gary Johnson (R-N.M.) and Anthony B. Perkins, editor in chief of *Red Herring*, were the featured speakers at a Cato City Seminar, **"Cato Perspectives on Public Policy: 2001,"** in San Francisco.

◆**March 23:** The Cato Institute hosted a City Seminar, **"Cato Perspectives on Public Policy: 2001,"** in Los Angeles. The featured speakers were Gov. Gary Johnson (R-N.M.) and Edward J. McCaffery of the University of Southern California Law School. Other speakers included Cato's Edward H. Crane and José Piñera.

◆**March 26:** At a Cato Institute press conference on Capitol Hill, Daniel Griswold announced the results of a comprehensive Cato survey of trade policy votes in the 106th Congress. Griswold, associate director of Cato's Center for Trade Policy Studies and author of **"Free Trade, Free Markets: Rating the 106th Congress,"** named the 26 House members who voted most consistently against trade barriers. Rep. Jim DeMint (R-S.C.), a leading proponent of free trade, called for the removal of all barriers and subsidies to trade.

◆**March 27:** At a Cato Policy Forum, **"Governing a Divided America,"** author and social critic Terry Teachout warned that America may be dividing into two nations competing for political control of the country. Citing voting patterns in the 2000 election, Teachout said that the differences in culture and geography in some ways resemble the regional differences of 1860. Andrew Sullivan of the *New Republic* said that those at the extremes who want cultural warfare should not dominate the discussion.

◆**March 27:** The Cato Institute held a Policy Forum, **"The Law and Politics of Medical Marijuana,"** the day before the U.S. Supreme Court was to hear oral arguments in *United States v. Oakland Cannabis Buyers' Cooperative*. "No matter what the Supreme Court does, the medical marijuana movement has won," said Kevin Zeese of Common Sense for Drug Policy. "There is no way the federal government can put this genie back in the bottle." Alan Bock, author of *Waiting to Inhale: The Politics of Medical Marijuana*, said that only law enforcement groups and public officials are opposed to the medicinal use of marijuana. ■

Privatizing Social Security: Beyond the Theory

On February 6 and 7 the Cato Institute held a conference, "Privatizing Social Security: Beyond the Theory," to examine ways to translate the theory of Social Security privatization into a working system of individually owned, privately invested accounts. Speakers included Donald Marron, chairman of USB PaineWebber; Martin Feldstein of Harvard University; Milton Ezrati of Lord Abbett; Andrew Samwick of Dartmouth College; and William Shipman of State Street Global Advisors. Excerpts from their remarks follow.

Donald Marron: One of the exciting things about today compared with four or five years ago is that America has won several battles on Social Security. First, Social Security is no longer the third rail of politics. Second, it will be privatized, at least partially. So the real battle, the third and the most important, is getting it done.

If we don't do it soon, we will lose momentum. There are five or six keys to getting closer to privatization. One, any solution, by definition, has to be bipartisan. Two, we must involve all the affected groups. Many of them have very legitimate concerns. Everybody has to be included because this is such an emotional issue.

Three, we've got to go through the political process. Four, we must involve the investment community; the shareholders; and the owners of Social Security, the people. Finally, we must educate people. When we did surveys, both in the commission I chaired with Senators Gregg and Breaux and for USB PaineWebber, we found that a full 50 percent of Americans did not understand these issues of Social Security and financing a secure retirement.

It doesn't matter if you view Social Security as a tax or as a saving plan. Either way, you are in trouble. It is a regressive tax, and, like all other taxes, over time it would increase. It isn't a good savings plan because its return is less than 2 percent. When you start to look at it that way, you begin to realize the dilemma the new administration faces.

I disagree with anyone who says we should put off reform for 30 years because more money will be coming into the system. Do it now when we can afford to—even if we don't get it exactly right.

There are many variations on the plan we devised, but they all get to the same core issue: How do you provide a future for people who are going to live longer and want more flexibility in their lives?

Donald Marron: "Social Security is no longer the third rail of politics."

Andrew Samwick: One of the worst ideas advanced during the presidential campaign was the notion that the trust fund bankruptcy date is in any way relevant to the discussion of long-term reform. Nothing happens in 2037 that doesn't already happen in 2014, save a convenient relabeling. It may be the case that George W. Bush on his feet did not give a clear answer to the question, "What do you do about the transition costs?" But it is interesting that he was the one who was asked the hard question.

You could have asked the same question of candidate Al Gore in a slightly different way: "Once you allegedly shore up the trust fund until 2055, what do you do then?" Where was the popular press asking that question of the opposing candidate? The answer is that you sit on your hands while the tax rate has to go up to 6 percentage points.

Critics say we don't need reform because we can use about 2 percent of taxable payroll to restore solvency until 2075. Well, that's true and that's 2 percent of payroll and it doesn't seem like much, but in 2076 and 2077 and on through 2079 you liquidate the one year's worth of benefits left in the trust fund, and then you have to raise payroll taxes by more than 6 percentage points. The objective of people who favor personal retirement accounts should be to state the choice clearly: you either cut benefits for people who have no other place to get the money in 2075 or you raise taxes to the tune of 6 percentage points of payroll. That's the stark choice that people are running away from. I think that we need to tell the American people that, whether or not they like it, whether or not it is bitter medicine. That's the choice they'll be confronted with. And the Cato Institute (along with other similarly minded organizations) has to be the force that puts that choice in the forefront.

So if you take 2 percent of payroll and, instead of using it to prop up the existing system, use all the new money in a system of personal accounts instead of the pay-as-you-go system, what do you get? Well, if you earn a 5.5 percent rate of return, which is the number we've used as the after-corporate-tax return on investments in the corporate sector in the postwar period, by 2045 the personal retirement accounts can pay benefits equal to 4.75 percent of payroll. In 2045, using the actuaries' intermediate assumptions, you've got a financial gap of only 4.6 percent of payroll. Under a 2 percent plan that's the first year you're out of the woods. The solvency problem is then covered on a yearly basis, and your only question is how much of the debt that you issued during the course of this transition do you still have to pay off. That takes you another seven years or so.

By 2075, if you've been giving 2 percent of payroll to personal retirement accounts, you're now throwing off about 9 percent of payroll. The gap in 2075 is only 6.14 percent of taxable payroll. So you have more money than you would need to solve these problems. You should start giving tax relief if you haven't given it already.

