

The Idea That Is Changing the World

by David Boaz

Jimmy Carter. Tip O'Neill. Energy czars. Gas lines. Raging inflation. ABC-NBC-CBS. Mao Tse-tung. The Soviet Union. Apartheid.

It was a different era.

What wasn't so obvious at the time was that it was the end of an era.

In 1977 the Soviet Union seemed a permanent fixture. So did communism in China. Here at home, the Democrats had retaken the White House after Nixon's usurpation. The permanent majority was back in control in Washington. Ninety-one percent of television viewers watched the big three networks. Despite the turmoil of the 1960s and early 1970s, baby boomers thought that communist domination of half the world and Democratic control of Washington were just the natural order of the universe.

Sen. Daniel Patrick Moynihan wrote in 1976, at the time of the American bicentennial:

Liberal democracy on the American model increasingly tends to the condition of monarchy in the 19th century; a holdover form of government, one which persists in isolated or particular places here and there, and may even serve well enough for special circumstances, but which has simply no relevance to the future. It is where the world was, not where it is going. Increasingly democracy is seen as an arrangement peculiar to a handful of North Atlantic countries.

*David Boaz is executive vice president of the Cato Institute. This is excerpted from his introduction to *Toward Liberty: The Idea That Is Changing the World*, published by the Cato Institute as part of its 25th anniversary celebration.*



Columnist Tony Blankley, ACLU president Nadine Strossen, and talk-show host Larry Elder were the dinner speakers at Cato's 14th Annual Benefactor Summit at the Royal Palms Hotel in Phoenix.

How wrong he was. Under the surface things were changing. Some of the very weaknesses that led to Moynihan's pessimism—such as the federal government's disastrous triple play of Vietnam, Watergate, and stagflation—had eroded the confidence in government built up by the New Deal, World War II, and the prosperous 1950s. The ideas that Ayn Rand, Milton Friedman, F. A. Hayek, and others had been propounding were taking root. Politicians such as Margaret Thatcher and Ronald Reagan, who had read some of those dissident authors, were planning their challenges to the failing welfare-state consensus.

Even less obvious, Soviet leaders had lost confidence in the Marxist ideology that justified their rule, a fact that would have profound consequences in the coming decade. And in China, Mao had just died, and his old comrade Deng Xiao-ping was maneuvering for power. His victory would have consequences that no one could foresee in 1977.

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news and photos from Cato's 25th anniversary celebration on May 9

Shameless Powerlust



When, in its 1995 decision in *U. S. Term Limits v. Thornton*, the Supreme Court voted 5-4 to strike down the right of the states to limit the terms of their elected representatives, it did more than hand a victory to career politicians by ignoring the Tenth Amendment. It set in motion an accelerating process of audacious initiatives that have fundamentally undermined the integrity of American democracy. Overt efforts to overturn still-constitutional term limits on state legislators, enactment of incumbent-protect-

ing campaign finance restrictions, and shamelessly self-serving redistricting plans all reflect with increasing clarity the disdain in which legislators hold the voters.

Term Limits. Since the term limits movement started picking up momentum in the early 1990s, it has been evident that an overwhelming majority of Americans prefer citizen legislators to professional politicians. Any time citizens have an opportunity to vote on the issue, it passes with a huge majority. By 1994 the movement was so strong that Newt Gingrich, who, like the vast majority of politicians, opposed the idea, was compelled to include term limits as part of the Contract with America.

You could hear the champagne corks popping all over Washington the day the Supremes came through for the political class. But the legislatures in many states were still term limited. That hasn't stopped the politicians from fighting back. U.S. Term Limits now spends most of its resources combating efforts to repeal the clear intent of the voters. Legislatures in 11 of the 17 still term-limited states have recently considered repealing or weakening their term limit laws in some way. Idaho's overwhelmingly Republican legislature actually repealed a law the voters had overwhelmingly approved through the initiative process—twice. When Gov. Dirk Kempthorne vetoed the repeal, the legislature overturned the veto with a two-thirds vote in each house.

And in California longtime professional politician John Burton led an initiative that raised more than \$10 million from unions, politicians' PACs, and companies that do business with the state in an effort to gut term limits there. The voters defeated the effort by 58 percent to 42 percent. Still, everyone expects another attempt to break free from the limits. The attitude of the incumbents is expressed well by Rep. Carl Wilson of Oregon, who, in defending his support of suing the voters and repealing term limits, said: "I don't expect the voters to understand. But as you know, we are privy to things they are not. This hallowed

place [the legislature] is where we are, and we know it best."

Campaign Finance Restrictions. There is nothing in the recently enacted Bipartisan Campaign Reform Act that is not designed to protect incumbents from challengers. Incumbents regard the First Amendment as a campaign finance loophole. That law, which President Bush disingenuously signed after suggesting it was unconstitutional, goes a long way toward closing that "loophole." The three things that can threaten an incumbent are so-called soft dollars from national party coffers to provide significant support to a challenger; a wealthy, self-financed challenger; and outside "issue advocacy" efforts to educate voters on an incumbent's record.

BCRA addressed all three concerns. The 98.6 percent reelection rate for House incumbents in 2000 may actually go *up* in the future, as a result. Soft dollars were banned, so the threat of a challenger backed by national party spending is gone. Self-financed candidates now find that the hard-dollar contribution limit for incumbents (by definition self-financed candidates are challengers; no incumbent lacks for contributions) is tripled to \$6,000. So much for the "appearance of corruption" the \$2,000 limit is allegedly meant to address. As for issue advocacy, well, you can still do that, but you can't mention the name of a candidate for federal office in advertising for two months prior to an election. Ultimately, the campaign restriction folks want to ban all private political expression in campaigns by funding them through taxes.

Redistricting. Traditionally, following a census, redistricting has created more competitive House races than normal—somewhere around 100. This time the emboldened incumbents in virtually every state simply enhanced their own protection, regardless of how that might affect the political balance of power. According to Simon Rosenberg, executive director of the New Democrat Network, redistricting may have decreased competitive races this year to no more than 30. That's possible, says the Center for Voting and Democracy, because, "with increasingly sophisticated computer software, polling results, and demographic data, incumbent legislators quite literally choose the voters before the voters have a chance to choose them."

California politicians again set a bad example. Thirty of 32 incumbent Democratic representatives there have paid the legislatively appointed redistricting chief \$20,000 each to protect their seats. But, as California Democratic chairman Art Torres notes: "This really is a bipartisan effort. You maintain the 20 Republican seats." Which tells us something about Golden State Republicans. They'd rather hold on to their own fiefdoms than regain control of the legislature. Sadly, this is the norm in American politics today.

Lord Acton warned us that "power tends to corrupt, and absolute power corrupts absolutely." He was right. Incumbent politicians in America are so drunk with power that they don't even blink at undermining our democracy.

—Edward H. Crane

“Incumbents regard the First Amendment as a campaign finance loophole.”

Tony Brown, Star Parker, Dylan Glenn, Herman Cain are among the speakers

Social Security Choice Would Benefit Blacks

“Social Security is beginning to get the attention that it deserves as a 21st-century civil rights issue,” said J. Kenneth Blackwell, secretary of state of Ohio, at “Social Security and African Americans: Race, Retirement, and Reform,” a conference cosponsored by the Cato Institute and the National Black Chamber of Commerce on March 19. The daylong conference featured a wide range of speakers representing the full spectrum of debate over Social Security reform and its impact on the African-American community.



Star Parker of the Coalition for Urban Renewal and Education answers in the affirmative on the debate panel, “Should Social Security Be Privatized?”

Former social security commissioner Gwendolyn King, the keynote speaker and a member of the President’s Commission to Strengthen Social Security, told the overflow audience that Social Security privatization is a way to increase wealth in the African-American community. “African-American retirees have little wealth accumulation. Many are living below or barely above the poverty line. This is certainly not a strong rationale for maintaining the status quo,” King said. “The key to a more prosperous African-American community lies in making it possible to build wealth that can be passed from generation to generation. Without change, cycles of poverty will continue uninterrupted.”

