

Seven Moral Arguments for Free Trade

by Daniel T. Griswold

U.S. trade policy is almost always debated in terms of economic utility: Does free trade raise or lower incomes? Does it help or hurt U.S. industry? Does it create or destroy jobs? But behind the statistics and anecdotes lie moral assumptions about human nature, the sovereignty of the individual, and the role of government in a free society. Free trade may deliver the goods and boost efficiency, but is it morally superior to protectionism?

At the Summit of the Americas meeting in Quebec in April, anti-capitalist protesters answered with a loud no, condemning free trade as a tool of the rich that exploits the poor and undermines democracy. Some religious conservatives portray free trade as a tool of the devil. Reform Party presidential candidate Pat Buchanan, in his 1998 book *The Great Betrayal*, called the doctrine of free trade “a secularist faith . . . born of rebellion against church and crown.” Gary Bauer, former head of the Family Research Council and another failed aspirant to the White House, compares American trade with China with appeasement of the Soviet Union.

In a speech in May before the Council of the Americas, President Bush joined the moral debate, telling his audience: “Open trade is not just an economic opportunity, it is a moral imperative. Trade creates jobs for the unemployed. When we negotiate for open markets, we are providing new hope for the world’s poor. And when we promote open trade, we are promoting political freedom. Societies that open to commerce across their borders will open to democracy within their borders, not always immediately, and not always smoothly, but in good time.”

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Republican governor Gary Johnson of New Mexico (left) talks with Tom Bethell of the *American Spectator* and Cato’s Timothy Lynch at a reception cosponsored by the Cato Institute and the National Organization for the Reform of Marijuana Laws. Johnson’s remarks on drug prohibition, delivered at an earlier Cato conference, can be found in *After Prohibition: An Adult Approach to Drug Policies in the 21st Century*, edited by Lynch.

Friends of free trade should not shrink from making moral arguments for their cause; those arguments have deep roots in our culture. The Greek poet Homer, in his *Odyssey*, waxed poetic about the influence of trade:

For the Cyclops have no ships with crimson prows,
no shipwrights there to build them good trim craft
that could sail them out to foreign ports of call
as most men risk the seas to trade with other men.
Such artisans would have made this island too a decent place to live in. . . .

The Judeo-Christian Bible warns against the pride that can come with riches, but it does not condemn international trade per se. In First Kings, it reports matter of factly that trade was part of King Solomon’s splendor: “The king had a fleet of trading

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Our Magical President



“Mr. President, Please Make Us Proud.” That was the cover story in the January 28 issue of *Parade*, the nation’s most widely circulated magazine with 37 million copies distributed inside Sunday newspapers. The magazine had asked “teens across America” what they would “ask our new President to do for them [and] their families, schools and communities.”

And boy, did the teens have ideas. They seemed to regard the new president as a combination of Superman, Santa

Claus, and Mother Teresa. “Help save our planet,” they implored. “Everybody, no matter how much money they have, should be able to go to college. . . . The government could help us all.” “Please care about homeless people.” “How come our burnt-up houses and our school can’t get remodeled?”

No task is too small for the president—“Can you make a national hotline where teens can get advice when they’re sad or angry?”—or too large—“Will you help to mend my broken heart?”

A few weeks earlier *Washington Post* columnist Courtland Milloy reported on letters written by District of Columbia elementary school students in an essay contest sponsored by Xerox Corp. What did the youngsters have to say to the president-elect? You should give everyone health care, Mr. President. You should give us new school materials, computers, and so on. You should end homelessness and

provide homes and medical treatment for drug addicts. None of the children, of course, addressed who would pay for all those goodies, or what one might give up to get those programs, or whether the programs themselves would work. After all—homes, schoolbooks, health care—who could be against that?

The last letter Milloy highlighted demonstrated an even more expansive view of the president’s powers: “Hopefully, now that you are President, you can stop all of this madness, this violence, and ignorance. I am depending on you.”

Fourth-graders believe the president can do anything, and only a *bad* president would fail to do good.

Many of us grow up. We come to realize that homes and computers have to be produced, that wishes and results are not the same things. And we learn that the president doesn’t have magical powers; he can’t cure cancer, or hate, or poverty, or economic fluctuations.

Unfortunately, a lot of people don’t grow up. They retain a magical view of the power of the president, or of government generally. In magical societies people believe that speaking words gives power over things and persons. Many of our policymakers believe that to write and vote for a bill called the Social Security Act is to give people “social security.” To name a bill the

Bipartisan Campaign Reform Act of 2001 will actually reform campaigns. But of course adults know from bitter experience that legislative actions often fail, or backfire, or have unintended consequences, or disappear into bureaucratic sinkholes.

Still, we are told, if we just pass more laws about health care, education, homelessness, equality, and so on, we will at the very least affirm our own goodness—if one magical spell doesn’t work, you need another.

Liberals are not the only people who have this magical view of government, of course. Many conservatives believe that a law banning the use and abuse of drugs will actually eliminate the use and abuse of drugs. Some even believe that a White House Office of Marriage Initiatives will cause more Americans to get and stay married.

Throughout history humans have attributed supernatural powers to their leaders. King Canute had to go down to the sea and command the tide to stop in order to show his advisers that his powers were limited. Most rulers, however, preferred to enjoy the presumption of magical powers. We have largely discarded our belief in the divine right of kings, and we have come to understand that no man is God, that even a powerful man is just a man, without supernatural powers. Now we are so advanced that we attribute magical powers only to men who are chosen in elections.

One of the tasks of believers in liberty and limited government is to persuade the public that governments—hereditary or elective—do not have magical powers. Benefits from government must be paid for. Government can no more “stop all this madness, this violence, and ignorance” than it can

guarantee bounteous supplies of electricity at controlled prices. When voters come to understand those realities, politics and public policy will make more sense.

In the end, we should take note of one teen who actually has some sense of the tradeoffs in the real world and some understanding of what a president can do, perhaps because he has some experience in the real world. “I worked every day last summer,” he told *Parade*, “repairing and setting up cattle fences, from 8 a.m. to 5 p.m. in very hot weather. I got a good tan, but other than that it wasn’t worth it—just to have the government take a third of my money and have it go to someone I don’t even know who didn’t earn it in the first place. Do something about taxes.” Now there’s something a president could actually do. America has at least one adult: Lucas Harris, 16, of Spanish Fork, Utah.

—David Boaz

Chris Edwards, Alan Reynolds join Cato

Fiscal Policy Team Expands

The Cato Institute has named **Chris Edwards** director of fiscal policy studies and **Alan Reynolds** a senior fellow.

Edwards joins Cato from the staff of the Joint Economic Committee of Congress, where he served as a senior economist specializing in taxes, Social Security, and high-tech issues. Before that he worked for PricewaterhouseCoopers as an economist and manager in the accounting firm's national tax services division. From 1992 to 1994 Edwards was an economist at the Tax Foundation. He holds degrees in economics from George Mason University and the University of Waterloo in Ontario. He succeeds Stephen Moore, who is now president of the Club for Growth but remains a Cato senior fellow, a nonstaff position.

Alan Reynolds was previously director of economic research at the Hudson Institute. Before that, he had been vice president

and chief economist at Polyconomics and at the First National Bank of Chicago. In 1996 Reynolds served as research director with the National Commission on Tax Reform and Economic Growth (the "Kemp Commission"). One of the original "supply side" economists, Reynolds worked with Alan Greenspan and Larry Kudlow on David Stockman's Office of Management and Budget transition team in 1981.

His economic research has been published by such organizations as the Organization for Economic Cooperation and Development, the Joint Economic Committee, and the Federal Reserve Banks of Atlanta and St. Louis. A former columnist with *Forbes* and *Reason*, Reynolds has been a frequent contributor to such publications as the *Wall Street Journal*, the *American Spectator*, *National Review*, the *Harvard Business Review*, *International Economy*, *Challenge*, the *Washington Times*, and the *New York Post*.

Along with Moore, Cato chairman William Niskanen, and Cato fiscal policy analyst Stephen Slivinski, Edwards and Reynolds will examine the gamut of fiscal issues confronting Washington—everything from the exploding discretionary budget to corporate welfare to the record tax burden.