Milton Ezrati: Apart from the red herring of transactions costs, risk is the primary focus of most objections to Social Security privatization. Especially in government circles, those in authority remain concerned that average Americans—Joe and Jane Six-pack—will fail to manage their investments so that they provide for retirement. Some observers have worried about how vulnerable Joe and Jane might be to unscrupulous financial types, who will channel their privatized retirement fund into dubious

"Under any reasonable set of assumptions, it will always be less expensive to move toward a market-based system than it will be to stay with a pay-as-you-go system."

—William Shipman

investments and charge high fees that eat up any returns. (The last time I looked, we in this country had the Argus-like Securities and Exchange Commission to guard against such abuse, but, evidently, some officials lack faith in the ability of other officials to protect the public.) Mostly, however, the objections to a privatized plan involve Joe's and Jane's ability to invest money so it will survive the inevitable vicissitudes of financial markets and grow enough to provide for retirement.

The first concern is that Jane or Joe will retire in a down year for the market and so have to cash out with insufficient assets. I cannot see why this misconception is so widespread. It not only flies in the face of sound investing; it flies in the face of common sense.

Why, I have to ask, would anyone, whether an investment guru or a socialist who hates "The Street," want to withdraw all investments on the day of retirement? You do not wake up on the first Monday after you retire and swap your stocks for an annuity. Most people, when they retire, plan to live for a few years, at least, and they want to keep their investment to provide for this future.

The damage this argument does to common sense is dwarfed by the violence it does to rudimentary investment sense. Indeed, it shows a complete ignorance of the most elementary of investment concepts. Because markets are so very volatile, timing them is a dangerous business; so you average in and average out, buying bit by bit over time and selling in the same way. That is called "dollar cost averaging." It is not rocket science. When you want to get out of the market, because of some lifestyle change like retirement, you plan it well ahead of time and move out gradually, over a period of years perhaps, so that you do not get stuck having to cash out in a down year.

We want our system to dissuade Joe and Jane from moving their respective portfolios into and out of asset classes quickly.

The second general risk that seems to concern folks about privatization is that Joe and Jane, in their impressionable ignorance, will chase investment fads, like the dot-com craze, getting into them too late (in other words, buying high) and getting out too late (selling low). Since that can happen to even the most seasoned professional, the investment principle is to always avoid putting all your money in a narrow range of securities or even a single asset class: stocks, bonds, real estate. You diversify your holdings across a number of securities and different asset classes.

We will have rules to ensure that Jane and Joe have portfolios diversified across a good number of holdings and across different asset classes.

The last general fear is that Joe and Jane will fail to build portfolios that are right for their individual circumstances, that they will miss needed growth when young or fail to build in the kind of holdings that provide income when they get older and need to live off the investment nest egg. There is no denying that different stages of life require different sorts of investments. Young folks should like aggressive, growth-oriented stocks, while retirees should like bonds and annuities.

Martin Feldstein: "An investment-based system can deliver higher benefits and reduce the tax burden."

We want our rules to help Jane and Joe configure their investments.

If our regulations simply direct people according to these simple and straightforward investment Principles—avoid market timing, diversify thoroughly, and make the portfolio reflect personal circumstances—they will guard effectively against most investment risks at least as well as any sophisticated corporate pension does.

Martin Feldstein: I am convinced that the time has come to move from advocacy to implementation. I believe that the nation is now ready for transition. Shifting to an investment-based account system is the right way to solve the most important fiscal problem facing the United States and indeed the other industrial countries of the world: to provide the retirement income of an aging population. A majority of the population supports the change. That became clear during the campaign. And, frankly, the people supported the switch even before they learned how much an investment-based system can deliver. I think that as they learn more their support will be even stronger.

An investment-based plan makes it possible to maintain benefits projected in current law without an increase in taxes. Indeed, in the long run an investment-based system can deliver higher benefits and reduce the tax burden below the current 12 percent. How can any responsible member of Congress reject such an opportunity? The actuaries of the Social Security Administration have clearly stated that the current pay-as-you-go system is not capable of maintaining projected benefits without a major increase in tax rates.

Let me emphasize that this is not a temporary problem that will go away as the baby boomers pass through the retirement cohort. It is a permanent problem caused by the aging of the population.

The Social Security actuaries tell us that a young person entering the labor force now who will have average earnings throughout his working life will get an implicit rate of return on his contributions of about 1 percent. In contrast, the rate of return on the Treasury's own inflation-protected bonds is now 3.5 percent. Let's assume a pay-as-you-go rate of return about twice what the Social Security actuaries predict, 2 percent instead of 1 percent. And for the investment-based system assume a real return of only 5.5 percent. Even with these very conservative assumptions, calculations show that the investment-based system can finance any stream of retirement benefits with contributions to personal retirement accounts equal to only one-third of the taxes that would have to be paid in a pay-as-you-go system. The implication is clear. It would take an 18 percent payroll tax to finance projected benefits in the pay-as-you-go system, but those same benefits can be financed with investment-based savings and personal

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Will faith-based charities be corrupted?

McCain Bill Would Ban Some Political Speech

Proposed campaign finance regulations would ban political free speech and give incumbent politicians even more advantages against challengers, according to a new Cato study, "Making the World Safer for Incumbents: The Consequences of McCain-Feingold-Cochran" (Policy Analysis no. 393). The legislation would help incumbent politicians get reelected by choking off funding for challengers and stifling criticism of incumbents' performance, writes John Samples, director of the Cato Institute's Center for Representative Government. Banning "soft money" contributions to political parties would hurt their ability to fund competitive congressional races, further reducing voter turnout. McCain-Feingold-Cochran would also help incumbents by barring corporations and unions from running political ads that mention a candidate by name within 60 days of a general election and 30 days of a primary. "The real purpose of the ban is to protect incumbents from criticism during campaigns," Samples says.

◆Free Trade and Its Enemies

Free trade had few real advocates in the 106th Congress, according to a new study released by the Cato Institute, "Free Trade, Free Markets: Rating the 106th Congress" (Trade Policy Analysis no. 13). Daniel Griswold, associate director of Cato's Center for Trade Policy Studies and author of the study, found that only 26 House members in the 106th Congress can be described as free traders. Current House members John Linder (R-Ga.), Richard Armey (R-Tex.), Steve Chabot (R-Ohio), and Jim DeMint (R-S.C.) got the highest marks for consistently voting against government intervention in the form of both trade barriers and subsidies. Griswold found that a near majority of House members, 212, voted as internationalists (opposing barriers and supporting subsidies), 24 voted as isolationists (supporting barriers and opposing subsidies), and 43 voted as interventionists (supporting both barriers and subsidies). In the Senate, a majority of 60 voted at least two-thirds of the time against trade barriers. (No votes were recorded on subsidies.) Sens. Richard Lugar (R-Ind.) and George Voinovich (R-Ohio) scored highest, voting against trade barriers in all 15 votes. Griswold noted that "well-worn labels such as 'internationalist' and 'isolationist' do not fully capture the policy choices lawmakers face when deciding international commercial policy. The choice is not between engagement and isolation but between the free market and all forms of government intervention, including barriers, subsidies, and bailouts."

