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Why Does Latin America Fail?

by Mario Vargas Llosa

When I arrived in Spain in 1958, it was common to hear people say: "The Spanish aren't ready for democracy. If Franco disappeared, there would be chaos, perhaps a new civil war." Of course, that isn't what happened. The dictatorship fell; there was an admirable, you might even say exemplary, transition to democracy; and democracy in Spain has since been very successful. There has been a consensus among the political forces there that has given the country a vital stability that allows Spanish democracy to resist insurrection and coup attempts. Nobody can deny that Spain is one of the happy stories of modern times, in no small part because the immense majority of Spaniards, of quite distinct political convictions, were able to act with mutual civility to establish the common ground that makes institutions work and nations grow.

Why isn't there such a climate in Latin America? Why do our attempts at modernization fail again and again? I think that development, the progress of civilization, must be simultaneously economic, political, cultural, and, yes, ethical or moral. In Latin America, there is a total lack of confidence, on the part of the immense majority of the people, in institutions, and that is one of the reasons our institutions fail. Institutions cannot flourish in a country if the people don't believe in them—if, on the contrary, people have a fundamental distrust of their institutions and see in them not a guarantee of security, or of justice, but precisely the opposite.

Let me share with you a personal anecdote. After living for a time in England, I suddenly became aware that something curious had happened to me. I didn't feel nervous when I passed a police officer. In Peru I had always felt, when in the presence of a policeman, a certain nervousness, as if that policeman in some sense represented a potential danger to me. The police in England never produced in me that feeling of distrust, of secret restlessness. It may be because they weren't armed, or simply because the police in England seemed to be providing a public service. They did not appear to be there to somehow take advantage of the little bit of power they got from wearing a uniform, a baton, or a gun. In Peru, as in most of Latin America, citizens have good reason to feel alarmed, uneasy, when they come across someone in uni-

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Mario Vargas Llosa is a Peruvian novelist who in 1990 was an unsuccessful candidate for the presidency of Peru. This article, translated by Julian Sanchez, is based on a speech delivered at the founding of the Fundación Internacional para la Libertad in Madrid in October 2002. Vargas Llosa serves as president of FIL; Ian Vásquez, director of the Cato Institute's Project on Global Economic Liberty, is a member of the board of directors.

Cato executive vice president David Boaz; John Goodman, president of the National Center for Policy Analysis and author of the Cato book *Patient Power*; and Cato president Ed Crane talk with Cato adjunct scholar and George Mason University economist Vernon Smith at a Mercatus Center reception in Smith's honor after he was awarded the 2002 Nobel Prize in economics.

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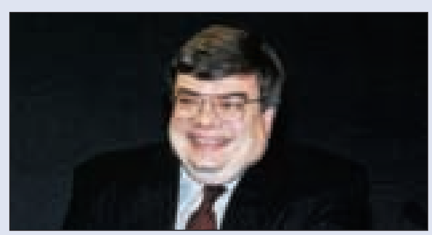

Teachout on Mencken, p. 7

Is Freedom Winning?

How is freedom faring in our world? Many libertarians think we're losing our freedom. Louis James of Free-Market.Net reported that he asked a group of libertarians "how many had any doubts that America had its collective feet firmly planted on the road to serfdom" and found few optimists.

That's understandable. Government spending is up. We face new regulations on hiring, firing, accounting, smoking, eating, and more. Businesses, activists, and politicians use legislation and litigation to steal the property of pharmaceutical firms, computer networks, and other creators. Republican leaders of Congress talk about using their new power to pass prescription drug subsidies and energy subsidies. We have been saddled with new restrictions on civil liberties since September 11, 2001, and now we stand on the verge of a preemptive war against Iraq.

A friend of freedom could get discouraged.

Nevertheless, let me try a different angle, a historical perspective. In 2002, as I prepared a book, *Toward Liberty: The Idea That Is Changing the World*, and the Cato Institute's report on its first quarter century, I found myself thinking a lot about the past 25 years.

Cast your mind back to 1977: Jimmy Carter. Tip O'Neill. Energy czars. Gas lines. Raging inflation. ABC-NBC-CBS. Mao Tse-tung. The Soviet Union. Apartheid.

That was a different world. Since then Ronald Reagan and Margaret Thatcher have revived the ideas of free markets and limited government. The Soviet empire has fallen, and the ex-Soviet nations are struggling toward market economies and constitutional government. We've learned a bit about inflation and energy price controls. New media have arisen to challenge the Establishment media—to the point that the liberal Establishment media are now busily trying to convince their millions of readers and viewers that conservatives dominate the media. Hardly, but at least there's competition now.