"We're pleased to have found two such outstanding economists to fill these key positions," said Cato president Ed Crane. "Cato now has the strongest economic team in its 24-year history."



Chris Edwards



Alan Reynolds



Michael Tanner, director of Cato's Project on Social Security Privatization, prepares to distribute Briefing Books to the members of the President's Commission to Strengthen Social Security.

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Opening day: home run for corporate welfare?

Yugoslav President Kostunica Speaks at Cato

◆ **March 29–April 1:** The “American Enlightenment” was the theme of Cato University’s spring session, held in Philadelphia. Lecturers included Robert McDonald of the U.S. Military Academy at West Point; Alan Charles Kors of the University of Pennsylvania; William B. Allen of Michigan State University; Ingrid Merikoski of the Acton Institute; syndicated columnist Deroy Murdock; and Cato’s John Samples, Roger Pilon, and Cato University director Tom G. Palmer.

◆ **April 2:** As major league baseball started a new season, the Cato Institute examined taxpayer funding of sports stadiums at a Policy Forum, “Home Run for Corporate



Cato’s David Boaz, Bill Niskanen, and Ted Carpenter present Yugoslav president Vojislav Kostunica with Cato’s pocket copy of the Constitution before Kostunica’s speech in the Hayek Auditorium.

Welfare: Taxpayer Subsidies for Sports Stadiums.” Raymond J. Keating of the Small Business Survival Committee said that “there is either no impact on the local area, or some studies have shown a negative impact” when taxpayers finance stadiums. Casey Lartigue Jr., a staff writer at the Cato Institute, questioned whether taxpayer funding of sports stadiums is a legitimate function of government. Dennis Coates of the University of Maryland, Baltimore County, and Stephen S. Fuller of George Mason University debated the economics of stadiums.

◆ **April 3:** As 83 members of the U.S. House of Representatives urged President Bush to back Taiwan’s request to buy Aegis guided-missile destroyers, the Cato Institute held a Policy Forum, “Should the United

States Sell Sophisticated Arms to Taiwan?” Ted Galen Carpenter, vice president for defense and foreign policy studies at Cato, argued that the United States should adopt a “more generous policy” on arms sales to Taiwan so that the island can defend itself against an attack by China. Tom Donnelly of the Project for the New American Century and David Shambaugh of George Washington University also spoke.

◆ **April 4:** Mark Skousen, editor of *Forecasts & Strategies* and a columnist for *Forbes* magazine, discussed his new book, *The Making of Modern Economics*, at a Cato Book Forum. Skousen’s lively presentation included several classical music selections. Peter Boettke of George Mason University commented.

◆ **April 17:** The term “medical necessity” should be dropped from the language of medical professionals, said E. Haavi Morreim at a Cato Policy Forum, “The Politics of Managed Care: Second Opinions, New Options.” Morreim, who is at the College of Medicine at the University of Tennessee in Memphis, said the term “medical necessity” allows health care specialists to say that a treatment is unsafe when they actually mean it shouldn’t be paid for through health plans. David A. Hyman of the George Washington University Law School and Richard Smith of the American Association of Health Plans participated.

◆ **April 18:** The Cato Institute hosted a Reception in honor of Gov. Gary Johnson (R-N.M.) in conjunction with the National Organization for the Reform of Marijuana Laws. Johnson discussed the reasons he became the first Republican governor to publicly oppose the drug war.

◆ **April 19:** James Gwartney released the results of the Cato Institute’s *Economic Freedom of the World Report* at a press conference. Gwartney, a professor of economics at Flori-

da State University, and coauthor Robert Lawson, an associate professor of economics at Capital University in Columbus, Ohio, found that the United States has dropped from the fourth to the fifth freest economy in the world. In this year’s report, Hong Kong is still the world’s freest economy, with Singapore a close second.

◆ **April 19:** Two new books examining federal standards and encryption were discussed at a Cato Book Forum, “Are the Crypto Wars Over? Privacy, Digital Security, and the Future of Encryption Policy.” Steven Levy, author of *Crypto: How the Code Rebels Beat the Government—Saving Privacy in the Digital Age*, noted that in the 18 months since the government relaxed controls on encryption technology commercial adoption of the technologies has been very slow. Bruce Schneier, chief technology officer of Counterpane Internet Security and author of *Secrets and Lies: Digital Security in a Networked World*, argued that government regulation is necessary to ensure the Internet’s security and to protect personal data.

◆ **April 26:** At a Cato Policy Forum, “National Standards and Testing: Will the Bush Education Plan Work?” Cato author Sheldon Richman; Eugene W. Hickok, President Bush’s nominee for under secretary of education; and Alfie Kohn, author of *No Contest: The Case against Competition*, debated national tests.

◆ **April 27:** The Cato Institute hosted a City Seminar, *Cato Perspectives on Policy 2001*, in New York City. The featured speakers



On F. A. Hayek’s 102nd birthday, Alan Ebenstein discussed his new book, *Friedrich Hayek: A Biography*, in Cato’s Hayek Auditorium.

Oxford University historian Niall Ferguson, author of *The Cash Nexus: Money and Power in the World, 1700–2000*, discusses his book at a luncheon on April 20. Attendees included Andrew Sullivan of the *New Republic*, David Brooks of the *Weekly Standard*, and Mark Grady, dean of the George Mason University Law School.



Charleston, S.C., police chief Reuben Greenberg tells a May 15 Policy Forum that racial profiling exists but that the larger concern of law enforcement should be the disproportionate number of blacks who are victims of crimes.

included David Horowitz, president of the Center for the Study of Popular Culture, and Commissioner Bradley Smith of the Federal Election Commission. Other speakers included Cato's Jerry Taylor and David Boaz.

◆ **May 8:** Author Alan Ebenstein discussed the life and work of F. A. Hayek at a Cato Book Forum, *Friedrich Hayek: A Biography*. On the 102nd anniversary of Hayek's birth, Ebenstein traced Hayek's intellectual development from socialist sympathizer to libertarian political philosopher. Jerry Z. Muller of Catholic University commented.

◆ **May 9:** Vojislav Kostunica, president of Yugoslavia, who toppled Slobodan Milosevic, spoke at a **Press Conference** at the Cato Institute shortly before visiting the White House. Kostunica discussed the importance of building civil society and establishing the rule of law in his country. He said that trying Milosevic on domestic charges would be an important step in building civil society.

◆ **May 11:** Recent crashes and allegations of falsified maintenance records have thrown the future of the V-22 Osprey tiltrotor aircraft into question. "The V-22 is a prime example of a failed acquisition system,"

said Ivan Eland, director of defense policy studies at Cato, at a Cato Policy Forum, "Osprey or Albatross: Should the V-22 Tiltrotor Aircraft Fly or Die?" Lane Pierce of the Congressional Budget Office; Philip Coyle, recently retired director for operational test and evaluation in the Department of Defense; and Maj. Gen. Mike Ryan, U.S. Marine Corps (Ret.), debated the program.

◆ **May 15:** "You will not see a reduction in racial profiling until there is an end to the war on drugs," said Timothy Lynch at a Cato Policy Forum, "Racial Profiling: Good Police Tactic? Or Harassment?" Nkechi Taifa of Howard University's School of Law discussed the disproportionate number of times African Americans are pulled over by law enforcement officers. Reuben Greenberg, police chief of Charleston, South Carolina, described racial profiling as "a very, very small problem in law enforcement in our country."

◆ **May 17:** At the Cato Policy Forum on "Congress and the Power of War and Peace," Cato author Gene Healy focused on the willingness of recent U.S. presidents, Bill Clinton in particular, to abuse the treaty power and usurp the congressional war power. Louis

Fisher, author of *Congressional Abdication on War & Spending*, blamed Congress for failing to defend its authority to declare war. Robert F. Turner of the University of Virginia School of Law argued that the Framers agreed that the chief executive has war powers during times of war.