That theme was echoed by Blackwell, the luncheon speaker, who made a passionate plea for Social Security privatization. “No group has as much at stake in Social Security reform as African Americans,” Blackwell said. He decried the inequities of the current Social Security system and said that “transforming the system to one based on individually owned, privately invested accounts would treat African Americans far more fairly. There



At Cato’s conference, “Social Security and African Americans,” author Jesse Brown talks about the need for black Americans to invest more as moderator Derek McGinty of ABC News listens.

is nothing partisan—nothing partisan—about that.”

Horace Cooper of the Center for New Black Leadership and Cato scholar Michael Tanner said that African Americans are disproportionate losers under the current system because of lower life expectancies and marriage rates, early entry into the workforce, and a lack of alternative savings. Maya Rockey Moore of the National Urban League and Kilolo Kijakazi of the Center

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Posner speaks in Chicago, Strossen at Benefactor Summit

Argentina, School Choice, Spam Debated at Cato

◆ **February 5:** Both partisans and critics of globalization have grossly overstated the ascendancy of market forces in today's world economy, said Brink Lindsey at a Cato Book Forum, *Against the Dead Hand: The Uncertain Struggle for Global Capitalism*. Lindsey, director of Cato's Center for Trade Policy Studies, said that the discredited "dead hand" of central planning still wields considerable influence, although market forces are gaining ground as existing institutions continue to break down. U.S. Trade Representative Robert Zoellick said that he shares Lindsey's long-term optimism, but he expressed caution about how changes are made. Douglas Irwin of Dartmouth University and Sebastian Malaby of the *Washington Post* also commented.

◆ **February 8:** At a Cato Policy Forum, "What's Next for Argentina?" Cato senior fellow and Johns Hopkins economist Steve Hanke highlighted how the devaluation of the peso has resulted in gross violations of the rule of law and contract law. Kurt Schuler of the Joint Economic Committee explained that the Argentine crisis was due to uncontrolled government spending, tax increases, and a weakened commitment to the currency board. Michael Mussa of the Institute for International Economics explained why he thought the peso devaluation was necessary. Michael Gavin of UBS Warburg discussed the possibilities of resolving debt owed by Argentina to foreign creditors.

◆ **February 12:** At a Cato Policy Forum, "An Inside Look at the President's Commission to Strengthen Social Security," Andrew Biggs, a staff member of the commission and now the assistant director of the Cato Project on Social Security Privatization, said that as long as workers' account rates exceeded the benefit rate—as predicted by the commission—workers would end up with more at retirement than they would under the traditional benefit program. "Taken together, the three plans show the power of personal accounts to adapt to the problem," said Biggs. New America Foundation fellow Maya McGuineas said that criticism about the bias of the commission missed the point—the mem-

bers were chosen to develop President Bush's commitment to private investment accounts, not to have a philosophical debate. Hans Reimer of the Campaign for America's Future said that privatization should not be one of the reforms considered.

◆ **February 13:** The World Trade Organization's recent ruling that a \$4 billion tax break for U.S. exporters is an illegal export subsidy was the topic of a Cato Policy Forum, "Trade War or Tax Reform? The WTO Ruling on Tax Breaks for U.S. Exporters." Chris Edwards, director of fiscal policy studies at Cato, called for repealing the tax break on foreign sales of U.S. companies and removing tax penalties imposed on U.S. companies. Rep. Phil Crane (R-Ill.) called for major tax reform including repeal of the corporate income tax. William Reinsch of the National Foreign Trade Council and John Meagher of PricewaterhouseCoopers described some of the technical aspects of the European case.

◆ **February 14:** The Bush administration's new Nuclear Posture Review outlines a new post-Cold War concept of deterrence and justifies a reduction in strategic nuclear warheads by storing them. We should be destroying weapons, not storing them, said Charles V. Peña at a Cato Policy Forum, "Does the U.S. Nuclear Posture Review Use Fuzzy Math?" Peña, senior defense policy analyst at Cato, added that the United States could reduce its strategic nuclear arsenal to 1,500 warheads by moving away from a nuclear war fighting strategy to a capabilities-based force designed for deterrence. Daniel Goure of the Lexington Institute said that the Nuclear Posture Review is a sensible development that recognizes changes in the international environment and changes in the power position of the United States. Morton Halperin of the Council on Foreign Relations said that by maintaining access to the warheads, the United States is sending a message to Moscow that it still views the Russian nuclear arsenal as a direct threat.

◆ **February 19:** School choice is good public policy, said David Salisbury at a Cato Policy Forum, "School Choice: Is It Good?

Is It Constitutional?" Salisbury, director of Cato's Center for Educational Freedom, concluded, "Unlike the system of government education we have now, school choice is based on sound principles of economics and is consistent with the principles of freedom." Tom Mooney of the Ohio Federation of Teachers argued that market education would not properly serve low-income areas. Speaking the day before the Supreme Court heard an important school choice case from Cleveland, Clint Bolick of the Institute for Justice said that no matter what the Supreme Court decides, the school choice movement will move ahead. Barry Lynn of Americans United for Separation of Church and State argued that voucher programs divert money to religious institutions.

◆ **February 20–24:** The Cato Institute held its 14th annual **Benefactor Summit** in Phoenix, Arizona. The featured speakers were *Washington Times* columnist Tony Blankley, author Charlotte Twilight, talk-show host and syndicated columnist Larry Elder, Nadine Strossen of the American Civil Liberties Union, and Cato senior fellow Stephen Moore.

◆ **February 27:** At a Cato Policy Forum, "The Importance of Social Security Reform," House Majority Leader Richard K. Armey (R-Tex.) said that, to lay the groundwork for reform, Congress should send Americans certificates guaranteeing their Social Security benefits would not be cut. Armey warned critics of Social Security privatization: "We may be at a point in Social Security's history when the issue actually backfires on defenders of the status quo."

◆ **March 13:** A Minnesota regulation prohibiting judicial candidates and their families from presenting their views on public policy or accepting endorsements from political party organizations was the topic of a Cato Institute Debate, "Resolved: If Judges Must Be Elected, They Must Be Free to Campaign for Election." James Bopp, lead lawyer in a suit challenging the Minnesota regulation, argued that the people of Minnesota are entitled to know judicial candidates' general views on the law in

Barry Lynn of Americans United for Separation of Church and State, Clint Bolick of the Institute for Justice, and Cato's Roger Pilon and David Salisbury prepare to debate school choice at a Cato Forum the day before the Supreme Court heard a voucher case from Ohio.



education needs a for-profit sector in order for educational reform to blossom.

◆ **March 15:** “We’re going to be able to exert control over our evolutionary future. It’s not space that is our next frontier; it’s ourselves,” Gregory Stock said at a Cato Book Forum, **“The Genetic Future Is Now: Redesigning Humans vs. Regulating Science.”** Stock, a professor at the UCLA Medical Center and author of *Redesigning Humans: Our Inevitable Genetic Future*, argued that governments and social groups will not be able to stop parents from choosing their children's genes at the embryo stage. Francis Fukuyama, author of *Our Posthuman Society: Consequences of the Biotechnology Revolution*, said that the government must strictly regulate biotechnology to prevent people from using it for personal enhancement.

Rep. Philip M. Crane, chairman of the House Subcommittee on Trade, arrives for a Forum on the World Trade Organization.



◆ **March 19:** Gwendolyn King, former social security commissioner and a member of the President's Commission to Strengthen Social Security, and J. Kenneth Blackwell, secretary of state of Ohio, were the featured speakers at a full-day conference, **“Social Security & African Americans: Race, Retirement & Reform,”** sponsored by Cato and the National Black Chamber of Commerce. Other speakers included television host Tony Brown; Star Parker of the Coalition on Urban Renewal and Education; Herman Cain, former CEO of Godfather's Pizza; E. Percil Stanford, former chairman of the National Committee to Preserve Social Security and Medicare; Hilary O. Shelton of the NAACP; and Dylan Glenn, special assistant to President Bush.