Dan Griswold discusses congressional votes on trade at the Capitol Hill release of his Trade Policy Analysis.

◆National Missile Defense Should Be Delayed

Unwarranted concern over "rogue states" has led to pressure for the United States to field a national missile defense system far more quickly than it can or should, according to a new study from the Cato Institute, "The Rogue State Doctrine and National Missile Defense" (Foreign Policy Briefing no. 65). Ivan Eland, director of defense policy studies at the Cato Institute, and Daniel Lee argue that the United States should take more time to develop and test the most technologically challenging weapon ever built. It can do so because the threat from so-called states of concern (SOCs) has declined, they say. Those countries also develop longer-range missiles because they are nervous about the presence of American troops nearby: missiles offer a way of deterring American intervention. "If American forces were less likely to intervene, those nations would have less incentive to develop long-range missiles and much less reason to target them at the United States," Eland and Lee point out.

◆Tax Credits: The Road to Educational Freedom?

A new Cato study, "Toward Market Education: Are Vouchers or Tax Credits the Better Path?" (Policy Analysis no. 392), concludes that universal education tax credits would do considerably more than President Bush's education plan to create a true education marketplace. Tax credits let parents deduct private school tuition and other education expenses from their state tax bills and allow businesses and individuals to write off, dollar for dollar, their donations to scholarship-granting organizations. "Not all market-inspired education reforms are intrinsically or uniformly effective," writes Andrew J. Coulson, author of *Market Education: The Unknown History*. "They can succeed only to the extent that they support the conditions for a thriving education market and ensure that all families have access to that market."

◆Oil Subsidized Less Than Mass Transit

Critics of the oil industry complain that government showers the industry with large and unwarranted benefits. But a new Cato Institute study, "'Big Oil' at the Public Trough? An Examination of Petroleum Subsidies" (Policy Analysis no. 390), shows that the oil industry enjoys fewer benefits than people think. Energy economist Ronald J. Sutherland argues that "the oil industry is more harmed than helped by government intervention in energy markets." According to data from the Energy Information Administration, total energy subsidies were $6.2 billion, or about 1 percent of total energy expenditures, in 1999. Of that, only $567 million went to oil companies, "a small share of oil revenues and far less generous than the preferences and subsidies provided for rival businesses and technologies such as mass transit and alternative fuels," says Sutherland.

◆Washington's Cold War Time Warp in the Philippines

The United States should avoid embroiling itself in parochial disputes over the Spratly Islands and end its security commitments to the Philippines, argues Doug Bandow in "Instability in the Philippines: A Case Study for U.S. Disengagement" (Foreign Policy

“The best way to raise the living standards of the world's poor is to liberalize international capital markets.”

Briefing no. 64). Bandow, a senior fellow at the Cato Institute, says that “Washington’s attempt to expand outmoded security ties with East Asia is emblematic of a foreign policy locked in a Cold War time warp.” He notes that “America’s allies face no external threats that they cannot cooperatively contain.” Bandow concludes that “security commitments and deployments should be based on present, not past, threat environments. World War II and the Cold War are over. Washington should update its relationship with the Philippines and its neighbors to reflect today’s world.”

◆Luring Charity to the Public Trough

President Bush’s initiative to provide federal funds to faith-based groups raises constitutional problems, risks subjecting churches to stifling regulation, and robs private charities of their unique mission, according to Michael Tanner in “Corrupting Charity: Why Government Should Not Fund Faith-Based Charities” (Cato Briefing Paper no. 62). Tanner notes that faith-based charities have proven themselves far more effective than government agencies at helping the poor and points out that President Bush’s plan “risks mixing government and charity in a way that could undermine the very things that have made private charity so effective.” Faith-based charities on the government dole could find themselves becoming increasingly dependent on federal funds, which would force them to alter their original missions and religious character that made them so successful in the first place.

◆African Americans Would Benefit from Social Security Privatization

African Americans are more dependent on Social Security for retirement income than are whites, but, because of their shorter life expectancies, they reap fewer benefits from the program, according to a new Cato Institute study, “Disparate Impact: Social Security and African Americans” (Cato Briefing Paper no. 61). Despite the progressive benefit structure of Social Security, 30 percent of African-American seniors still live in poverty, according to Michael Tanner, director of Cato’s Project on Social Security Privatization. Social Security also contributes to the wealth gap between blacks and whites, since high payroll taxes reduce the ability of low-income workers, many of them African Americans, to save and invest. Social Security generates a lifetime transfer of wealth from blacks to whites of nearly $10,000 per person. Tanner argues that a system of private retirement accounts would provide poor African-American retirees with higher benefits, would not be dependent on life expectancy, and would increase the pool of capital available for investment in poor inner-city neighborhoods.

◆Governors Graded on Fiscal Policy

Govs. Paul Cellucci of Massachusetts and Kenny Guinn of Nevada were the only two governors in the nation to receive an “A” on the Cato Institute’s fifth biennial “Fiscal Policy Report Card on America’s Governors: 2000” (Policy Analysis no. 391). Overall, governors have gone on a surplus-fueled spending binge in recent years, write Cato senior fellow Stephen Moore and fiscal policy analyst Stephen Slivinski. Nearly two of every three surplus dollars in state coffers since 1996 have gone to new spending, not tax reduction, say Moore and Slivinski. The fiscal report card is based on objective measures of fiscal performance. Governors who cut taxes and spending the most receive the highest grades. Those who raised taxes and spending the most receive the lowest grades. The average grade for Republicans is only slightly higher than for Democrats. “We hope governors learn the lesson: Surplus-fueled spending sprees can come back to haunt you,” the authors conclude.

Senior fellow Stephen Moore gives Massachusetts governor Paul Cellucci his Fiscal Policy Report Card at a National Press Club news conference.