◆ **May 21:** Two new books examining the relationship between government and erotica were the topic of a Cato Policy Forum, "Children, Adults, and the First Amendment." Philip Harvey, author of *Governments vs. Erotica: The Siege of Adam & Eve*, described his eight-year struggle against the Department of Justice after his small North Carolina mail-order company was invaded in 1986 by 37 armed federal agents. Attorney Marjorie Heins, author of *Not in Front of the Children: Indecency, Censorship, and Innocence of Youth*, argued that most restraints on sexual material are unconstitutional. Laurence Jarvik, author of *PBS: Behind the Screen* and publisher of the online journal, "theidler.com," commented.

◆ **May 22:** Prohibition of drugs harms both people who use drugs and people who don't, said Randy Barnett at a Cato Policy Forum, cosponsored with the Federalist Society, "Time to Rethink the War on Drugs?" Barnett, a professor at Boston University's School of Law and a Cato adjunct scholar, argued that, in addition to making drug users criminals and forcing them to buy drugs from criminals, drug laws do serious harm to the general public by draining scarce resources away from other types of law enforcement and leading to invasions of privacy to fight the drug war. Dennis Knizely, a criminal defense attorney, said that the war on drugs is eroding freedoms protected by the Fourth and Fifth Amendments to the Constitution. Joseph diGenova, former U.S. attorney, who said that "coerced abstinence" is needed to get addicts into treatment, proposed that a national clemency commission be established to review unfair mandatory sentences. Sally Satel of the American Enterprise Institute conceded that the war on drugs needs some reforms, but she argued that legalization would increase drug addiction. ■

National Education Testing: A Debate

On April 26, 2001, the Cato Institute held a Policy Forum, “National Standards and Testing: Will the Bush Education Plan Work?” The three speakers agreed that something is rotten in America’s classrooms but offered different assessments of and solutions to the problem. Excerpts from the remarks of author Sheldon Richman; Eugene W. Hickok, President Bush’s nominee for under secretary of education; and author Alfie Kohn follow.

Sheldon Richman: We’ve come a long way since the early 1980s when the Reagan message was “government is not the solution, government is the problem.” The Bush message is that government is not the problem, government is the solution. Instead of calling for the abolition of the Department of Education, as the Reagan administration did, the Bush administration wants to increase the budget of the Department of Education and expand its powers. To quote Barney Frank, “Reagan is gone, the New Deal affirmed.”

For about 150 years we’ve had teachers and schools “accountable” to local and state governments. Bush wants the lower-level governments to be accountable to the federal government. That doesn’t sound promising if the goal is improved education. It is time to rethink the entire institutional setting, not look for new government solutions. We have already had a grand 150-year experiment in which government, not parents, has made decisions about education.

During those 150 years, education has been deprived of something that has worked miracles in almost every other area of our lives, namely, entrepreneurship. I don’t mean simply that things would be better if businesspeople made money while providing education. The competitive marketplace is not just a place where people provide goods and services in the anticipation of profit, although that’s an important part of it.

As F. A. Hayek was fond of pointing out, competition is a discovery procedure. It’s a way we learn things we wouldn’t know otherwise from people we would never suspect would be able to teach us those things.

An open, competitive system allows entrepreneurs to think up ideas, look for gaps in the provision of services, and come

up with innovations. In the case of education, entrepreneurs would be able to offer those innovations directly to parents, with no bureaucratic filter. If the bureaucracy is a filter, we don’t get the effects we should expect from a competitive system. The competitive system creates; it yields knowledge that we otherwise wouldn’t have. The only way to get at new ideas is through a freely competitive system in which price signals operate without encumbrance by the state. In the case of education, parents would be free to buy the services they thought were best for their children. Hence the term “parent power.”

We’ve had the opposite. As former American Federation of Teachers leader Albert



Sheldon Richman: “Education has been deprived of something that has worked miracles in almost every other area of our lives, namely, entrepreneurship.”

Shanker said: “It’s time to admit that the public education system operates like a planned economy, a bureaucratic system in which everybody’s role is spelled out in advance and there are few incentives for innovation and productivity. It’s no surprise that our school system doesn’t improve. It more resembles the communist economy than our own market economy.” We have been operating schools like a centrally planned economy and we’re getting the predictable results.

In a free economy, standards evolve naturally. The computer industry is a very good example of that, with all of its networks and complicated systems. There has been an evolution of standards. The marketplace is beautiful at giving us competing, evol-

ing, but at the same time, relatively stable standards that let people conduct their affairs. It’s a little odd to think that only government can give us standards in education.

We create institutions, which in turn evolve standards to achieve objectives. We would have no interest in an educational arrangement that didn’t teach anything useful. I compare education with language: The idea that there could be a language without standards or rules is ridiculous. It would violate the very purpose for which the language was desired in the first place, and any such language would have disappeared through some process similar to natural selection. The same thing with education: Parents have some objective in getting their kids educated. Most parents, I’m sure, have a whole list of objectives, and they’re going to be drawn to schools that tend to achieve those things, and out of that we’re going to get what you might call standards or at least some sort of intelligible basis on which to choose schools.

The idea that only government can bring us standards is really a throwback to primitive times. Centrally planned economies can’t deliver the goods. The Bush plan will eventually be seen as just another phony promise in the long string of government proclamations. Every few years officials come out and say, “Yes, the schools are a mess, and I have an idea how to fix them,” and then, of course, a few years later somebody else says the same thing. The next microgeneration of political operatives will be saying the same things with some little twist on how they now have finally hit on the solution.

Government education cannot help but impinge on freedom of the family, on personal liberties that we cherish. A noncontroversial curriculum is as chimerical as a value-free education. It’s impossible. There will always be controversy; there will always be sensibilities offended, which is exactly why government should not be in the business of imposing even de facto standards and curriculum.

We separate church and state to avoid just such violations of liberty. We should separate school and state for the very same reasons. We can do that by letting the free market fueled by parent power provide our education.

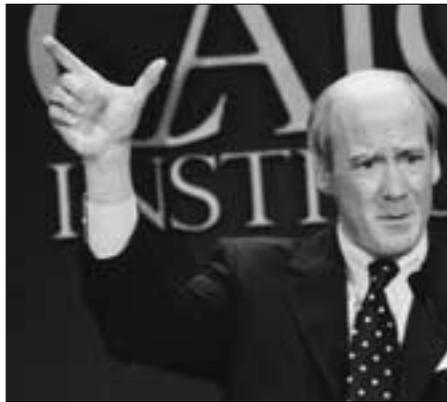
“The marketplace is beautiful at giving us competing, evolving, but at the same time, relatively stable standards that let people conduct their affairs.”

Eugene W. Hickok: In Pennsylvania our debate about standards started with “We do have government schools, so we have the problem of how to improve those schools.” One thing the governor did was to appoint a commission of citizens from business and industry, some educators, and some school board members. Not the leaders of the alphabet soup organizations of public education—NEA, AFT. The goal was to have people who are the clients of education tell us what they think they need and what America’s students or Pennsylvania’s students seemed not to be getting, and then to translate that into a set of academic standards (what I would call expectations—not a curriculum but a statement of expectations).

I didn’t realize how controversial that was. I was a college professor; for me the academic standards movement was sort of common sense. I equate academic standards with a syllabus for a college course. I would never start a semester without giving my students a syllabus. A syllabus is a statement of expectations: what students can expect to get from me in the course, the topics that will be covered, the sequence in which they will be covered, the work load, what I expect of students, how I’m going to grade them, how I’m going to evaluate them. In many ways a syllabus is a contract; when students walk into a class they have a good sense of what’s going to happen during the semester. And a syllabus is a way for the professor to hold students accountable. That’s what tests and grading are all about—a way for the professor to hold the student accountable and, if truth be known, a way for the student to hold the professor accountable. That’s what the standards movement is all about, and yet it was very controversial because it is not the way public education has operated for a very long time.

We heard just yesterday from civil rights groups that said we should stop this whole testing conversation until Congress does a study of the stress levels placed on our children by testing. I was stressed as a child undergoing testing, but do you know what’s more stressful than testing? Being ignorant, not having knowledge. That’s more stressful than testing.