Gregory Stock of UCLA and Francis Fukuyama of Johns Hopkins debate genetic engineering at a Cato Book Forum.



order to make an informed choice when voting. Roy Schotland of the Georgetown University Law Center countered that allowing candidates for a judgeship to take a stance on hot-button issues during their campaigns creates an appearance of bias.

◆ **March 13:** A former recipient of an award from the Drug Enforcement Agency discussed his misgivings about the drug war at a Cato Book Forum, ***Drug War Addiction***. Sheriff Bill Masters of San Miguel County, Colorado, said that the drug war itself is an addiction—and that drug prohibition is more damaging to the fabric of American society than drugs could ever be.

Former federal prosecutor William Otis argued that it would be a mistake to abandon the war on drugs.

◆ **March 14:** Opponents of vouchers have engaged in a campaign that includes lies and distortions, said Kaleem Caire at a Cato Book Forum, ***Ten Myths about School Choice: Answering the Campaign against School Vouchers***. Caire, president and CEO of the Black Alliance for Educational Options, said it is important to inform people about the benefits of vouchers so they can make informed decisions. Casey Lartigue, an education policy analyst at Cato, argued that school choice has real benefits but that edu-

◆ **March 27:** Laws that would require individuals and firms to honor requests by recipients to be removed from e-mail lists are well-intentioned but do not stop lawbreakers, said Howard Beales, director of consumer protection of the Federal Trade Commission, at a Cato Policy Forum, **“The Spam Wars: What Can Be Done about the Annoying, Unsolicited E-mail That Is Driving Us Crazy?”** Rebecca Richards, compliance director of TRUSTE, a provider of website seals that lends legitimacy to commercial e-mails,

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Three Perspectives on Social Security Choice

On February 27 House Majority Leader Richard K. Armey spoke at a *Cato Forum on the importance of Social Security reform*. On March 19 *Cato* and the National Black Chamber of Commerce sponsored a conference, “*Social Security and African Americans*.” Among the speakers at the conference were Gwendolyn King, former social security commissioner and member of the President’s Commission to Strengthen Social Security, and J. Kenneth Blackwell, secretary of state of Ohio. Excerpts from those three speakers’ remarks follow.

Rep. Richard K. Armey: Social Security is the single most important public policy issue that will be addressed by my generation. Yet the politics of it is so brutal that anybody who responsibly considers the matter is generally driven from office by our current irresponsible, short-sighted, self-serving political mores. What is most regrettable to me is that we as a nation tolerate that.

Why have the political bullies gotten away with this? Because it is a generational thing. For my grandfather, Social Security was a good deal. He paid in for a few years and got a great return. By the time my father retired, he had paid in a larger share of his salary over a longer period of time, and he found that the return was not that good.

And then the benefit/cost ratio went down even further. Americans born in the 1960s can expect a mere 2 percent return on their investment. They can do that well by just putting their money in a savings account—or in a mattress. And they know it. The system is headed for inevitable bankruptcy. In less than 15 years, Social Security will be sending out more money than it takes in. That means it is going to have to start cashing in the IOUs in the trust fund. By the year 2038, the trust fund will be empty. There is nobody in this room who will ever receive a dime of Social Security benefit that is not given to them from current taxes paid by their children. So, one way or the other, your children are going to pay for every benefit you get.

Sooner or later, redeeming the notes in the trust fund will result in a transfer from general revenue to Social Security. Then we’ll have some tough choices: pay more in income taxes to sustain a transfer from general revenue, pay more in FICA taxes so we do not have to go to general revenue, cut people’s benefits, or a combination of the three. If you say, this system is perfect just the way it was; let’s just keep it moving, you are either going to cut people’s benefits, raise people’s payroll taxes, or give people an income tax burden larger than they otherwise would have—or deficit spend.



Dick Armey: “We would allow you, if you chose, to take as much as 8 percent of the 12.4 percent Social Security tax and put it into a private annuity plan.”

We know that now. President Bush deserves an enormous amount of credit for taking on the issue. He went out and campaigned on the basis that Social Security, retirement security for all generations, is a serious matter and we ought to talk about it. He has said he wants retirement security for all generations to be his legacy. And he understands that this means reforming and in some way preserving Social Security.

Now that we have begun to set the stage, we have a greater selection of individual retirement accounts, 401(k) plans, and other instruments out there. People are beginning to be better savers. And I am telling my colleagues in public office that the nation is ahead of us on Social Security. All generations of Americans understand it better

and are beginning to wonder why we in public office don’t.

We must dare to believe in the American people on this point. Because until you can get by the politics of fear, you will never get to the policy of hope. And it is those of us who want to proceed who must go forward.

Here is the gist of the right way to do this. The first thing we do is to make sure we are not cutting one dime’s worth of benefit. We would allow you, if you chose, to take, according to a graduated scale, as much as 8 percent of the 12.4 percent Social Security tax paid on every dollar you earn and put it into a private annuity plan.

The bet is that, with compound interest and real earnings in the real world, you can do well enough to someday have retirement benefits that are personal, owned by you, assigned to you, outside the scope of anybody’s tampering, and greater in amount than what you would have gotten had you elected to stay in the old Social Security program and let the government manage your whole 12.4 percent contributions.

If indeed you receive as much or more than the guaranteed benefit of the government’s traditional program, the government gives you nothing out of the traditional program; you take all your retirement income out of your private capital investments. If you get into the new program late and maybe

do not get that much, then maybe the government pays you some fraction of what it might otherwise have paid.

Some observers say you cannot put people into this risky environment. Ladies and gentlemen, if you talk to one single American today who feels one bit of security about his retirement, ask him what is making him feel secure. And he will tell you that what he holds in the private security markets is what is making him feel secure.

It is obnoxious to me to hear people say that Enron proves you cannot do this. Enron proves that my mama was right when she told me when I was 12, Don’t put all your eggs in one basket.

That is what Enron proves. Enron in no way disproves the viability of a plan that allows me to voluntarily make a decision

“The key to a more prosperous African-American community lies in making it possible to build wealth that can be passed from generation to generation.”

to leave the government-guaranteed plan and to take some portion of my own earnings over into the private capital market under a fairly prescribed formulation and see if, indeed, I cannot do better for myself with my privately owned funds. And if I do better, then I can voluntarily agree that the government is off the hook. In the final analysis, it is all about freedom, choice, and self-control.

Gwendolyn S. King: Let's deal in hard facts. The average life expectancy for an African-American man, according to year 2000 statistics, is 64.8 years. In 1995 it was 65.4 years. About 650 of every 1,000 African-American men won't see their 75th birthday.

That means that millions of working black men are going to devote a healthy share of their lifetime earnings to financing the Social Security benefits of others. When I hear people defend the status quo as something that African Americans should want to protect, I want them to look at one critical number: one of every four African Americans between the ages of 65 and 74 who are receiving retirement benefits from Social Security is living below the poverty line. By contrast, for white Americans, that figure is just 8.8 percent.

I believe the President's Commission to Strengthen Social Security developed proposals for an improved Social Security system that deserve meaningful and thoughtful public debate. Let me take a moment to address some of the major proposals in the commission's report.

Number one, we believe that Social Security would be strengthened by allowing workers to use a small portion of their 6.2 percent Social Security contribution to create a personal retirement account component, so that families would gain a larger return on their money than is currently earned and have the opportunity to build savings instead of just contributing their FICA taxes toward their defined benefit. Those accounts would be voluntary.

In today's world, the median African-American household has barely over \$3,000 in financial assets. That's not enough money to protect a family against a serious finan-



Former social security commissioner Gwen King spoke to the conference by satellite.

cial setback or finance even one year of postretirement life.

One major reason that African-American families have only \$3,000 in assets is because they are contributing 6.2 percent of their wages to the Social Security system, and, let's face it, that doesn't leave much cushion in the paycheck for personal savings.

Our commission did some projections and we discovered that if we take just \$1,000 of an average worker's annual Social Security taxes for 50 years and place that money in a personal investment account, the average-wage earner will enter retirement with more than \$150,000 accumulated, even after inflation adjustments.