◆The Blessings of Trade Deficits

Trade deficits are a sign of strength, not a cause for worry, according to a new study by the Cato Institute, “America’s Record Trade Deficit: A Symbol of Economic Strength” (Trade Policy Analysis no. 12). The real danger lies in any attempt by the new administration or Congress to “fix” the trade deficit, writes Daniel T. Griswold, associate director of the Cato Institute’s Center for Trade Policy Studies. He finds that “the worries of policymakers, economic commentators, and critics of American trade policy rest on a fundamental misunderstanding of the causes and consequences of the U.S. trade deficit.” Trade deficits do not cause poor economic performance; rather, they typically accompany improving economic conditions. Overall and bilateral trade deficits are not the cause of net job losses in the U.S. economy. The trade deficit does not lead to “deindustrialization.” America’s annual trade deficits are sustainable as long as the United States remains a safe and profitable destination for the world’s savings.

◆Aid the World’s Poor: Open Capital Markets

The best way to raise the living standards of the world’s poor is to liberalize international capital markets, according to “The Case for Open Capital Markets” (Trade Briefing Paper no. 11). Robert Krol, professor of economics at California State University, Northridge, says that “calls for a new international financial architecture that would include controls on international capital flows may be politically expedient, but they will be harmful to the global economy. Allowing international capital markets to determine how funds are used is the best way to raise the living standards of the world’s poor.” Krol concludes that “without IMF intervention, global investors will increase their scrutiny of the economic policies of emerging market economies. Countries that want access to world capital will face strong incentives to adopt market reforms. As a result, global capital will be used more prudently and efficiently.”■

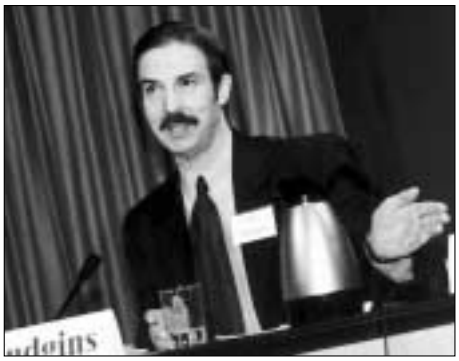
NASA blamed for "central planning" approach

Open Space to Free Market, Speakers Say

NASA has "lost focus" and now relies on a "central-planning" approach that has slowed commercial development in space, said several speakers at the Cato Institute's March 15 conference, "Space: The Free-Market Frontier."

Former representative Robert Walker (R-Pa.) said that after the United States won the race to the moon, NASA no longer had a specific goal. Walker, an adviser to President Bush, said that the result of government's dominating space "has been like a walk in the wilderness. The programs literally became a series of policy strobe lights seeking their next crunch of annual appropriations. We have tailored the programs to meet whatever those appropriation expectations are."

Robert Poole, director of transportation studies at the Reason Public Policy Institute, blamed NASA for suppressing the American space launch industry and recommended stripping the agency of its operational role. "The underlying belief is central planning—that government should be in a commanding role," Poole said. He cited NASA's recently cancelled X-33 program as an example in a historical pattern of government's hindering commercial transportation development. "Government gets all enamored of a new transportation system and jumps in with both feet," Poole said. "The result is to distort what would have otherwise happened in the free market. In space transportation we see the same pattern emerging." He concluded that "we should recast NASA as a research agency, not an operating agency."



Left: Rep. Robert Walker told Cato's conference, "Space: The Free-Market Frontier," that NASA has been focused on appropriations, not scientific needs.

Bottom left: Rick Tumlinson of the Space Frontier Foundation blamed NASA director Dan Golding for a host of problems.

Bottom right: Cato's Ed Hudgins called for ending restrictions on entrepreneurial activity in space.

The development of commercial aviation, in which government played a less active role, was cited as a model for commercial development of space. "It is clear that space flight and, in particular, human space flight have not yet achieved the same large-scale commercial advances in their first 40 years as were seen in aviation," said Gregg Maryniak, executive director of the X Prize Foundation. Maryniak said there was a lag in the development of space flight because many people associated space with government. "This expectation born of early success now impedes new commercial space markets," he said.

Maryniak observed that in the early 1980s NASA proposed development of a "space pod," similar to one used in the movie *2001: A Space Odyssey*, that would allow astronauts to work in space for long periods of time. The estimated price tag: $1 billion. But at that time private parties had developed Deep Rover, a pod for working on the ocean floor, at a cost of $1 million, or 1,000 times less than the planned NASA pod.

John Higginbotham, chairman of Space Vest, a leading private equity investor in emerging industries, discussed commercial opportunities in space. Philip Mongan of SpaceHab highlighted the commercial space services that his company provides, including a planned private module to be attached to the International Space Station.

Panelists also discussed the case of Dennis Tito, the wealthy entrepreneur who has offered $20 million to the Russian space agency for the chance to be the first civilian explorer to pay to visit outer space. Objections from NASA administrator Daniel Goldin have been the major stumbling block, panelists said. Rick Tumlinson, head of the Space Frontier Foundation, called for Goldin's resignation. "Dan Goldin must go," he told the conference, blaming the administrator for a host of NASA-related problems, including cost overruns on the International Space Station.

Attorneys Wayne White and James Dunstan discussed the need for a property rights regime for commercial space activities. Marc Schlather from ProSpace reviewed legislation aimed at private commercial space efforts.

Other speakers at the conference included Liam Sarsfield of RAND Corporation, Ty McCoy of the Space Transportation Association, David Livingston of Livingston Business Solutions, James Bennett of Internet Transactions Transnational Inc., and Fred Abatemarco of space.com.

The conference, organized Edward L. Hudgins, director of regulatory studies at the Cato Institute, can be viewed online with RealPlayer at the Cato Institute's main Web site, www.cato.org. The conference was cosponsored by ProSpace and the Space Frontier Foundation. ■

Madison's 250th birthday is occasion for reexamining genius of Constitution

Relevance of Madison's Ideas Explored

"As long as the Supreme Court ignores Madison's warnings, a true federalism will remain a thing of the past," said Judge Alex Kozinski at a Cato Institute conference on March 1 marking the 250th anniversary of the birth on March 16 of James Madison, principal architect of the U.S. Constitution. Three panels of leading scholars and public policy experts examined Madison's ideas on minority rights, the dangers of faction, separation of church and state, and enumerated powers as well as his realistic, though not pessimistic, view of human nature.