In Pennsylvania, rather than have a test that was going to determine whether a student could go on to the next grade or a test that would determine whether a student could graduate from high school, we decided to periodically assess students and then create incentives for them if they excelled



Eugene Hickok: “I equate academic standards with a syllabus for a college course, a way for the professor to hold the student accountable.”

on the tests. We put together a whole new package of laws called “Empowerment” that helped turn our schools around. Just a couple of years ago, I had the opportunity to visit high schools all over Pennsylvania that were having pep rallies on a Friday in the autumn. Nothing new about that; in fact, it was kind of fun. But the pep rallies were to celebrate academic success.

We also decided that you cannot make smart decisions as a parent, as an educator, as a taxpayer if you don’t have adequate knowledge. And so you can go to the Web page of the state of Pennsylvania and with a click of your mouse get an in-depth profile, not a report card, of every school in Pennsylvania. The profile describes curriculum offerings, library holdings, technology, student-teacher ratios, SAT scores, state assessment scores, graduation rates, drop-out rates. We got close to 5 million hits on our Web page the last month I was there. It was a way for parents and others to look at schools and start making comparisons.

Governor Ridge and I are strong supporters of school choice, of vouchers, of charter schools, of tax credits for families who want to send their kids to nonpublic

schools. We are all about attempting to deal with a system in which we have an educational emergency. But we also have to be involved in the practical politics of change. Frankly, in an ideal world we would be much more serious about changing the whole nature of our understanding of education. In an ideal world I think we would get away from the monopoly model.

You also have to pay attention to the teaching profession. Math teachers, certainly secondary school math teachers, should be taking the same courses that math majors take in math departments. I’m not saying pedagogy doesn’t matter, but I am saying that content matters and it matters a lot in a standards-based environment.

Finally, we need to find ways to deal with the fixation, the obsession, we have in this country with money as the solution to our educational problems. I’m not saying money doesn’t matter. The budget under Governor Ridge did grow tremendously, and if you look at President Bush’s proposed budget, the largest increase is for the Department of Education. The issue now is accountability. There’s no single answer. It’s all part of the package, but we need to be thinking seriously about asking fundamental questions about results and performance and then have the guts to deal with the answers we get to those questions.

Alfie Kohn: We are facing an educational emergency in this country. Ironically, the emergency has been in large part created in the name of raising standards—not as a result of the kinds of conditions that are used to justify those standards. Let me offer some facts, which I believe are indisputable, and then I will offer some opinions, which are disputable.

Fact number one: U.S. students are tested to an extent that is unprecedented in our history and unparalleled anywhere else in the world. As the former head of the House Education Committee, a Republican, commented recently, “If more testing were the answer to the problems in our schools, testing would have solved them a long time ago.”

Fact number two: Standardized tests are primarily measures of the size of the houses near a school. Up to 90 percent of the vari-

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Education tax credits, not national tests

Russia's Decaying Systems Risk False Alerts

A new Cato Institute study points out that decaying Russian sensors greatly increase the risks of accidental nuclear war. In “Reducing a Common Danger: Improving Russia’s Early-Warning System” (Policy Analysis no. 399), Geoffrey Forden, a senior research fellow at the Massachusetts Institute of Technology, analyzes four false alerts—two in the United States and two in Russia—in the past 20 years and concludes that, in three of the four cases, data from satellites, which contradicted false information from other sources, averted catastrophe. Russia’s continuing economic difficulties pose a clear and increasing danger to itself, the world at large, and the United States in particular. With decaying satellites, the possibility exists that, if a false alert occurs again, Russia might launch its nuclear-tipped missiles. The solution, Forden argues, is to provide limited support for rebuilding Russia’s early-warning capacity. Russia already has some satellites ready for launch, he says, but it cannot afford to put them into orbit. The United States could launch five—the minimum needed to provide 24-hour coverage of U.S. missile fields—at a cost of roughly \$160 million, he says. “The advantage to the United States of improving Russia’s access to early-warning information outweighs any assistance it might give to Russia’s war-fighting capabilities,” Forden concludes.

◆ Take Polls with a Grain of Salt

A new Cato study, “Why Policymakers Should Ignore Public Opinion Polls” (Policy Analysis no. 402) argues that opinion polling is an inherently flawed enterprise that fails to measure the real interests of respondents and offers no informed guidance to policymakers. Robert Weissberg, a professor of political science at the University of Illinois, writes that “public opinion polling measures the wishes and preferences of respondents, neither of which reflects the costs or risks associated with a policy.” Weissberg says that “contemporary polls are seducing respondents, not offering them hard choices of the type faced by legislatures or policy analysts.” He contends that contemporary polling methods greatly increase the public appetite for

increased government spending. “Given the typical survey’s inattention to costs, indifference to risk, and other shortcomings, it is a miracle that polls do not find unanimous support for more social spending,” Weissberg concludes.

◆ Washington’s Southeast Asia Policy Is Outdated

Why does Washington continue to expand its military presence in Southeast Asia although the end of the Cold War has reduced threats to America’s security all over the world? In “Needless Entanglements: Washington’s Expanding Security Ties in Southeast Asia” (Policy Analysis no. 401), Cato senior fellow Doug Bandow argues that in Southeast Asia, “as elsewhere, American security is often involved only because Washington chooses to make the problems of other nations its own.” Although many countries in the Asia-Pacific region face a significant risk of social unrest, he says, “the daisy chain connecting most of those problems to U.S. security is long indeed.” What about a potential threat from China? “Beijing is in no position to commit significant mischief, let alone directly threaten the security of the United States,” Bandow argues. He welcomes recent moves by Southeast Asian countries to increase strategic cooperation and develop better military capabilities.

◆ Tort Suits—Extortion Parading as Law

Advocates of gun control are circumventing the legislative process and using the courts to subvert the Second Amendment, according to “Pistol Whipped: Baseless Lawsuits, Foolish Laws” (Policy Analysis no. 400). Robert A. Levy, senior fellow in constitutional studies at the Cato Institute, argues that gun controllers have used government-sponsored tort suits to undermine the rule of law and to bully popular—but legal—industries into changing their practices. Levy identifies three tactics used by public officials against gun makers—suing in multiple jurisdictions to escalate the defendant’s costs, employing contin-



Robert Levy

gency fee lawyers, and using the judicial branch to bypass the legislative branch. Levy writes that the strategy violates the separation of powers doctrine and demonstrates to future wealthy defendants “that groundless legal theories are good enough when the coercive power of multiple government entities is arrayed against an unpopular industry.” Levy says that “one effective way to stop such thievery is to implement a ‘government pays’ rule for legal fees when a governmental unit is the losing plaintiff in a civil case.”

◆ Education Tax Credits Would Benefit States

A new Cato study, “Fiscal Analysis of a \$500 Federal Education Tax Credit to Help Millions, Save Billions” (Policy Analysis no. 398), examines the fiscal effects of



Darcy Ann Olsen

a \$500 education tax credit and concludes that any loss in federal revenue from such a program would be more than offset by a tremendous savings to state governments. The authors of the study, Darcy Ann Olsen, director of education and child policy at the Cato Institute; Carrie Lips, a former policy analyst at the Cato Institute; and Dan Lips, education research assistant at the Cato Institute, write that the \$500 tax credit would help an estimated 2.3 million children escape failing public schools and save states \$14 billion. The authors outline an education tax credit with two components: (1) a parental choice credit allowing a dollar-for-dollar reduction in income taxes of up to \$500 per child for money spent on tuition and (2) a scholarship credit allowing a \$500 reduction for money donated to nonprofit scholarship clearinghouses, which pair money with needy children whose parents don’t earn enough to pay federal income taxes.

◆ Washington’s Sinking Balkan Policy

The recent eruption of fighting in Macedonia and in Serbia’s Presevo Valley has shown the bankruptcy of Washington’s Balkan policy, according to a new study

“There are many more refugees from Kosovo living outside the province now than on the day before NATO’s bombing campaign started.”

from the Cato Institute, “Waist Deep in the Balkans and Sinking: Washington Confronts the Crisis in Macedonia” (Policy Analysis no. 397). Ted Galen Carpenter, vice president for defense and foreign policy studies, argues that NATO’s Kosovo intervention has been a disaster from the beginning. “Since NATO assumed control of Kosovo, there has been a massive reverse ethnic cleansing as Albanian nationalists have driven nearly 90 percent of the province’s non-Albanian people from their homes.” Interventionists have grasped at straws to show that the operation is going well. “In reality, there are many more refugees from Kosovo living outside the province now than on the day before NATO’s bombing campaign started,” Carpenter states. The solution, he says, is to disengage and let the European countries grapple with the hard decisions. “America has no legitimate interests in the Balkans that even remotely justify baby-sitting that region,” he argues. “It is time to pass the tainted chalice to the Europeans.”