Finally, I believe strongly that, if we're going to give people the ability to create personal retirement accounts with a portion of their Social Security taxes, then we must also give them control over those balances when they reach retirement age.

These ideas emanating from the President's Commission were not met with universal acclaim. So let's be clear about what we did and didn't do and not resort to frightening seniors already receiving benefits: We did not propose changing benefits for current and near-retirees. We, quite simply, did not propose any measures that would touch the retirement income of any individual aged 55 or over.

Let me address some of the specific arguments that have been made against the com-

mission's recommendations as they relate to African Americans.

First, it has been said frequently that we minorities are disproportionately reliant on Social Security for our retirement income and that it would therefore be extraordinarily hurtful to us to alter the current system.

It is true that minorities have a heavy reliance on Social Security for their retirement income. Black males who worked in the low wage brackets for most of their lives will depend on Social Security for about 80 percent of their retirement support. The wealthiest 20 percent of wage earners, by contrast, depend on Social Security for only 20 percent of their retirement income needs.

Yet, far from being an argument against reform, this is compelling argument for change. Dependency on Social Security has not, by any means, equaled retirement comfort for African-American retirees. They have little wealth accumulation. Many are living below or barely above the poverty line. That is certainly not a strong rationale for maintaining the status quo.

Furthermore, think about the future of Social Security and about how much we depend on the program. If the day comes—and it will come—when we can't balance the Social Security books without making significant cuts in benefits, who is going to bear the lion's share of that pain?

It has been argued that African Americans are likely to fare worse under private accounts, since Social Security retirement benefits are progressive and our disproportionately low-income recipients receive a larger percentage of benefits relative to earnings than do higher-income recipients. The commission was careful to offer new progressive proposals for funding personal retirement accounts and progressive changes to Social Security's benefit structure. As a result, many minorities would be helped disproportionately by our recommendations.

Another argument voiced against reform is that minorities are the prime beneficiaries of Social Security's disability and survivors' benefits and would be hurt the most

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“Social Security reform is beginning to get the attention it deserves as a 21st-century civil rights issue.”

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if those benefits were undermined by proposed reforms. The president specifically directed the commission to preserve Social Security’s disability and survivors’ components.

Saying that we should maintain Social Security exactly as it exists today is no different from saying that a train should stay on the same track even though the bridge is out a few miles up ahead.

The Social Security Trustees Report tells us that, beginning in 2016, the current program will cease producing sufficient revenues to cover full benefit outlays. By 2030, if we’re going to continue to meet current benefit promises, workers will have to pay a 17 percent Social Security tax to finance those benefits. By 2038 benefits would have to be cut by 27 percent just to keep the program solvent.

We have a window of opportunity in which to address this problem. By beginning a serious debate now that could lead to legislative action in two or three years, we can keep Social Security solvent well into the 21st century, and we can create a program that offers promise and prosperity to people who are today experiencing poverty or near-poverty, or not gaining anything at all from Social Security.

In 1884 Frederick Douglass wrote, “A race which cannot save its earnings can never rise in the scale of civilization.” I believe those words ring very true today, that the key to a more prosperous African-American community lies in making it possible to preserve our rich heritage, educate our children, and build wealth that can be passed from generation to generation. Without change, cycles of poverty will continue uninterrupted. With change, we can replace despair with hope, dependency with confidence, and dislocation with home ownership.

J. Kenneth Blackwell: I recently celebrated my 54th birthday. That makes me one of about 76 million baby boomers who grew up, went to work, and supported Social Security. In 11 years, we begin to

retire, hoping Social Security will return the favor. It won’t.

That concerns me not just because retirement looms on the horizon and not just because Social Security data predict that as a black man I will live only another 13 years and receive benefits for only the last 2. What really concerns me as a former state treasurer is the inefficient use of tax dollars. When money is invested, it is working, not idle. I was once held accountable for every



Ken Blackwell: “Given that Social Security benefits are not inheritable, the downward spiral of wealth inequity is compounded from generation to generation.”

idle minute in the life of an Ohio tax dollar. In light of that, I am alarmed by any public program that takes money and does not make money.

The question is not whether Social Security will fail. It will and people know it. If we reform Social Security now, the system will still have enough money to pay benefits during a transition.

Maintaining benefits to older workers will be the toughest part of any transition. The solution may be to supplant retirement accounts of older workers with federal bonds. The bonds should be paid off through cutbacks in general spending, not cuts in Social Security. Privatization offers huge benefits for most Americans by increasing personal wealth, savings, and tax revenue. Since individuals and broader federal budgets will gain from privatization, those gains will offset Social Security’s transition costs. The income from privatization justifies the expense of the transition.

No group has as much at stake in Social Security reform as African Americans.

We are disproportionately dependent on Social Security for our retirement income. Three of four older black households rely on Social Security for half or more of their retirement income, and a third of older African Americans rely on Social Security for all of their income.

Social Security reform is beginning to get the attention that it deserves as a 21st-century civil rights issue. My friends and colleagues, Hugh Price, president of the National Urban League, and Julian Bond, chairman of the Board of the NAACP, have addressed the need to improve and strengthen our current system. Unfortunately, they dismiss private individual investment accounts recommended by the Social Security Commission.

My friends are correct that the higher mortality rate for young blacks affects African Americans’ aggregate rate of return on Social Security contributions. But it is wrongheaded to leave the impression that the mortality rate alone causes the low rate of return. Simply stated, high mortality rates for the young do not have a big impact on Social Security returns

because the young have not had time to develop substantial earning histories. Moreover, there are many factors that make Social Security in its current form a bad deal for African Americans.

Family structure is one factor. To understand, one needs only to look at the demographic group that benefits most from Social Security—married couples with children and a stay-at-home spouse. That living situation is far less prevalent among African Americans than other races.

The list of Social Security disadvantages for blacks goes on. African Americans are less likely than whites to have other forms of savings or wealth. That condition is exacerbated by the 12.4 percent Social Security tax. After paying their living expenses, few low-income workers have the discretionary income needed to invest. Social Security taxes squeeze out other forms of savings and investment.

As a result, many African Americans are unable to accumulate real wealth. Moreover, since Social Security benefits are not

inheritable, the downward spiral of wealth inequity is compounded from generation to generation. Let me underscore that: *Given that Social Security benefits are not inheritable, the downward spiral of wealth inequity is compounded from generation to generation.*

Any Social Security reform should take into consideration the needs and circumstances of African Americans. The only proposal to thoroughly do so is the partial privatization strategy advocated by President Bush and his commission.

By changing the system from an unfunded defined-benefit system to a defined-contribution plan, based on real wealth, privatization would disconnect total benefits from life expectancy. You must separate real wealth and wealth accumulation from life expectancy.

The benefits any individual received would depend on what was paid into the system plus the investment return on those payments. Benefits under the current program are dependent solely on how many years those benefits are received. That would not be the case under a partially privatized system. Individuals would have a property right to their Social Security benefit. Their individual investment accounts would become part of contributors' estates and could be passed on as an inheritance. Survivors' and disability benefits, which are received by many African Americans, would not be affected by any of the privatization plans that have been proposed by the president's commission.

A higher rate of return would create wealth and lift many African-American seniors out of poverty.

It is time for our national leaders to consider the current and long-term consequence of our unfair Social Security system for African Americans.

At the recent National Summit on Retirement Savings, I joined more than 200 political and financial leaders in discussing the future of savings in America. The dialogue on savings is well under way. Social Security will be privatized and transformed into a true market system. It is time for the world's foremost market economy to put the market to work for the future of America and for all Americans. ■

SOCIAL SECURITY *Continued from page 3*

on Budget and Policy Priorities countered that African Americans benefit from Social Security's progressive benefit formula and survivors' and disability insurance.

Television commentator Tony Brown; the Reverend Al Hurt of Kingdom Church in Brockton, Massachusetts; and two leading African-American investment advisers, Melody Hobson, president of Ariel Capital Management, and Jesse Brown, president of Krystal Investments, discussed the lack of private savings and investment in the African-American community. All agreed that African Americans need to learn more about the need to save for their retirement and more mechanisms to encourage saving and investment.