Madison's view of limited government has been undermined since the Progressive Era by a sense that government should solve any and all problems, said Roger Pilon, Cato's vice president for legal affairs. Pilon said that it is vital for the courts to restore constitutional government. "The judiciary is the bulwark that stands between us and tyranny," said Pilon. Joyce Lee Malcolm of Bentley College said that Madison, "the Father of the Constitution and the Bill of Rights, did not place his trust wholly in parchment barriers." Malcolm said that "Madison knew the ultimate security [of a nation] was a people committed to limited government and the rule of law."

Bruce Bueno de Mesquita of Stanford University examined how politicians misallocate resources to interest groups in order to stay in power.

Nobel laureate James Buchanan analyzed Madison's famous dictum that "if men were angels, no government would be necessary." He noted that Madison's ideal society would be one of angels in which coercion would not be necessary. At the same time, Buchanan pointed out, Madison knew that a political order based on liberty requires forbearance from individuals. Buchanan questioned whether such tolerance—a basic moral order—existed in contemporary America and asked how it might be revived.

At Cato's conference on James Madison's 250th birthday, Nobel laureate James M. Buchanan asks what Madison meant by "angels" when he wrote about the nature of government.

One of Madison's beliefs was that a diversity of interests would protect the new American republic from tyranny. Tom G. Palmer, Cato senior fellow, said that Madison advocated a "multicultural republic," anticipating a "multitude of different commitments, which he termed 'passions.'" But, Palmer added, Madison should not be confused with the modern multiculturalists in the sense of "endorsing an array of a group-specific rights or the rights of groups to representation as groups." Palmer said that the focus on group rights undermines the concept of individual rights.

What lessons can emerging democracies learn from Madison? James A. Dorn, vice president for academic affairs at Cato, said: "The most important lesson that emerging democracies can learn from Madison's constitutional vision is that a free society cannot coexist with a redistributive state. True justice requires that government be limited to the protection of persons and property."

Other speakers at the conference included Jacob T. Levy of the University of Chicago, who addressed Madison's view on the treatment of American Indians, and Robert M. S. McDonald of the U.S. Military Academy, who examined Madison from a Jeffersonian perspective.

The conference, organized by John Samples, director of Cato's Center for Representative Government, can be viewed with RealPlayer on Cato's main Web site, www.cato.org. ■

Cato Calendar

Making a Federal Case Out of Health Care: Five Years of HIPAA
Washington • Cato Institute
July 31, 2001
Speakers include Rep. Dick Armey, Richard Epstein, Mark Hall, Fred Cate, and Mark Pauly.

Cato University
San Diego • Rancho Bernardo Inn
August 4–10, 2001
Speakers include David Friedman, Randy Barnett, Tom G. Palmer, David Beito, Charlotte Twight, Dana Berliner, and Deroy Murdock.

Policy Perspectives 2001
Austin • Four Seasons Hotel
October 16, 2001

Policy Perspectives 2001
Dallas • Four Seasons Las Colinas
October 17, 2001

Money and Markets in the Americas
19th Annual Monetary Conference
Mexico City • Four Seasons Hotel
October 24, 2001
Speakers include Francisco Gil-Díaz, Robert Mundell, Steve H. Hanke, Judy Shelton, Robert McTeer Jr., Allan Meltzer, and José Piñera.

Cato University
Montreal • Omni Mont-Royal
October 25–28, 2001

Policy Perspectives 2001
Chicago • Ritz-Carlton
November 1, 2001

Policy Perspectives 2001
New York • Waldorf=Astoria
November 16, 2001

14th Annual Benefactor Summit
Phoenix • Royal Palms Hotel & Casitas • February 20–24, 2002

25th Anniversary Gala
Washington, D.C. • Washington Hilton and Towers • May 9, 2002

Updated information on Cato events, including Policy Forums and Book Forums not shown here, can be found at www.cato.org/events/calendar.html.

"Norwegians have tended to embrace state control with the equanimity of children who sleep soundly knowing that their parents are just outside the bedroom door."

NORWAY *Continued from page 1*

tom private-school enrollment (the lowest in the Western world) to their government-run liquor stores, or "wine monopolies" (no kidding), where a slender 700-ml bottle of bottom-shelf gin goes for $30. This is a country whose capital is Europe's most expensive and whose government, supposedly in order to foster diversity of opinion, provides subsidies that enable that capital (pop. 500,000) to have more than a half dozen major daily newspapers—all of which (surprise!) staunchly endorse the social-democratic status quo. Though Norway is the world's number-two oil producer, sky-high taxes keep gas prices above those in the European Union (to which Norway doesn't belong). As for that vaunted democratic value known as individual choice, forget about it: in this cold, cautious, convention-bound land at the upper edge of Europe, "individualism" has long been a dirty word, synonymous with selfishness, greed, a lack of collective feeling, a rejection of the call to solidarity.

The mentality that has characterized Norwegians during the social-democratic era was neatly summed up in an article that appeared in October in the daily newspaper *Dagbladet*. In that article, sociologist Trond Blindheim and political scientist Thorn Øivind Jensen recalled that, as members of "the first generation of Norwegians born into the welfare state" (i.e., between 1950 and 1973), they were made to feel even as children that they were "involved in a great project." Parents, teachers, and everyone else in authority made it clear to them that "if we wanted life to go well for us, we must be a group and remain true to the common values."

The Times They Are A-Changin'

Yet those times are gone—or, at least, going. More and more young Norwegians challenge social-democratic conformity in a way their parents would never have dared. Plans are under way for the privatization of pharmacies and movie theaters—a development that not long ago would have been unthinkable. And last September 5 the nation was rocked by the astonishing news that a plurality of voters, according to a Gallup poll, preferred the Progress Party (which is routinely described in the Norwegian press as radical right) to the long-dominant Labor Party, *fellesskap*'s ideological home. Since then a series of messy scandals and internecine conflicts has helped drive the Progress Party's poll numbers down and put the Labor Party back on top. At the same time there has been a rise in support for the Conservative Party (which, though considered the country's "other" right-wing party, is in fact a classical-liberal group whose positions, viewed in the Norwegian context, can seem quite libertarian).

It's hard to avoid the conclusion that this nanny state (which has seven or eight major political parties) may be in for a dramatic transformation—if not in this year's parliamentary elections, then not too very far down the road. As one commentator observed in *Dagsavisen* soon after last September's Gallup results, the newfound strength of nonsocialist parties here amounts to nothing less than an "earthquake on the political landscape"—a suggestion that Norway's more than half-century-old "social contract between the rulers and the ruled is approaching dissolution."