◆Unleashing Parental Power

President Bush’s proposal to tie Title I money to national standards wrongly holds states accountable to the federal government, instead of holding schools accountable to parents, writes Sheldon Richman in a new Cato Policy Analysis, “Parent Power: Why National Standards Won’t Improve Education” (Policy Analysis no. 396). Released as the Senate began debate on President Bush’s education plan, the study charges that the plan “is merely another in a long line of government promises to fix the education system—promises that have never been kept despite all good intentions.” Richman, editor of *Ideas on Liberty* and author of *Separating School and State: How to Liberate America’s Families*, argues that “increasing the Department of Education’s budget and using federal money to force states to come up with yet another set of standards and tests are not going to improve the schools.” Real accountability will occur only when parents are put in charge, says Richman. Under what he calls the “de-bureaucratization” of education, parents and entrepreneurs would work together in a competitive marketplace to provide the best

education for children. “Only that system would free the entrepreneurship necessary for discovering the best ways to educate,” Richman says. “Only that system would free parents to act in the best interest of their children.”

◆Waco: The Untold Story, the Unpunished Crime

The official investigation of the Waco tragedy was “soft and incomplete,” and many obvious crimes have gone unprosecuted, writes Timothy Lynch in a new Cato Institute



Timothy Lynch

study, “No Confidence: An Unofficial Account of the Waco Incident” (Policy Analysis no. 395). Special Prosecutor John Danforth’s “sweeping exoneration of federal officials is not supported by the factual evidence,” writes Lynch, director of Cato’s Project on Criminal Justice. Lynch charges that FBI agents exhibited a gross disregard for human life when they indiscriminately fired “ferret” rounds at the Davidian residence and used tanks to ram its walls. The involvement of certain FBI officials in the Waco operation “should have set off alarm bells with Danforth’s investigators,” Lynch writes. Those officials were suspended by the Department of Justice for their conduct in the controversial Ruby Ridge incident—one of them was eventually sentenced to 18 months in prison for destroying evidence and lying to investigators about his role in that cover-up. If the crimes chronicled in Danforth’s study go unpunished, Lynch concludes, “the Waco incident will leave an odious precedent—that federal agents can use the ‘color of their office’ to commit crimes against citizens.”

◆Bush and NATO’s Future

The European Union’s commitment to a European Security and Defense Policy coupled with a Rapid Reaction Force brings to the fore fundamental questions about the U.S.-European relationship and the future of NATO. In a new Cato study, “Death Knell for NATO? The Bush Administration Confronts the European Securi-

ty and Defense Policy” (Policy Analysis no. 394), Christopher Layne argues that the Bush administration will soon have to confront the contradictions that have long been embedded in the transatlantic relationship. “As it did during the Cold War, the United States pays lip service to the idea of European unity while opposing in practice any tangible moves toward an independent Europe,” Layne says. Contradictions are also apparent on the European side. “Time and again, European allies have made clear their resentments of America’s power and of U.S. dominance over the Continent’s affairs. At the same time, they repeatedly have shied away from building up their own power, precisely—and paradoxically—because of their concern that Washington would use greater European contributions to the alliance as a justification for reducing U.S. involvement in Europe,” says Layne, a visiting fellow at the Cato Institute.

◆Taiwan Pledge Went Too Far

When President Bush pledged to do whatever it takes to help Taiwan defend itself, he created an extremely dangerous situation for the United States, according to a new Cato Institute study, “Going Too Far: Bush’s Pledge to Defend Taiwan” (Foreign Policy Briefing no. 66) by Ted Galen Carpenter, Cato’s vice president for defense and foreign policy studies. Although the administration later retreated from that rhetorical stance, both China and Taiwan seem to believe that the original comments reflect Washington’s real policy. The success of deterrence, says Carpenter, depends on three factors: the importance of the interests at stake to the guarantor power, the importance of those interests to the challenging power, and the inclination of the challenging power to gamble. “All three factors work against the United States in the case of Taiwan,” Carpenter says. Although deterrence worked against the Soviet Union, Carpenter argues, the strategic climate is different with China. Because Taiwan is far more important to China than it is to the United States, China is far more inclined to take risks, Carpenter says. Washington will face either a humiliating retreat or a

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Nine scholars examine Clinton's regulatory legacy

SUVs Are Safer, *Regulation* Study Finds

The two latest issues of *Regulation* address regulatory burdens that hamper the economy. The lead article in vol. 24, no. 1, refutes the conventional wisdom that light trucks on America's roads have led to more traffic fatalities. Instead, sport utility vehicles and other light trucks have made the roads safer, not more dangerous. "We believe that the increased percentage of SUVs and other light trucks on the road has lowered, not increased, the fatality rate," write Douglas Coate and James VanderHoff, professors of economics at Rutgers University. Even when taking other changes into account (stiffer penalties for drunk driving, increased seat belt use, the reintroduction of the 55-mph speed limit in some states), about 2,000 lives were saved between 1994 and 1997 because of the increased use of light trucks.

Two articles examine the impact of price controls on prescription drugs. John R. Graham of the Fraser Institute finds that Canada's low prices for drugs are chiefly the result of Canada's low standard of living relative to the United States. Fiona M. Scott Morton of Yale University argues that, when prices are held below natural levels, resources such as talent and investor capital leave an industry to seek better returns elsewhere.

In other articles, Matthew E. Kahn of Tufts University examines whether regulation under the Clean Air Act has helped or harmed the have-nots. Gillian K. Hadfield of the University of Toronto considers privatizing commercial law as a way to reduce legal costs. Energy consultant Glenn R. Schleede argues that millions of dollars of tax credits for washing machine manufacturers have left "Consumers in the Wringer."



"The Clinton Legacy" on regulatory issues is the cover story of the latest issue of *Regulation* (vol. 24, no. 2). Several contributors offer mixed reviews of Clinton's regulatory changes in eight policy areas: taxes, civil rights, trade, transportation, banking and finance, securities, environment, and health and medicine. Although the administration did oversee some significant market-based reforms, it also instituted some costly new regulations that seem to be grounded in politics, not a desire to provide efficient, effective benefits to Americans.

Ian Ayres of Yale Law School argues in an essay on campaign finance reform that requiring all candidates to disclose their contributors' identities would do little to deter quid pro quo corruption. Ayres writes that a better approach may be a regime of contributor anonymity in which donors must funnel their contributions to campaigns through blind trusts. Such a regime would deprive

the candidate of a vital piece of knowledge that enables corruption: the knowledge that a supposed donor actually fulfilled his promise to contribute a large amount of money. What is more, such a regime would place fewer restrictions on

donors' free speech rights and their "right to spend."

The latest issue of *Regulation* also contains three essays examining regulations and the banking industry. Randall S. Kroszner of the University of Chicago analyzes the motives behind the pattern of banking reform in the last 30 years. George G. Kaufman of Loyola University (Chicago) and Peter J. Wallison of the American Enterprise Institute examine the need for further reforms to limit moral hazard problems in the banking industries. Ike Brannon of the University of Wisconsin proposes that a "lending voucher" system be set up as a market-based alternative to the Community Reinvestment Act that prods commercial banks to lend to borrowers in low-income inner-city neighborhoods.

In other essays, Fred E. Foldvary and Daniel B. Klein of Santa Clara University argue that rationales for government attempts to correct "market failure" in some industries may be waning with the emergence of new technologies that limit situations that once produced monopolies, externalities, and public goods. E. Haavi Morreim of the University of Tennessee pleads with the medical industry to stop using the politically vague term "medical necessity." Medical plans should turn to guidelines-based contracting instead of the current promise of "medical necessity" to provide "all of the care someone needs." Michelle J. White of the University of California at San Diego writes that Congress's attempt to make it more difficult for households above the national income average to declare bankruptcy could dissuade risk-adverse potential entrepreneurs from starting new businesses.