Should Social Security be privatized? That was the topic of a debate. E. Percil Stanford, former chairman of the National Committee to Preserve Social Security and Medicare, and Hilary Shelton, director of the Washington office of the NAACP, said no. Star Parker, president of the Coalition for Urban Renewal and Education, and former Godfather's Pizza president Herman Cain made the case for privatization.

Dylan Glenn, an economic adviser to



Television host Tony Brown tells Cato's conference participants that black Americans need to use the market to build wealth.

President Bush, discussed the president's commitment to Social Security reform.

The conference was the first of three that Cato is devoting to Social Security's impact on women and minorities. A conference on women and Social Security was held on April 9, and one on Hispanics and Social Security is planned for May 21.

The conference, organized by Tanner, can be viewed online with RealPlayer at the Cato Institute's main Website, www.cato.org, as well as at SocialSecurity.org. ■

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Studies examine troops in Saudi Arabia, tariffs on steel

New Regulations Threaten Technology Industry

One possible contributor to the meltdown of the tech and telecom industries is the legal uncertainty caused by the threat of increasing regulation. In “The Digital Dirty Dozen: The Most Destructive High-Tech Legislative Measures of the 107th Congress” (Policy Analysis no. 423), a new biennial report by the Cato Institute, Wayne Crews, director of technology policy studies at the Cato Institute, and Adam Thierer, director of telecommunications studies, list what they consider the 12 most misguided tech and telecom legislative proposals of the 107th Congress. Crews and Thierer warn that legislators may adopt the telecom paradigm of “endless regulatory and legislative meddling” for the tech sector. The “terrible 12” bills cited in the report card include a bill proposing another breakup of America’s telecommunications system (S. 1364), a proposal to regulate electronic advertising and marketing activities (S. 792 and H.R. 2246), bills authorizing a multi-state tax cartel that would impose taxes on the Net (S. 512 and H.R. 1410), and a bill regulating unsolicited e-mail (H.R. 718).



Wayne Crews



Adam Thierer

advertising and marketing activities (S. 792 and H.R. 2246), bills authorizing a multi-state tax cartel that would impose taxes on the Net (S. 512 and H.R. 1410), and a bill regulating unsolicited e-mail (H.R. 718).

◆ Nation Building Won’t Prevent Terrorism

Nation-building efforts might actually increase the risk of terrorism, according to a new Cato study. In “Old Folly in New



Gary Dempsey

Disguise: Nation Building to Combat Terrorism” (Policy Analysis no. 429), Cato foreign policy analyst Gary Dempsey says that nation building to combat terrorism misconstrues the political problem. “The problem of failed states is not usually one of too little outside involvement or not enough foreign aid. It is a problem of fake countries and flawed borders.”

Nation building also misconstrues the military problem, Dempsey argues. “Failed states are where the terrorists are most vulnerable to covert action, commando raids, surprise attacks, and local informants willing to work for a few dollars,” he writes. “Failed states are not ‘safe havens.’ They are defenseless positions.” To counter future terrorism, Dempsey argues for a policy of credible deterrence and strict accountability.

◆ United States Should Withdraw Troops from Saudi Arabia

The United States should reassess its relationship with the Saudi regime and withdraw its troops from Saudi Arabia, according to a Cato study. In “Befriending Saudi Princes: A High Price for a Dubious Alliance” (Policy Analysis no. 428), Cato senior fellow Doug Bandow writes that Saudi Arabia is among Washington’s most dubious allies; it is “a corrupt and totalitarian regime



Doug Bandow

at sharp variance with America’s most cherished values, including religious liberty.” The U.S. presence, he says, will continue to inflame Islamic extremists and encourage future terrorist attacks. Despite years of support for the Saudi regime, the United States has gotten nothing in return, Bandow says. As well as obstructing investigations, the Saudi regime has also financed the Taliban and *madrassa* fundamentalist academies in Pakistan and has nurtured political extremism and terrorism within Saudi Arabia itself, Bandow argues.

◆ United States Should Avoid “Weaponizing” Space

The United States should be careful about deploying weapons in space, according to a new Cato study. In “Should the United States ‘Weaponize’ Space?” (Policy Analysis no. 427), Cato senior defense policy analyst Charles V. Peña and former director of regulatory studies Edward L. Hudgins argue that



Charles V. Peña

any move to place weapons in space would likely encourage adversaries to redirect their resources to developing anti-satellite weapons. They argue, “U.S. space policy should strive to foster an environment that allows commercial space activity to grow and flourish rather than create a new area for costly military competition.”

◆ Restrictions on Campaign Finance Benefit Incumbents

Shortly before the House of Representatives approved the most sweeping changes in campaign finance laws in nearly three decades, a Cato Institute analysis of campaign finance laws in 15 states by political scientists Thad Kousser and Ray LaRaja revealed that such restrictions benefit incumbents. The new bill bans unregulated “soft money” donations to national political parties and restricts ads before elections. But, according to “The Effect of Campaign Finance Laws on Electoral Competition: Evidence from the States” (Policy Analysis no. 426), “limits do not penalize incumbents as harshly as they do challengers, since sitting lawmakers can attract more money from interest groups and individual donors than can challengers.” States that curtail party-to-candidate contributions see quite significant decreases in contributions to challengers and incumbents alike, Kousser and LaRaja say. They write, “Even controlling for other factors, incumbents raise a bit more than challengers and thus pay less of a penalty at the polls when their fundraising declines from its higher predicted level.”

◆ Amtrak Reform Plan Is Too Little, Too Late

The day before the Amtrak Reform Council submitted to Congress its reorganization plan, the Cato Institute released a study arguing that Amtrak should file for Chapter 11 bankruptcy and be liquidated. In “A Plan to Liquidate Amtrak” (Policy Analysis no. 425), former ARC member Joseph Vranich; bankruptcy lawyer Cornelius Chapman; and Edward L. Hudgins, former director of regulatory studies at the Cato Institute, write that the ARC’s plan “ignores fundamental problems and represents a too-little, too-late departure from Amtrak’s

“Even with a new layer of import restrictions, the steel industry will continue to suffer many of the ills currently cited as evidence of import-caused injury.”

present structure.” Instead, they write, subjecting Amtrak to bankruptcy proceedings would put its worthwhile assets in private hands while recouping some of the billions of dollars U.S. taxpayers have sunk into the money-losing train monopoly. “The virtue of a Chapter 11 proceeding is that it is insulated from political pressures, since a bankruptcy judge has both express statutory authority and broad equitable powers to deal with Amtrak simply in terms of its debts and its creditors,” the authors write.



Edward Hudgins

◆ Federal Energy R&D Due for an Overhaul

The problems surrounding existing energy research and development (R&D) programs are a consequence of the normal functioning of government, according to a new Cato Institute study, “Time to Overhaul Federal Energy R&D” (Policy Analysis no. 424). Ronald J. Sutherland, an adjunct professor of law at George Mason University, and Jerry Taylor, Cato’s director of natural resource studies, write that taxpayers would obtain a higher return on their R&D investments if Congress merged energy programs into a larger budget for scientific R&D or, even better, if Congress eliminated those programs altogether and established in their place tax allowances to supplement private-sector R&D. The authors note that, whereas private markets underinvest in R&D programs that have a high public payoff, government overinvests in R&D programs with a low public payoff.



Jerry Taylor

◆ Ex-Im Bank Charter Should Not Be Renewed

Congress will soon decide whether to reauthorize the Export-Import Bank of the United States. In “Rethinking the Export-Import Bank” (Trade Briefing Paper no. 15), Aaron Lukas, an analyst at the Cato Institute’s Center for Trade Policy Studies, and Ian Vásquez, director of Cato’s Project on Glob-

al Economic Liberty, contend that “the Ex-Im Bank is a Great Depression–era agency that has little relevance in a time of increasingly open and sophisticated global markets.” The authors argue that economic growth is not increased by subsidized export credit, that such credit does not “improve” the trade balance, that the bank’s cumulative impact on employment is indeterminate but not likely to be strong in either direction, and that the bank provides financing primarily to countries and companies that do not have trouble obtaining credit.