And what kind of contract would take its place? That depends. Under the Progress Party, admittedly, the picture wouldn't be entirely pretty. Most notoriously, the party has come out for tough immigration reforms—yet, given the expediency, irresponsibility, and naiveté that have marked the past generation of Norwegian immigration policy, it's an open question whether the Progress Party's suggested changes are more morally offensive than the status quo. In any case, this isn't exactly Pat Buchanan we're talking about. After all, the party supports Norway's new same-sex partnership law.

Yes, Norway does have Religious Right types—but you're more likely to find them, interestingly enough, in the Socialist Left Party (whose advocacy of open borders has won it wide support among fundamentalist Moslem immigrants) and, especially, in the Christian People's Party (which, unlike the Progress Party, officially opposes the partnership law). But because the Christian People's Party has its roots in Norway's established church, and because it's every bit as enthusiastic about the state's systematic intrusion into private life as is the Labor Party, establishment opinion has consistently regarded it not as dangerously and offensively intolerant but as acceptably and respectably centrist. (Nor, in a country where a staggering number of summer wardrobes include Che Guevara T-shirts, is the Socialist Left Party at all stigmatized.)

No, what makes the Progress Party "right wing," by Norwegian standards, is that it challenges the social-democratic excesses of the present system. It calls for a lowering of the prohibitive taxes on such commodities as meat, cigarettes, alcohol, and gasoline and for a reduction or elimination of many government subsidies, such as the $1 million a year that goes to newspapers directed at Norway's 40,000 Sami, or Lapps. The party's privatization plans, meanwhile, would make Norway's economic system somewhat less statist and more like those of the rest of Western Europe.

The Establishment Fires Back

Moderate though these proposals may sound, however, Norwegians' sudden enthusiasm for them caused panic last fall among this country's ordinarily staid political and intellectual establishment. "How reactionary and self-centered can we get?" asked a writer in *Dagsavisen*. "Economic growth has made us bigger egotists," an environmental activist griped to *Aftenposten*, Norway's newspaper of record. "The common vision of Norwegians today," complained a writer in *VG*, the nation's biggest-selling daily, "is cheaper liquor and meat, not solidarity." And *Dagbladet*, in a breathtaking display of advocacy journalism, served up a photo spread of several dozen famous and not-so-famous Norwegians, all of whom explained why they wouldn't vote for the Progress Party. The explanation given by one of them, a rock singer named Øystein Greni, provided the headline: "Because I love people."

This is, indeed, the Norwegian establishment's line on the Progress Party: that it is anti-people. As columnist Anders Hager sneered in *Dagsavisen*, Norwegians once proudly boasted that "we are all social democrats" but have now become "modern individualists." The modern individu-

"More and more young Norwegians are challenging social-democratic conformity in a way their parents would never have dared."

alist, Hager explained, is not a new figure: even Aristotle and Plato were familiar with the type who "doesn't relate himself to the masses, the *fellesskap* or the state" but instead "is preoccupied with the single individual, that is to say, himself." Ancient Greeks, according to Hager, had a name for "those who stood outside the polis, paid tax reluctantly, and didn't want the polis to have any authority." The word: "idiot."

Hager's bringing together of ancient Greek philosophy and the modern Scandinavian welfare state isn't quite as much of a stretch as it may at first seem. On the contrary, one can sometimes get the impression here that the normative Norwegian concept of the ideal state was in fact shaped by Plato's enthusiastic vision, in the *Republic*, of an authoritarian tyranny from which individual self-determination and private-property rights have been entirely purged.

And yet it is the Progress Party's charismatic leader Carl I. Hagen whom the press has branded as an extremist. Editorials and columns have compared him with Austria's Jörg Haider and suggested the danger of EU sanctions if his party gains power. Admittedly, there is something off-putting about Hagen, whose robust, combative manner is not only an extreme departure from the colorless managerial types who tend to run Norway but also—unsettlingly—brings to mind the likes of Richard Daley (père), Huey Long, and other populist demagogues of yesteryear. (Indeed, with his broad frame, florid, grinning countenance, and full head of white hair, Hagen would be perfectly cast as a somewhat younger Boris Yeltsin.) And his power struggles with other Progress Party higher-ups—a couple of whom have recently been, in effect, purged from the party ranks—do not exactly belie his strongman image. Yet, even when Hagen's most vocal adversaries take on his program point by point, they seem unable to come up with anything more offensive than, say, his school voucher proposal.

The most vituperative attacks on the Progress Party came in January, after the murder in Oslo of a dark-skinned teenage boy by a neo-Nazi youth. A Labor Party politician blamed Hagen's party for creating an atmosphere of racial hatred that led to the murder. In fact, if any party has to answer for the tensions between natives and immigrants, it is the Labor Party, which over the last three decades or so has overseen an immense but ill-conceived immigration program. The routine official claim is that immigration has made the Oslo area richly and positively "multicultural"; in reality the city is split between natives and a tightly knit, essentially unassimilated immigrant community dominated by Moslems from Pakistan, Morocco, and elsewhere—many of them fundamentalists. The sometimes staggeringly generous government handouts to those immigrants serve largely, on the one hand, to reinforce the sense of entitlement felt by some of the immigrants, not to mention (sad to say) their impression that Norwegians are a naive bunch, a soft touch, almost pathetically eager to be fleeced; and, on the other hand, to exacerbate the resentment that some natives feel toward "southern" immigrants generally, even though many of the latter are hard working, law-abiding, and eager to assimilate.

In terms of both values and temperament, you could hardly find two more different groups on the planet. Yet no truly serious effort has ever been undertaken to help accustom immigrants to Norwegian ways, or to help natives understand their new neighbors. The government, one gathers, simply assumed from the start that everybody would get along—that Norwegians were somehow immune to the racial rancor that, when manifested in the United States, used to cause Scandinavians to look down on Americans with shock, disgust, and an overweening sense of moral superiority. (As one middle-aged Norwegian told me, "We were brought up to think that the only good American was Martin Luther King Jr.")

Can it be that, deep down, Norwegian leaders just weren't able to imagine Moslems from places like Pakistan becoming part of Norway's cozy *fellesskap* and could envision them only as a respected but eternally unassimilated minority? (Can you say "separate but equal"?) Certainly, that would explain why Norwegians are taught from an early age to view the notion that "anyone can become an American" as coercive—and why even the grandchildren of immigrants, kids who were born in Norway and speak the language fluently, are universally called not "second-generation Norwegians" but "third-generation immigrants." Labor Party leaders seem honestly not to understand why some of those kids don't like this.