To close out the issue, Penn Jillette, Cato Mencken Research Fellow and the louder, bigger half of the magic/comedy team of Penn & Teller, explains in *Regulation's* Final Word why he would have more freedom of speech than most Americans if campaign finance reform became law.

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“It is unethical to make high-stakes decisions on the basis of a single test or set of tests.”

POLICY FORUM *Continued from page 7*

ance in test scores between schools, towns, or states can be explained solely on the basis of socioeconomic status without even knowing what’s going on in the classrooms.

Fact number three: Research has demonstrated repeatedly that there is a positive correlation between how well a kid scores on standardized tests and how shallow his or her thinking tends to be. Research has repeatedly classified kids on the basis of whether they tend to be deep or shallow thinkers, and, for elementary, middle, and high school students, a positive correlation has been found between shallow thinking and how well kids do on standardized tests. So an individual student’s high test scores are not usually a good sign.

Fact number four: Every major organization in the field of educational measurement has concluded that it is unethical to make high-stakes decisions, such as whether a kid should be flunked and forced to repeat a grade or denied a diploma at the end of high school, on the basis of a single test or set of tests.

Fact number five: There is no good evidence that a test-based approach to school reform, let alone high-stakes testing, is effective. We do know that students from states that use high-stakes testing tend to do less well on the National Assessment of Educational Progress than do students from states that do not use high-stakes tests. We have research on individual classrooms that finds that when teachers are told, “You are going to be held accountable for your performance in here and for raising test scores,” those teachers’ students tend not to do as well on the same tests as students taught by teachers given the same curriculum to teach but given the instruction, “See if you can facilitate your students’ understanding of this material.”

Last fact, which I think is very hard to dispute: The time to raise test scores in schools has to come from somewhere. Now, all over the country, that time is being taken from recess for little kids, music and the arts, and class meetings that build social and moral skills.

If we allow high-stakes testing to continue, we are going to face what I would describe as an “educational ethnic cleansing in America,” and it will all be done in the name of

accountability. One of the practical effects of this approach is that we are not only pushing kids out of school and not only undermining the most effective curriculum in the



Alfie Kohn: “There is a positive correlation between how well a kid scores on standardized tests and how shallow his or her thinking tends to be.”

name of raising test scores; we are also forcing out teachers. I don’t believe the problem here is just government. In fact, I believe that the governmental policies that I’ve been describing are most pernicious because they follow a private-sector model, a series of metaphors and methods that have to do with incentives and sanctions, that have to do with an approach to teaching that is ultimately not about helping kids explore but is about preparing kids to be workers and raise the profits of corporations.

Ultimately, I believe education is a public good. We do not make things better by setting people against each other in a vicious and toxic race to defeat each other. Nor do we improve education by treating parents as mere consumers so that learning becomes something like an SUV or a snack that is for sale in the marketplace. But I believe many of us can agree that what is going on now in terms of national and state top-down, heavy-handed policies is leading a growing number of folks to say this is a disaster for children.

We are facing an educational emergency, and the proposed “accountability” solutions are stirring up a counterreaction in this country right now. That counterreaction has two features that are utterly absent from the accountability movement: democracy and common sense. ■

Cato Calendar

Assessing the Term Limits Experiment: California and Beyond

*At the American Political Science Association
San Francisco • Hilton San Francisco & Towers
August 31, 2001*

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

*Cosponsored with The Economist, UBS Warburg, and TV Azteca
Mexico City • Four Seasons Hotel
October 24, 2001*

Speakers include Francisco Gil-Díaz, Robert Mundell, Judy Shelton, Robert McTeer Jr., Allan Meltzer, and Guillermo Ortiz.

Cato University

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

Policy Perspectives 2001

*Chicago • Ritz-Carlton
November 1, 2001*

China’s Pension System: Crisis and Challenge

*Cosponsored with China Center for Economic Research
Beijing • The Great Wall Sheraton Hotel • November 8, 2001*

Speakers include Sun Jianyong, Justin Yifu Lin, John Greenwood, Jose Piñera, Mao Yushi, and Liu Mingkang.

Policy Perspectives 2001

*New York • Waldorf-Astoria
November 16, 2001*

14th Annual Benefactor Summit

*Phoenix • Royal Palms Hotel
February 20–24, 2002*

25th Anniversary Gala

Washington • Hilton • May 9, 2002

“A man or woman engaged in honest work has a basic right to enjoy the fruits of his or her labor. Protectionism is a form of stealing.”

FREE TRADE *Continued from page 1*

ships at sea along with the ships of Hiram. Once every three years it returned, carrying gold, silver and ivory, and apes and baboons.” In the New Testament, in the second chapter of Matthew, we read about the famous wise men of the East, who traveled from Arabia or perhaps as far away as Persia to bring gold, frankincense, and myrrh to the baby Jesus. (Thank goodness they didn’t have to contend with airport customs or the Arab boycott of Israel.)

The Old Testament prophet Ezekiel does warn the citizens of Tyre, the bustling Mediterranean port city, “By your great skill in trading you have increased your wealth, and because of your wealth your heart has grown proud.” But even when the Bible speaks harshly of the “merchants of the earth,” it is not international trade itself that comes under condemnation but the intent and character of the traders. The sin is not trade but dishonest scales, greed, indulgence in luxuries, and the temptation to pride that can come from wealth. In this respect, trade is no more sinful than technological discoveries or hard work.

A number of theologians and philosophers in the first several centuries A.D. considered trade among nations a gift of God. In his 1996 book, *Against the Tide: An Intellectual History of Free Trade*, Professor Douglas Irwin of Dartmouth College describes this early view of trade that has come to be called the Doctrine of Universal Economy. That doctrine held that God had spread resources and goods unevenly throughout the world to promote commerce between different nations and regions.

In the fourth century A.D., the pagan writer Libanius expanded the doctrine more fully, declaring:

God did not bestow all products upon all parts of the earth, but distributed His gifts over different regions, to the end that men might cultivate a social relationship because one would have need of the help of another. And so He called commerce into being, that all men might be able to have common enjoyment of the fruits of earth, no matter where produced.

Western moral thought provides a solid foundation for pursuing a policy of economic openness. Drawing on that tradition, here are seven moral arguments to support free trade among nations.

One: Free Trade Respects Individual Dignity and Sovereignty

A man or woman engaged in honest work has a basic right to enjoy the fruits of his or her labor. It is a violation of my right to property for the government to forbid me to exchange what I produce for something produced by a fellow human being, whether the person I’m trading with lives across town or across the ocean.

Protectionism is a form of stealing, a violation of the Eighth Commandment and other prohibitions against theft. It takes from one group of people, usually a broad cross section of consumers, and gives the spoils to a small group of producers whose only claim to the money is that they would be worse off under open competition.

Free trade meets the most elementary test of justice, giving to each person sovereign control over that which is his own. As Frederic Bastiat wrote in his 1849 essay, “Protectionism and Communism”:

Every citizen who has produced or acquired a product should have the option of applying it immediately to his own use or of transferring it to whoever on the face of the earth agrees to give him in exchange the object of his desires. To deprive him of this option when he has committed no act contrary to public order and good morals, and solely to satisfy the convenience of another citizen, is to legitimize an act of plunder and to violate the law of justice.

Two: Free Trade Restraints the Power of the State

Free trade is morally superior to protectionism because it places trust in what Adam Smith called “the natural system of liberty” rather than in a man-centered system of centralized industrial policy. And by doing so it allows citizens to fulfill their creative and productive potential.

There is no compelling moral reason

why a small group of politicians should decide, on the sole basis of where things are produced, what goods and services an individual can buy with his earnings. By diffusing economic decisionmaking as broadly as possible, free trade reduces the power of people in high places—always fallible and subject to temptation and abuse of power—to inflict damage on society.

As economists have been pointing out for two centuries now, the gains that protectionism confers on a select group of producers and the government’s coffers are almost always outweighed by the losses imposed on the mass of consumers. This dead-weight loss weakens the productive capacity of a country as a whole compared to what it would be if its citizens were allowed to engage in free trade.