Ian Vásquez

◆ Time for the Steel Industry to Demonstrate Its Mettle

Although decades of protectionism and subsidization have only hastened the industry’s demise, steel companies have returned to the trough, asking the administration to defy basic economics and common sense. In “Steel Trap: How Subsidies and Protectionism Weaken the U.S. Steel Industry” (Trade Briefing Paper no. 14), Daniel Iken-son concludes that “even with a new layer of import restrictions, the steel industry will continue to suffer many of the ills currently cited as evidence of import-caused injury.” Iken-son highlights tactics used by steel producers to further their goal of maintaining an overindulged industry. He points to their self-titled label, “victims of unfair trade,” which policymakers and the general public have apparently accepted; their false claims of national security interests; and their large number of antidumping actions. Such tactics only exacerbate the root problem facing the industry: excess, uneconomic capacity.



Daniel Iken-son

◆ IRA-Modeled Plan Best for Social Security Reform

As the debate continues on how to best ensure Social Security’s solvency, the Cato Institute issued “A Proposed Legal, Regu-

latory, and Operational Structure for an Investment-Based Social Security System” (Social Security Privatization Paper no. 25), the third in a series of independently produced detailed plans for an investment-based system. In the partially privatized system envisioned by University of Nebraska finance professor Karl Borden and Suffolk University law professor Charles Rounds, workers would gain property rights and investment direction over a portion of their Social Security payroll tax by diverting those funds into private retirement accounts (PRAs). A PRA-based system, according to Borden and Rounds, would more closely follow the individual retirement account (IRA) model than the 401(k) model to safeguard both consumer choice and consumer protection. Consumer choice would be expanded for investment of funds accrued over a required minimum. The authors envision a quasi-self-regulatory PRA system that balances the role of the federal government in safeguarding the system with allowing competitive forces to reduce compliance and administrative costs. Finally, under the Borden-Rounds plan, PRA funds accrued within a legal marriage would be considered equally divisible community property at time of divorce. ■

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“The changes that began with Deng’s rise to power in 1977–78 and the first stirrings of Solidarity in Poland in 1980 would transform the world in little more than a decade.”

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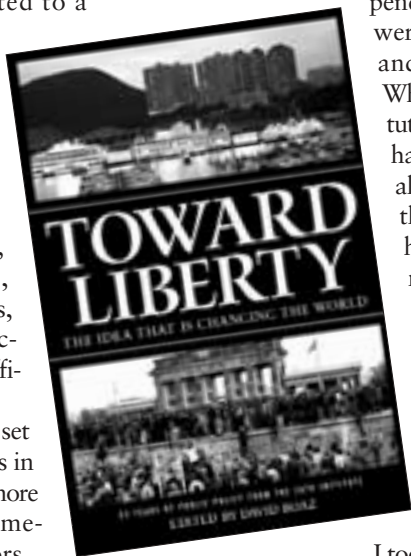
Politics isn’t everything, of course. In 1976 Steve Jobs and Steve Wozniak incorporated the Apple Computer Company. Two other young men, Bill Gates and Paul Allen, had created a company to develop software for the new personal computers, and in 1978 Microsoft Corporation’s sales topped \$1 million. Ted Turner launched the Cable News Network on June 1, 1980.

And the Cato Institute opened its doors in January 1977.

25 Years of Change

Twenty-five years later, the world has changed so much that we may hardly remember what 1977 was like. Reagan and Thatcher moved public policy in the direction of lower taxes, less regulation, and privatization. They did little to challenge the welfare state. But by strengthening the economy and helping more people appreciate the benefits of entrepreneurship and investment, they contributed to a growing demand for reform:

- Economic deregulation (begun under President Carter) made the airline, trucking, railroad, oil, natural gas, telecommunications, and financial-services industries more efficient.
- Tax-rate reductions set off economic booms in both countries, and more people became homeowners and investors.
- Americans came to believe that welfare was trapping millions of people in dependency. What Jonathan Rauch called a “demosclerotic” political system did not change easily, but in 1996 a welfare reform bill was finally passed.
- The Social Security system proved even more impervious to challenge, but by 2001 some 70 percent of Americans told pollsters they approved of privatization.



Abroad, the changes that began with Deng’s rise to power in 1977–78 and the first stirrings of Solidarity in Poland in 1980 would transform the world in little more than a decade. The end of communism did not usher in nirvana, of course. Russia remains mired in poverty and corruption, with its commitment to political and economic liberalism still uncertain. But we should remember that our own progress toward freedom took time—more than 500 years from Magna Carta to the U.S. Constitution, 8 years from victory at Yorktown to the inauguration of an elected president, 90 years from the stirring phrases of the Declaration of Independence to the abolition of chattel slavery.

Even so, in some quarters, the pace of development has been astounding. In China, for example, since Deng Xiao-ping allowed farmers to benefit from incentives and to assume more responsibility, agricultural production has soared. State-owned enterprises were given more independence, and Chinese citizens were allowed to set up village and even private enterprises. When I attended the Cato Institute’s first conference in Shanghai in 1988, the huge city had almost no tall buildings. From the 16th floor of the Shanghai Hilton, you looked across miles of hovels to the Sheraton in the distance. There were few stores and restaurants in 1988, and they had little to sell. In 1997, when I arrived at 10 o’clock at night for Cato’s second conference in China, again at the Shanghai Hilton,

I took a stroll around the neighborhood. Even at that late hour, I encountered an enterprising people—there were stores, restaurants, fruit stands, bars, nightclubs, farmers selling produce from their trucks. And the city’s skyline, if not yet Manhattan, had certainly blossomed to the scale of Houston. The differences were obvious and dramatic.

Despite economic liberalization, China is far from a free country. The Communist Party still restricts speech and

brutally suppresses dissidents. But the history of authoritarian capitalist countries suggests that the status quo can’t last; increasing affluence and the habit of making their own decisions will lead people to demand more political rights.

A Resurgence of Liberalism

Yes, things have indeed changed. Today, just 25 years after Moynihan’s lament, the conventional wisdom is that the Anglo-American model of democratic capitalism is the only viable model left in the world. We are seeing a revival of true liberalism. In the 18th and 19th centuries, liberalism—the philosophy of individualism, free markets, limited and representative government, peace, and religious toleration—swept through England, the United States, and most of Europe and made inroads in other parts of the world. Liberalism

- abolished the age-old institution of slavery;
- established religious toleration;
- launched the progressive liberation of women, racial and religious minorities, and gays;
- replaced superstition with science;
- toppled monarchs or subordinated them to elected parliaments;
- overturned economic privilege;
- protected property rights for everyone;
- replaced mercantilism with markets; and
- replaced arbitrary power with limited, constitutional government.

The result was an unprecedented and unimaginable increase in living standards. The *Nation* magazine, which was then a truly liberal journal, wrote in 1900, “Freed from the vexatious meddling of governments, men devoted themselves to their natural task, the bettering of their condition, with the wonderful results which surround us.” In the preliberal era, economic growth was virtually nonexistent. The economic historian Angus Maddison estimates that there was no growth at all in per capita income in the first millennium and growth of some 0.17 percent in the developed countries in the period 1500–1820.

But from 1820 to 1900 gross domestic product per capita almost tripled in West-

“Intellectuals and activists railed against globalization, but people opted for it almost every chance they got.”

ern Europe and more than tripled in the United States. Life expectancy rose in the developed world (it rose even more in the 20th century). Millennia of backbreaking labor and often-lifelong isolation gave way to the steam engine, the railroad, the telegraph, the telephone, electricity, the internal combustion engine.