Among the few voices in the mainstream Norwegian media to dissent from the social-democratic chorus have been those of Blindheim and Jensen, who in their October *Dagbladet* article dared to suggest that the falling away of young Norwegians from Labor Party traditions is (gasp!) "no tragedy." They argue, rather, that "it ought to be seen as progress that people have become more self-assured and demanding, more resourceful and active in forming their own reality." Members of today's generation "don't have a prefabricated ideological manuscript that prescribes whom they will be, how they will live, and what they will think. . . . Young people look at the political elite in the Labor Party holding hands and singing revolutionary songs from the 1930s and feel that they're pathetic." Defying the establishment consensus, Blindheim and Jensen applaud the fact that these young people "cross social boundaries easily, and grant themselves much greater scope for identity formation than earlier generations."

Thinking for Themselves

Which is not to say that handing the government over to Hagen and company would be advisable. Blindheim and Jensen, noting that Norway's future belongs to those who find the quickest and best new alternatives to the old ways, conclude their article by saying that "things won't go well as long as it's the Progress Party that understands this best." Indeed, as the Progress Party's internal strife continues to mount, it seems increasingly clear that Norway's solutions lie elsewhere. It is cheering, then, to observe the recent upswing in the polls of the Conservative Party, which is market oriented, socially tolerant (its highly popular Oslo leader, Per Kristian Foss, is openly gay), and considerably more acceptable to Norway's political establishment than Hagen & Co.

Setting aside for the moment the mer-

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SOCIAL SECURITY *Continued from page 3*

Investment analyst William Shipman examines the transition to a privately funded system.

needs to design a low-cost system based on priorities and that time must be allowed for the implementation of the new system.

Other speakers at the conference included PaineWebber chairman Donald Marrons; Rep. Charles Stenholm (D-Tex.); Michael Barone of *U.S. News & World Report;* Thomas Saving of the Social Security Board of Trustees; Shane Chalke of AnnuityNet.Com; Milton Ezrati of Lord Abbett; and Cato's Michael Tanner, José Piñera, and William Shipman.

The conference, organized by Tanner, director of Cato's Project on Social Security Privatization, and Andrew A. Biggs, Social Security analyst at Cato, can be viewed with RealPlayer on Cato's main Web site, www.cato.org, or on Cato's Social Security Web site, www.socialsecurity.org. ■

Joel Rosenberg, Cato's Casey Lartigue, and Cato adviser Deroy Murdock talk at Social Security conference.

NORWAY *Continued from page 13*

its or demerits of any particular party, however, what's striking about the furor surrounding Norwegians' increasing openness to new (for them) political ideas is that establishment critics haven't merely taken their countrymen to task for their opinions. No, they've scolded them for daring to think they have a right to have opinions. Brought up on the mantra that "we are all social democrats" and the doctrine that the state knows best, how dare Norwegians start thinking for themselves?

Yet this is apparently just what some younger Norwegians have at long last begun to do. More fluent in English than their parents and having traveled more widely outside their own country, they feel less bound than previous generations to Norway's distinctive social and political traditions and more a part of the world beyond the fjords. They've seen firsthand the workings of societies and economies other than theirs, and they like much of what they have seen. Many have figured out that the opposite of individual rights isn't community spirit but government control, and they've had enough of that, thank you. If the recent poll results tell us anything, in short, it's that, in defiance of a lifetime of careful training, many young Norwegians have grown tired of marching in leftist lockstep and wish to claim their individual voices as citizens of a democracy. And that, in itself, isn't bad news at all. ■

FORUM *Continued from page 7*

retirement accounts funded with about 6 percent of the same earnings base—or by a mixed system with the current 12 percent payroll tax and 2 percent savings in personal retirement accounts.

William Shipman: The language surrounding the transition cost issue—that moving to a market-based system will force some people to pay twice, both for their own retirement benefits and for those of people who are currently retired—is rather seductive for a couple of reasons. One, it's true. But more important, it's not complete. The reason that it's not complete is that it does not explain what happens if we do not change the system.

The unfunded liability for the Old Age and Survivors Insurance portion of Social Security is roughly $9 trillion by one measurement. That's the cost of doing nothing. And that's the cost we must compare to the costs of transitioning to an alternative market-based system.

Under an alternative system of personal retirement accounts, individuals will accumulate enough wealth so that when they retire the government will not have to pay them anything. Now, individuals may or may not choose to take part. For a 21 year old this is a lay-up decision: That individual will take the deal of a market-based structure. For a 65 year old it may also be a lay-up decision, in that he would not take the market-based structure because he doesn't have enough time left to save and invest.

There must be an age someplace between 21 and 65 at which what people would receive from Social Security would equal what they would receive from a market-based structure. Let's just assume that age is 40. Then all rational individuals over the age of 40 will stay with Social Security, and all rational individuals younger than 40 will go into a market-based structure. We now have parameterized the nut that must be cracked.

We know the size and ages of the group that will remain in the current system, and we know that no one else can join. Once everyone in the group has died, the government's Social Security obligations will go to zero. Let's assume that we issue debt to pay benefits for just this group. The debt will increase during the transition period, but over time, as the group ages and dies, the benefits paid will begin to fall. Eventually, the debt is paid off through the remaining paproll taxes of the ever-expanding younger cohort. At that point there is no employer or employee tax. Individuals who save and invest will be able to support themselves in retirement. I would say that, under any reasonable set of assumptions, it will always be less expensive to move toward a market-based system than it will be to stay with a pay-as-you-go system. ■

Cato Launches Milton Friedman Prize

The Cato Institute will present the first Milton Friedman Prize for the Advancement of Liberty in May 2002. The Friedman Prize will be a cash award of $500,000 presented to one individual for significant achievement in the advancement of liberty. Special funding has been received for the prize and associated expenses.

According to Cato president Edward H. Crane, "The Friedman Prize is named in honor of the most prominent and effective advocate of human freedom in the latter part of the 20th century. On issues from sound money to the volunteer army, from the public school monopoly to drug prohibition, Milton Friedman has been the most important scholar, the most effective public advocate, or both. Through his academic research, his books, his *Newsweek* column, his television series, and his public appearances, he has tirelessly explained the basic principles of economics and argued for a free and civil society. In recognition of his achievements, the Cato Institute has established the Friedman Prize to honor the individual who has done the most to advance human freedom."