Producers who seek protection are not only robbing their fellow citizens of income and freedom of choice; they are sapping the economic strength of their own society. Protectionists are prone to wrap their agenda in words of patriotism and compassion, but their aim is self-centered and self-serving.

Three: Free Trade Encourages Individuals to Cultivate Moral Virtues

To be successful in a free and open marketplace, producers must serve their fellow human beings by providing goods and services others want and need. And the most economically successful will be those who provide not just for a select few but for a broad segment of consumers.

In the 1991 papal encyclical *Centesimus Annus*, Pope John Paul II observed that a market system encourages the important virtues of “diligence, industriousness, prudence in undertaking reasonable risks, reliability and fidelity in interpersonal relationships, as well as courage in carrying out decisions which are difficult and painful but necessary.” On addition to such character traits, trade encourages good manners and the decent treatment of others.

In the long run, trade rewards those participants who act in a trustworthy manner. A supplier who misses deadlines for shipment or a buyer whose credit is no good will soon lose business to competitors with better reputations. In other words, there is no inherent conflict between good business and good morals, and in a free and open

“In the last 25 years, as the world has turned away from centralized economic controls and toward a more open global market, political and civil freedoms have also spread.”

market under the rule of law the two complement each other.

Four: Free Trade Brings People Together

Trade opens the door for relationships that transcend economic exchange. When nations trade with one another, more than material goods crosses borders. People and ideas inevitably follow through the same open doors. Fax machines, cellular telephones, and the Internet are rapidly spreading as tools of international business, but they are also tools of friendship and evangelism.

At a Cato Policy Forum in 1999, Ned Graham, son of Billy Graham and president of East Gates International, spoke about the impact of expanding trade on his organization's missionary work in China:

Ten years ago, there was almost no information-exchange technology available to the average Chinese citizen. If we wanted to contact a friend in China, we usually had to do so by mail unless that individual had a private phone, which was extremely rare in the inland provinces. . . . Today, despite difficulties, much of that has changed. We routinely communicate with thousands of friends all over China via fax, cell phones, and email. The proliferation of information technology has allowed us to be much more effective in developing and organizing our work in the PRC.

Today more than 100 Western missionary groups are either working or attempting to work openly in China to spread the faith. Since 1992 Ned Graham's organization has legally distributed more than 2.5 million Bibles to nonregistered believers in China. This ministry would have been impossible without China's economic opening to the world that began 20 years ago and America's ongoing policy response of engagement. More than 20 million Chinese are now on the Internet, and that number has been growing exponentially. The number of telephone lines and cell phones in China has grown more than tenfold in the last decade. The works of Friedrich Hayek, probably this century's most influential defender of a free society, are now being

distributed legally on the mainland. Free trade has brought new ideas and new relationships to China and other previously closed societies.

Five: Free Trade Encourages Other Basic Human Rights

This is probably the most contentious of the seven reasons, and it goes to the heart of the current debate about trade with China and the use of sanctions in the name of human rights and democracy. By raising the general standard of living, free trade helps people to achieve higher levels of education and to gain access to alternative sources of information. It helps to create a more independent minded middle class that can form the backbone of more representative kinds of government. The wealth created from expanded trade can help to nurture and sustain civil institutions that can offer ideas and influence outside of government. The emergence of civil liberties and more representative government in countries such as Taiwan, South Korea, and Mexico can be credited in large part to economic development spurred by free trade and market reforms.

As a general rule, nations that are more open economically tend to enjoy other liberties as well. In the last 25 years, as the world has turned away from centralized economic controls and toward a more open global market, political and civil freedoms have also spread. In 1975 the nonprofit group Freedom House classified only 42 countries as politically free, meaning that citizens enjoy full civil and political freedoms. Today the number has more than doubled to 85. The percentage of the world's people enjoying full civil and political freedom has also more than doubled during that time, from 18 percent to 40 percent.

In his book, *Business as a Calling*, Michael Novak explains the linkage with what he calls “the wedge theory”:

Capitalist practices, runs the theory, bring contact with the ideas and practices of the free societies, generate the economic growth that gives political confidence to a rising middle class, and raise up successful business leaders who come to represent

a political alternative to military or party leaders. In short, capitalist firms wedge a democratic camel's nose under the authoritarian tent.

Religiously motivated conservatives who want to repeal normal trade relations with China would undermine progress on human rights by removing one of the most positive influences in Chinese society. Granted, the Chinese government today remains an oppressive dictatorship, a bad regime that jails its political opponents and interferes in the private lives of citizens. But for all its unforgivable faults, the Chinese government today is not nearly as bad as the

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The Milton Friedman Prize for the Advancement of Liberty, named in honor of the most distinguished and effective advocate of liberty in the latter part of the 20th century, will be presented every other year to the individual who has done the most to advance human freedom. The first prize will be presented on May 9, 2002, at the Cato Institute's 25th Anniversary Gala. Nominations may be submitted to FriedmanPrize@cato.org or sent to Friedman Prize, Cato Institute, 1000 Massachusetts Avenue, N.W., Washington, D.C. 20001, and will be reviewed by a distinguished international committee.

“Free trade limits the power of the state and enhances the freedom, autonomy, and self-responsibility of the individual.”

FREE TRADE *Continued from page 13*

government was during the totalitarian rule of Mao Tse-tung, when millions were killed and the entire social order was convulsed by the Great Leap Forward and the Cultural Revolution. The people of China do not yet enjoy the range of political and civil rights we do in the West, but they are freer and materially better off than they were three decades ago. For that they can thank economic and trade liberalization.

Six: Free Trade Fosters Peace

In an 1845 speech in the British House of Commons, Richard Cobden called free trade “that advance which is calculated to knit nations more together in the bonds of peace by means of commercial intercourse.” Free trade does not guarantee peace, but it does strengthen peace by raising the cost of war to governments and citizens. As nations become more integrated through expanding markets, they have more to lose should trade be disrupted.

In recent years, the twin trends of globalization and democratization have produced their own “peace dividend”: since 1987 real spending on armaments throughout the world has dropped by more than one-third. Since the end of the Cold War, the threat of major international wars has receded. In fact, today, virtually every armed conflict in the world is not between nations but within nations.

During the 1930s the industrialized nations waged trade wars against each other. They raised tariffs and imposed quotas in order to protect domestic industry. The result, however, was that other nations raised their barriers even further, choking off global trade and deepening and prolonging the global economic depression. Those dark economic times contributed to the conflict that became World War II. America’s postwar policy of encouraging free trade through multilateral trade agreements was aimed at promoting peace as much as prosperity.

Seven: Free Trade Feeds and Clothes the Poor

Free trade and free markets empower poor people by giving them greater opportunity to create wealth and support their families. By dispersing economic power more widely, free trade and free markets undercut the ability of elites in less-developed countries to pillage a nation’s resources at the expense of its poor. Proof can be found in the immigration patterns of poor people throughout the world. By the millions, they seek to leave closed and centrally controlled economies for those that are more open and less controlled. Poor people themselves understand that a free economy serves their interests, even if many of their self-appointed intellectual advocates in the West do not.

Nations open to trade tend to be more prosperous, just as cities along coastlines

and navigable rivers tend to be wealthier than those in more remote, inland locations. The most recent *Economic Freedom of the World* study, by James Gwartney and Robert Lawson, found that the nations that were most open economically from 1980 through 1998 grew nearly five times faster than those that were most closed. And that trade-related growth lifts the lot of the poor. To cite the most dramatic example of this, the World Bank estimates that the number of Chinese citizens living in absolute poverty—that is, on less than \$1 per day—has fallen since 1978 by 200 million. Revoking China’s normal trade status, among all its other negative consequences, would set back one of the most successful anti-poverty programs in the history of mankind. In contrast, those regions of the world where poverty has been the most intractable, sub-Saharan Africa and South Asia, have been the least open to trade and foreign investment.

For all those reasons, trade sanctions fall heaviest on the poor of the target nation. Political rulers have the power to protect their pampered lifestyles, while the poor are left to suffer the consequences of U.S. policies that were enacted in the name of helping the very people they victimize. You can be sure that the communist leaders in Cuba and the ruling junta in Burma will continue to enjoy their fine, catered meals and chauffeur-driven cars while the millions of poor people they oppress are made even more miserable by U.S. trade and investment sanctions.