The 20th century seemed to reverse the gains of liberalism. The world was beset by tyrants and mass murderers, and even the democratic countries succumbed to the hubris of central planning. Even during that period, though, the massive capitalist engine set in motion by liberalism kept working, and living standards continued to rise in most of the world. By the end of the century, the last dictators were falling and people were becoming disillusioned with the welfare-and-regulation state. There was no longer any serious argument in favor of socialism, protectionism, or capital controls. From Sweden to Hungary to New Zealand to Uruguay, people decided they wanted to join in the new global prosperity. Intellectuals and activists railed against globalization, but people opted for it almost every chance they got.

Continuing Challenges

It would be wrong to proclaim victory for liberalism. In many ways government has continued to get bigger and more intrusive over the past 25 years. Government spending in real terms continues to rise (though not as a percentage of GDP over the past few years). Despite the deregulation of the 1980s, government continues to interfere in many aspects of our lives more intimately than even the preliberal governments of Europe. Governments now regulate everything from where our children will attend school and how we must save for retirement to what size our oranges may be and what we can say to our coworkers. The rise of identity-group politics has revived a primitive form of collectivism, which liberalism always challenged, and led to new government discrimination on the basis of race and gender and to new attempts to regulate speech.

The notion that the sovereign is responsible for our religious lives is largely gone, but anti-liberal elements on both the right

and the left still want government to take responsibility for our moral decisions. Pre-Enlightenment thinkers from Plato to Filmer would recognize the impulse to regulate pornography, hate speech, smoking, and drug use. The drug war in particular has led to manifold violations of our civil liberties as politicians and law enforcement officials try to enforce ever more futile prohibitions. It's no surprise that the leading opponents of prohibition have always been liberals (or what we now call libertarians)—H. L. Mencken, Milton Friedman, Gov. Gary Johnson, the editors of *The Economist*.

In the latter part of the 20th century in the North Atlantic welfare states, there was increasing concern about the high cost and unsustainability of a massive system of intergenerational transfers. Americans—beginning with those at the Cato Institute—pointed out that privatization would give people more freedom, more control over their own assets, and more retirement income. Today, some 90 countries from Mexico to China are studying social security privatization, and more than half of them have sent government representatives to the Cato Institute for research. Privatizing Social Security remains a great challenge for liberals.

Another challenge is defending the principle of open markets from incipient hos-

tility to “globalization.” In an earlier era, the left championed internationalism over nationalism and complained that the capitalist countries excluded most of the world from their prosperous club. Today, the same anti-capitalist ideologues deplore the extension of markets to the non-Western world. If “globalization” means the ongoing trend toward a freer flow of trade and investment across borders and the resulting integration of the international economy, how can that be a bad thing?

Some opponents of globalization display an ill-informed nostalgia for the quaint villages in which happy peasants in their traditional costumes make their traditional arts and crafts. How much more fulfilling that must be than working for Nike or Kathie Lee Gifford! And yet, to the horror of the anti-globalization activists in Oxford and Ann Arbor, the actual peasants flock to the Nike factories. And no wonder: multinational companies pay about twice the average wage offered by domestic manufacturers in low-income countries. Global incomes are rising because of the increased efficiencies of a greater international division of labor—and rising most clearly in the poor countries that were previously outside the world trading system.

Anti-globalizers complain that foreign investment exploits the poor and makes

Continued on page 14



Participants in Cato's Benefactor Summit question speaker Larry Elder (right) after his dinner address.

“The triumph of liberalism is by no means inevitable. There never was a golden age of liberty, and there never will be.”

IDEA *Continued from page 13*

them poorer. But 81 percent of U.S. foreign investment goes to other high-income countries. Another 18 percent goes to middle-income countries such as Brazil, Mexico, Indonesia, and Thailand, leaving only 1 percent for the poorest countries. Clearly, the poorest countries are the ones least engaged with the international economy. They typically lack property rights, the rule of law, and other institutions necessary for economic enterprise. Liberalism has made few inroads in those countries, but we can hope that the 21st century will see the blessings of liberty penetrate to the last corners of the earth.

That hope goes hand in hand with the free world's newest challenge—the threat posed by weapons of mass destruction in the hands of terrorists. Some of us may note ruefully that our warnings about the dangers of an interventionist foreign policy were well-founded. However, the United States and the West clearly must respond to the attacks of September 11 and other instances of terrorism. The war against terrorists will require improvements in U.S. intelligence, further military operations, and a determination to be persistent but not rash. It may require a rethinking of immigration policies to ensure that we weed out those who would make war on us without closing our borders to people who want to work, trade, and lead lives of liberty and dignity. And since the defense of freedom is always a war of ideas as well as sometimes a military conflict, it clearly requires a renewal of our commitment to the first principles of the American republic, principles that the Cato Institute has advanced for the past 25 years.

Conclusion

The past 25 years have seen great changes. Those changes have reflected mostly demographic, economic, and geopolitical realities. However, those changes have also come about because people have advocated them. Liberalism arose first because people struggled for liberty—thinkers such as John Locke, David Hume, Adam Smith, and Mary Wollstonecraft described an alternative to the old paradigm of command

from above. Journalists and pamphleteers such as Thomas Paine and the authors of *Cato's Letters* applied those ideas to contemporary challenges. Statesmen and activists such as the Levellers, the American revolutionaries, and the abolitionists struggled for liberty and limited government.

Today's advocates of liberty build on that foundation. The ideas of liberty have been further developed in our time by myriad thinkers—George Orwell, Karl Popper, Isaiah Berlin, Alexander Solzhenitsyn, Hannah Arendt, Jorge Luis Borges, F. A. Hayek, Ludwig von Mises, Ayn Rand, Milton Friedman, Václav Havel, Robert Nozick, Thomas Sowell, and others. Millions of people around the world have been inspired by their vision. Millions more have recognized the failures of statism in the 20th century and supported candidates, movements, and policy proposals that would constrain the state and expand liberty.

Both the reality of the world—the failure of communism, the impending bankruptcy of social security systems, the prosperity brought about by markets—and the efforts of liberal and libertarian campaigners have brought about the changes that we see today. The Cato Institute has played its own small part in that transition. We pioneered the idea of Social Security privatization (even while, unbeknownst to us, José Piñera was implementing a similar plan in Chile). We provided support for F. A. Hayek in his later years, during which he wrote *The Fatal Conceit* and lectured around the world. We challenged the Soviet empire by smuggling books into Russia and Poland. We held conferences on free markets and political liberty in Shanghai in 1988 and Moscow in 1990, quite possibly the first public events to address such ideas in either country's history. We demonstrated in scholarly articles that the Constitution grants only limited and defined powers to the federal government and distributed more than 2 million copies of the Constitution to Americans. We challenged the war on drugs in books and studies for more than a decade. We pointed out the costs and risks of America's interventionist foreign policy and made the case for an alternative policy better suited to a

peaceful republic. We produced what Milton Friedman called “a steady stream of thought-provoking reports challenging big government and all of its works.” And if we've become “Washington's hottest think tank,” to quote the *Boston Globe*, perhaps it's simply because libertarian ideas are, as even anti-liberal scholars Stephen Holmes and Cass Sunstein admit, “astonishingly widespread in American culture.”

Often it's the opponents of political and economic liberalism who make the most noise. The street protests and violence of the anti-globalization activists from Seattle to Genoa may give the impression of a mass uprising against liberal capitalism. But that would be an error. The anti-globalizers are violent because they're frustrated, and they're frustrated because they're losing. Everywhere governments will allow it, people are choosing open markets and open societies—the free flow of information, commerce, trade, and investment and responsibility for their own lives.

But the triumph of liberalism is by no means inevitable. There never was a golden age of liberty, and there never will be. Although we do seem to have left behind some of the worst forms of government, we can't help but remember that during the past century we have endured communism, fascism, and national socialism. Armed with modern technology, those regimes proved to be the most brutal in history. And they arose at another time when liberal thinkers thought that prosperity and international trade would ensure peace and harmony.