Milton Friedman at Cato's 1993 banquet.

The recipient is to be chosen every other year by an international committee of renowned advocates of liberty and the prize presented at a formal dinner. The first prize will be presented in May 2002 at the Cato Institute's 25th Anniversary Dinner.

Nominations for the prize may be sent to Friedman Prize, Cato Institute, 1000 Massachusetts Avenue, N.W., Washington, D.C. 20001 or e-mailed to Friedman-Prize@cato.org. The prize committee will review nominations. Officers, directors, and employees of the Cato Institute are not eligible. ■

Palmer Speaks on Campuses

Cato senior fellow **Tom G. Palmer** has spoken to student audiences at a number of major colleges and universities this spring. Along with Cato University and the distribution of pocket-sized copies of the U.S. Constitution, Palmer's lecture tour is part of Cato's effort to introduce more Americans to the basic ideas of liberty and limited government.

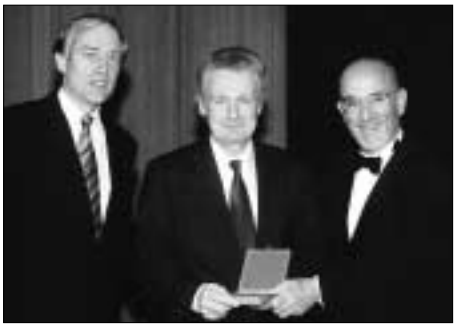
Tom Palmer lectures on individual rights and group rights.

In March and April Palmer visited Williams College; Harvard, Brandeis, and Duke universities; and the Universities of Virginia, Minnesota, and Chicago. His topic was "Why Welfare Is Not a Right." His presentation focused on the morality of claims to welfare assistance and the incompatibility of the welfare state with individual rights and the rule of law. At the University of Minnesota he ran into a common practice on today's college campuses: his speech was disrupted by members of the Minnesota Welfare Rights Coalition, who insisted that he not be allowed to speak. He did manage to continue after the initial disruption.

On most of his trips Palmer also took advantage of the opportunity to visit Cato Sponsors and discuss Cato's activities and plans. In Minneapolis he appeared on the television show "Face to Face" to discuss welfare rights.

Palmer's trips were set up with the assistance of the Institute for Humane Studies (www.theihs.org), an organization that assists undergraduate and graduate students interested in liberty.

Roger Pilon was honored on April 3rd at a gala dinner at Columbia University's Low Library in New York, where Columbia's president, George Rupp, presented him with the School of General Studies Alumni Medal of Distinction. The annual award honors alumni who have been "especially creative and successful in their chosen careers," wrote Dean Peter J. Awn in his letter advising Pilon of the award. Pilon is Cato's vice president for legal affairs. He also holds the B. Kenneth Simon Chair in Constitutional Studies and directs Cato's Center for Constitutional Studies.



Roger Pilon is presented with the Alumni Medal of Distinction from Columbia University's School of General Studies by university president George Rupp (left) and SGS dean Peter J. Awn (right).

Cato Institute president **Edward H. Crane** received the Frederick Douglass Award from the Committee for Urban Renewal of Education at a Washington dinner in March. CURE founder Star Parker said that Douglass's eloquent speeches and passionate defense of the principles of freedom for all made him famous in his lifetime as a leader in the abolitionist movement and that Ed Crane was similarly a defender of freedom. ■

"To Be Governed..."

◆The education establishment speaks

For three decades, Howard County [Md.] has allowed students to attend any school where there is room, if their parents transport them. But tomorrow, the Board of Education will vote on whether to repeal open enrollment and adopt a system in which parents must prove a compelling reason to transfer.

School choice, some say, can have unintended and divisive consequences—chiefly that the neediest schools suffer and the strongest schools grow stronger and more crowded.

"It's sort of the American way—we love to give people choices," Superintendent John O'Rourke said. "But there are interactive effects of all those choices. We don't have the luxury of giving everyone their choice." . . .

Choice is a privilege, not a right, some school officials say. Even some board members who support the policy in principle say the current application might be too broad.

"In today's world," said board member Sandra H. French, "it seems a reasonable alternative to have public school choice for those parents who feel their child needs a different kind of academic environment than their local school might have—and I truly mean academic."

The reasons parents give for transferring children aren't always academic, though. Besides child care, the most commonly cited reason is threats to a child's safety, such as bullying. Sometimes, parents disagree with a principal, want a school that's more convenient to home or think their children aren't being challenged.

—*Washington Post*, Mar. 19, 2001

◆Two views

Public radio is one of the most important freedoms we enjoy in America.

—WAMU-FM, Mar. 4, 2001

To compel a man to furnish contributions of money for the propagation of opinions which he disbelieves is sinful and tyrannical.

—Thomas Jefferson, Virginia Statute of Religious Freedom, 1779

◆Senator Leahy, ranking member of the Judiciary Committee, would certainly know that this legislation is authorized in the Constitution in section, um, let's see, I know it's around here somewhere

Sen. Patrick J. Leahy (D-Vt.) . . . plans to introduce legislation this week that would allow the federal government to more tightly restrict soft drink sales in schools.

—*Washington Post*, Mar. 14, 2001

◆Privatization through NAFTA

The tribunals have been used in Nafta disputes for only a few years, but the complaints they have handled have already had many repercussions, including these: . . .

- United Parcel Service, the package-delivery company, has filed a complaint contending that the very existence of the publicly financed Canadian postal system represents unfair competition that conflicts with Canada's obligations under Nafta.

Critics worry that if the tribunal upholds the U.P.S. claim, government participation in any service that competes with the private sector will be threatened.

—*New York Times*, Mar. 11, 2001

◆Chinese rights and real rights

China ratified a U.N.-sponsored human rights treaty today that requires it to ensure its citizens have access to food, medical care, housing and education, but appeared to back away from a key provision that would guarantee workers the right to strike and form independent labor unions.

—*Washington Post*, Mar. 1, 2001

◆Would that he could ban the Clintons

The West's top official in Bosnia has banned the country's recently departed prime minister from holding future public office after concluding that he illegally diverted hundreds of thousands of dollars.

—*Washington Post*, Mar. 1, 2001

◆So much for the Tenth Amendment

The Heritage Foundation urges the Bush team to create an "Office of Marriage Initiatives." Its mission: to "make all federal social programs more marriage-friendly" and to seek ways to decrease divorce, especially among welfare recipients.

—*Wall Street Journal*, Feb. 2, 2001

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