When all of the arguments are weighed, it should become clear that a policy of free trade is moral as well as efficient. Free trade limits the power of the state and enhances the freedom, autonomy, and self-responsibility of the individual. It promotes virtuous and responsible personal behavior. It brings people together in “communities of work” that cross borders and cultures. It opens the door for ideas and evangelism. It undermines the authority of dictators by expanding the freedom, opportunity, and independence of the people they try to control. It promotes peace among nations. It helps the poor to feed and care for themselves and creates a better future for their children. For which of these virtues should we reject free trade? ■

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Cato Journal Looks at China and Hong Kong

The latest issue of *Cato Journal* (vol. 21, no. 1) looks at the future of relations between Hong Kong and China. Edited by James A. Dorn, vice president for academic affairs at the Cato Institute, the issue presents papers delivered at a September 2000 conference in



James A. Dorn

Hong Kong cosponsored by the Cato Institute and the Hong Kong Centre for Economic Research.

Independent scholar Liu Junning, who was dismissed a year ago from the Chinese Academy of Social Sciences and officially denounced as a liberal, argues that “a market-liberal order can only be created in an open China.” Liu writes that a “new trinity”—membership in the World Trade Organization, permanent normal trade relations with the United States, and the spread of information technology—is needed to open China. Liu says that openness is more vital than the reform movement, which has already started to lose momentum.

Joseph Yam, chief executive officer of the Hong Kong Monetary Authority, analyzes the short-term impact of the People’s Republic of China’s entering the World

Trade Organization. Yam says that impact will be “unequivocally positive” for Hong Kong, which stands to gain from China’s accession to the WTO, despite uncertain long-term ramifications. Shortly after *Cato Journal* went to press, China reached a consensus with the United States on agricultural and other subsidies that had been holding up China’s entry to the world trade club.

The issue, titled “Globalization, the WTO, and Capital Flows: Hong Kong’s Legacy, China’s Future,” also considers the impact of technology, trade, and capital flows on the scope of government and how China can tap new sources of capital by adopting a Chilean-style pension system.

Yasheng Huang, an associate professor at Harvard Business School, concludes that China’s absorption of large amounts of foreign investment in the early 1990s is not as threatening to the world as it may appear. David Li, associate professor at the Hong Kong University of Science and Tech-

nology, examines the role of small banks in leading financial reform in China. Mark Groombridge, research fellow at Cato’s Center for Trade Policy Studies, and Fred Hu of the Goldman Sachs Group dif-

fer on when China will float its currency. Cybercash chairman William Melton analyzes “the great new wealth creation factors” in the 21st century. Hong Kong securities regulator K. C. Kwong discusses the impact of the information revolution on financial markets in Hong Kong and China. Raymond Ch’ien, chairman of the Hong Kong-based Chinadotcom Corp., discusses the importance of Hong Kong’s embracing the Internet.

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STUDIES *Continued from page 9*

catastrophic war with a nuclear-armed China, Carpenter says. “Such a level of risk should never be incurred except in defense of a vital U.S. security interest,” he argues. “Preserving Taiwan’s de facto independence does not meet that test.”

◆ Comprehensive Telecom Reform Agenda

New committee chairs in Congress and new leadership at the Federal Communications Commission present an opportunity for widespread telecommunications deregulation, according to a new Cato Institute study, “A 10-Point Agenda for Comprehensive Telecom Reform” (Cato Briefing Paper no. 63), by Adam D. Thier-

er, director of telecommunications studies at the Cato Institute and a member of the Bush-Cheney FCC Transition Advisory Team. When Congress passed the historic Telecommunications Act of 1996, legisla-



Adam Thierer

tors intentionally avoided providing clear deregulatory objectives for the FCC and instead delegated broad and remarkably ambiguous authority to the agency. That left the most important deregulatory decisions to the FCC, and, not surprisingly, the agency did a very poor job of following through with a serious liberalization agenda. The Telecom Act, with its backward-looking focus on correcting

the market problems of a bygone era, has been a failure. Among the statute’s most notable flaws: The act’s authors were fixated on a local versus long-distance distinction in the telephone market that is becoming increasingly irrelevant as the two are bundled together as one service. The act placed an unrealistic amount of faith in “open-access” regulation to bring about increased competition. The act mandated an unprecedented expansion of universal service subsidies in an attempt to offer all Americans a growing grab bag of telecom and high-technology entitlements in addition to inexpensive local phone service. Most important, the authors of the Telecom Act failed to appreciate the reality and speed of both technological convergence and technological obsolescence. ■

◆ **And the basis of Western civilization**

In his first speech on the environment since becoming president, Bush declared his support for the philosophy of property rights, which is popular among western conservatives.

—*Washington Post*, May 31, 2001

◆ **Only taxpayers get tax rebates**

Citizens for Tax Justice . . . reported that almost half of those Americans in the bottom 60 percent of income earners—more than 32 million individuals and families—will receive no rebates [under the new tax bill]. . . .

Michele Davis, a Treasury Department spokeswoman, said: “We have a single statistic: One hundred percent of the people with income tax liability will receive a rebate.”

[CTJ] director Robert] McIntyre said “that is a fair statement.”

—*Washington Post*, May 31, 2001

◆ **Smart experts**

Federally ordered caps on wholesale electricity prices do not guarantee California will escape rolling blackouts this summer, experts say.

—Associated Press, April 26, 2001

◆ **“Youth leaders” slander American Revolution**

When shipwreck survivor Elian Gonzalez was a guest last year at Rosedale—the 6.5-acre Washington estate owned by the nonprofit Youth for Understanding—the group’s president found a novel way to explain Rosedale’s history to the 6-year-old Cuban. Sally Cowal told Elian

that Revolutionary War general Uriah Forrest, who built the farmhouse in 1791, wasn’t exactly America’s Fidel Castro, but he might have been its Che Guevara.

—*Washington Post*, April 26, 2001

◆ **Government should stay out of our private lives, except when it shouldn’t**

Freshman Mark Kirk of Illinois . . . believes in . . . tough gun control measures. . . .

Kirk says he is “pro-choice because I have Libertarian roots. I’m a Republican because I believe in low taxes, personal responsibility. . . . I would prefer that the government just stay out of my paycheck and out of private life.”

—*National Journal*, May 12, 2001

◆ **It’s an honor to be regulated**

There are federal laws and regulations requiring that much of what is presented on television as true must actually be true. . . .

“The cheesy nature of so-called reality TV does not dignify regulatory intervention,” [former FCC chairman Reed Hundt] says.

—*Brill’s Content*, May 2001

◆ **China needs more government**

Failure to collect sufficient taxes has caused the downfall of Chinese dynasties, and the country’s situation today is little different. China, which dreams of becoming strong enough to challenge U.S. power in Asia, will not get there without enough tax revenue. Nor will it be able to educate and care for its 300 million children under the age of 14 or its growing elderly population.

—*Washington Post*, May 8, 2001

◆ **Protectionism—and euphemism—know no boundaries**

Japan’s textile manufacturers are pressuring the ruling Liberal Democratic Party to curb the growth of low-cost imports from Asia.

“It’s not protection,” said Fukunori Udaka, director of Japan’s largest towel-manufacturing union. “We’re asking the government for a three-year grace period to restructure our industry and strengthen our ability to compete internationally.”

—*Washington Post*, April 11, 2001

◆ **Why a Canadian dollar buys you 61 cents**

“When you give money to the poor, they spend it. But when you give tax breaks to the rich, they save it. So giving money to the poor is an investment.”—Canadian prime minister Jean Chretien speaking at Duke’s von Der Heyden Fellows program in December 2000.

—*Duke Magazine*, January–February 2001

◆ **1994—wasn’t that the year the GOP pledged to abolish the Department of Education?**

Whatever education policies you prefer, one thing is indisputable: Since Republicans took control of Congress in 1995, federal education spending has exploded. . . .

The Republican Congress increased nominal federal education spending from \$29 billion in 1994 to nearly \$47 billion in 2001—an increase of more than 50 percent in real terms.

—Senate Republican Policy Committee, press release, Mar. 29, 2001

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