Still, every generation should learn from those that have gone before. By now we should have learned that people can run their own lives better than distant bureaucrats can, that competition works better than monopoly and markets better than central planning, that the freedom to choose is about more than economics, that taxing enterprise makes no more sense than subsidizing irresponsibility, that war is sometimes necessary but always enormously destructive, that limited government is one of the greatest achievements of humanity because it makes possible so much else. If the world is learning those lessons, then the 21st century looks bright indeed. ■

Hayek, Friedman, Bauer highlight 25th anniversary volume

Book Looks at 25 Years of Global Change

In the 25 years since the founding of the Cato Institute, the world has gradually slowed its advance along the “road to serfdom” described by F. A. Hayek and begun to move, albeit fitfully, in the direction indicated by a new Cato Institute book, *Toward Liberty: The Idea That Is Changing the World*.

This collection chronicles that arduous journey with a diverse selection of essays published by Cato since its founding in 1977. In addition to incisive policy analysis from Cato’s own scholars, the volume reprints contributions from a dream team of libertarian luminaries, including Hayek, Milton Friedman, Richard Epstein, Walter Williams, P. J. O’Rourke, Peter Bauer, and Karl Popper.

Almost the entire range of issues with which Cato has been concerned—too many to mention here—is represented. Alan Greenspan and Brink Lindsey reflect on the future of globalization. Epstein squares off against Antonin Scalia in a pair of articles contemplating the role of the judiciary in protecting economic freedom, and Paul Craig Roberts recounts its historical fail-

ure to do so and calls for new constitutional limits on taxation. Ivan Eland, Gary Dempsey, and Ted Galen Carpenter warn against the dangers of American interventionism, dangers made all too palpable by the events of September 11. Nadine Strossen, David Boaz, and Timothy Lynch examine the erosion of civil liberties occasioned by the endless War on Drugs.

Because it covers a broad span of time, *Toward Liberty* often provides dual perspectives on momentous events, from both before and after the fact. In a piece by turns amusing, sobering, and prescient, Cato president Ed Crane describes the misery and desperation he witnessed on a trip to the U.S.S.R., and predicts the collapse of Soviet communism. In the aftermath of that prediction’s fulfillment, Cato’s Tom Palmer attempts to explain why socialism fell when it did, and Václav Klaus, then prime minister of the Czech Republic, discusses his nation’s transition from oppression to freedom. From the vantage point of 1979, Carolyn Weaver foresees a fiscal crisis arising in Social Security. Sixteen years later, when it has become obvious that Weaver was

right, former Chilean labor minister José Piñera offers his successful privatization of that country’s pension system as a model for averting that crisis. David Boaz’s introduction provides a synoptic assessment of the progress of human freedom as a whole over the last 25 years.

The title, *Toward Liberty*, is both retrospective and programmatic. It emphasizes the tremendous strides away from authoritarianism the last quarter century has seen and also draws attention to the distance that remains between a fully free society and our own. It is, in short, a book that follows the advice offered by one of its own essayists, Peruvian author Mario Vargas Llosa, when he writes: “We should celebrate the achievements of liberalism with joy and serenity, but without triumphalist hubris. We must be clear in understanding that although the achievements of liberalism are notable, that which remains to be done is more important still.”

Toward Liberty is available (\$10.95 paper, \$19.95 cloth) through Cato Institute Books at 1-800-767-1241 or via the online Cato Bookstore at www.cato.org. ■

EVENTS *Continued from page 5*

said more spam is being generated through software tools. Chris Hoofnagle, staff attorney at the Electronic Privacy Information Center, argued that the most effective way to help consumers control the amount of spam they receive is by requiring firms to obtain consent prior to sending their commercial e-mail. Jerry Cerasale, vice president for government affairs at the Direct Marketing Association, argued that an opt-in system for online advertising would set up a barrier for new business and would have little impact on spam from abroad.

◆ **March 28:** Judge Richard A. Posner discussed civil liberties and the war on terrorism at a Cato City Seminar, “*Policy Perspectives 2002*,” held in Chicago. Other speakers included Cato’s Brink Lindsey, Stephen Moore, and Ed Crane. ■

Cato Forums can be viewed live or later on the web with RealPlayer. Visit www.cato.org.

Cato Calendar

Cato University

Chantilly, Va. • Westfields Marriott • July 27–August 2, 2002
Speakers include Tom G. Palmer, Randy Barnett, Don Boudreaux, Edward H. Crane, and Walter Williams.

International Financial Crises: What Role for Government?

20th Annual Monetary Conference

Cosponsored with *The Economist*

New York • Waldorf-Astoria • October 17, 2002
Speakers include William McDonough, Anne Krueger, Jeffrey D. Sachs, Samuel Brittan, Charles Calomiris, and John Taylor.

Cato University

San Diego • Rancho Bernardo Inn • November 7–10, 2002

15th Annual Benefactor Summit

Naples, Florida • LaPlaya Beach Club & Resort
February 26–March 2, 2003

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

◆ Now if only we could get more flexibility and more control over our Social Security accounts

[Corporate financial officer Bob Hunkeler] says if there's one good thing to come out of the Enron scandal, it's that more companies are starting to look at ways to give their employees more flexibility and more control over their retirement accounts. Jackie Northam, NPR News, Chicago.

—National Public Radio,
Mar. 28, 2002

◆ Measuring progress

[Former Georgia governor] Herman Talmadge was known for progressive measures, including sponsoring a controversial 3 percent sales tax.

—*Washington Post*, Mar. 22, 2002

◆ Elections are already publicly funded

A day after businessman Bill Simon locked up the GOP nomination for governor of California, Democratic Gov. Gray Davis's administration reminded state agencies that the governor's image should appear on every state government Web site. A policy put in place a year ago mandates that Davis's face be “used to link all state Web sites” to Davis's official Web page and e-mail address.

Critics argue the move lets Davis use official sites to boost his re-election chances. . . . “No one gave any thought to the election,” [a Davis spokeswoman] said. “This has to do with good government service.”

—*National Journal*, Mar. 16, 2002

◆ As enormous as the costs of communism?

As [China] moves to a market economy, bankruptcies and restructuring have been accepted as inevitable. But the human costs have been enormous.

—*Washington Post*, Mar. 21, 2002

◆ Incumbents in competitive races?

Name one

The politics here is to force the Republicans to pass the [increased national debt] limit without any Democratic help; this means Republicans in competitive races will have to cast a difficult vote.

—*Wall Street Journal*, Mar. 20, 2002

◆ Power unchecked

European Union antitrust . . . agents can walk without warning into any company doing business in the 15-nation union to look for whatever they think might be proof of illegal activity. . . .

There is no judicial review before what's known as a dawn raid and no statute prescribing when the raids should be conducted. In fact, judges don't have the authority to question, or even see, the justification for a raid. The only approval needed is from the EU's antitrust chief, Mario Monti. . . .

Now, Mr. Monti . . . is pushing to extend raids to executives' homes. He is also seeking the power to interrogate employees about antitrust violations without guaranteeing they would be entitled to consult a lawyer. . . .

The dawn raids are part of the stormy battle for political power in Europe, where

national governments vie with Brussels to exercise control. . . .

Mr. Monti says he's actually motivated by a lack of authority. Unlike the U.S. Department of Justice, the EU can't issue subpoenas for internal documents. . . .

“What we really needed was to get the documents, and to do that we needed to catch them by surprise,” says Julian Joshua, a former EU antitrust investigator.

—*Wall Street Journal*, Mar. 1, 2002

◆ Charity shouldn't begin at home?

For the world's poorest 2 billion children, including in predominantly Muslim countries where free religious schools are often a breeding ground for fanaticism, the president's budget provides \$150 million for education. We spend 6 times that amount on education for Vermont's 101,000 students. The president's budget provides \$1.3 billion for health care for the world's poorest 3 billion people, barely half the amount we spend on health care for Vermont's 600,000 residents.

—Sen. Patrick Leahy (D-Vt.),
Washington Times, Mar. 4, 2002

◆ The lobbying economy: strong and growing

The economy is in recession, and the economic downturn was exacerbated by the aftershocks of the terrorist attacks. But while hard times have caused companies in some sectors of the economy to reduce their Washington lobbying, lobbying firms, overall, continue to flourish, according to several veteran lobbyists.

—*Washington Post*, Feb. 11, 2002

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