As for China, just consider two recent stories in the *New York Times*. One reported a raging intellectual debate between a dominant group of "neoliberals" who "tend to echo Reagan and Thatcher" and believe in privatization, property rights, and limited government and a "New Left" who want more democracy and a social safety net and who cite Tocqueville as an influence. Isn't that an amazing debate to be having in China 25 years after Mao's death? And then there was a subsequent headline, during the Communist Party Congress: "In China, Capitalism Is Possibly the Future of Communism."

If we look at the long term—from a past that includes despotism, feudalism, absolutism, fascism, and communism to our current mixed-economy democracy—I think we have to conclude that freedom is winning. People aren't completely stupid, and we've learned a lot in the past few hundred years.

When we look at a more recent comparison—contrasting 2002 with 1776 or 1910 or 1950 or whatever—the story is less clear. We suffer under a lot of regulations and restrictions that our ancestors didn't face. But in 1776 black Americans were held in chattel slavery, and married women had no legal existence except as agents of their husbands. In 1910 and even 1950, blacks still suffered under the legal bonds of Jim Crow—and we all faced confiscatory tax rates throughout the postwar period. Think back again to 1977; not only did we have 70 percent tax rates, we had strict price regulations on trucking and airlines . . . it was often illegal for a trucking company to take tomatoes to the city and furniture back to rural areas . . . we had a monopoly phone company and strict regulations on interest and investing . . . sodomy laws in most states . . . and at least briefly, generalized wage and price controls.

In 1776, 1950, or now, there's never been a golden age of liberty, and there never will be. People who value freedom will always have to defend it from those who claim the right to wield power over others. For us, right now, there are several battles to fight. There's the battle to defend our entire society from assaults by a backward and repressive fundamentalism armed with weapons of mass destruction. Closer to home, there are battles against ideologues of both right and left and against pure subsidy seekers, who would use the massive power of the federal government to tax, regulate, and manipulate us into serving their goals.

"In 1776, 1950, or now, there's never been a golden age of liberty, and there never will be."

As the abolitionist Wendell Phillips said, "Eternal vigilance is the price of liberty." And in today's world, that means more than a musket by the door. It means being an active citizen. Faced with threats to freedom, we can retreat into our private lives, or we can come out and fight, on the battlefield of ideas and public debate. Every one of us can defend limited, constitutional government and free markets in our houses of worship, in our workplaces, when our members of Congress hold town meetings, in the letters column of the newspaper. In addition to engaged citizens, we also need political leaders, political strategists, scholars, policy analysts, communications experts, and more to fight the battle. And we need people—like John Hancock and Robert Morris and Haym Solomon, who funded the American Revolution—to fund *our* battles. I am glad that so many Americans regard the Cato Institute as their voice in Washington, staying on top of new threats to our liberties and working to advance proposals for more freedom and less government. That's our challenge for the year, and for the next 25 years.

—David Boaz

Money makes the world go round

Dealing with International Financial Crises

As globalization makes the world's economies more interconnected, it also leaves them increasingly interdependent. In this new context, how ought the world's governments deal with economic crises that, like capital flows, show increasingly little regard for borders? The Cato Institute's 20th Annual Monetary Conference, "International Financial Crises: What Role for Government?" set a group of highly distinguished speakers and panelists to work on the problem. The conference, cosponsored by *The Economist*, was held at the Waldorf Astoria Hotel in New York City on October 17.

Under secretary of the Treasury John Taylor discusses how to deal with crises in emerging markets.

Federal Reserve Bank of New York president William J. McDonough advocated crisis management strategies that would "work with the grain" of markets in his opening address. He warned against quick recourse to market-preempting "solutions," admonishing policymakers to consider long-term stability and credibility to investors, rather than merely the fastest solution to the immediate problem.

In his luncheon address, John Taylor, under secretary for international affairs at the U.S. Treasury, examined crises in emerging markets and how they might best be prevented and contained. Taylor focused on methods of reducing uncertainty in sovereign debt restructuring processes, such as the inclusion of collective action clauses in external bond contracts.

A panel on sovereign bankruptcy and the role of the International Monetary Fund was moderated by *Economist* writer Zanny Minton-Beddoes and featured Jack Boorman, an adviser at the IMF; Cato senior fellow Alan Reynolds; Columbia University economist Jeffrey Sachs; Anna J. Schwartz of the National Bureau of Economic Research; and Randall S. Kroszner, who sits on the Council of Economic Advisers. Sachs and Boorman favor placing the IMF in charge of superintending a national bankruptcy process. Kroszner evenhandedly laid out the merits and demerits of the proposal, which was strongly opposed by Schwartz, who doubted the need for any "universal bankruptcy law."

Argentina's former finance minister Ricardo López-Murphy gives Cato's 20th Annual Monetary Conference audience an insider's account of the conditions that led to his country's economic collapse.

Cato's Ian Vásquez led a discussion on the lessons of the Argentine crisis with

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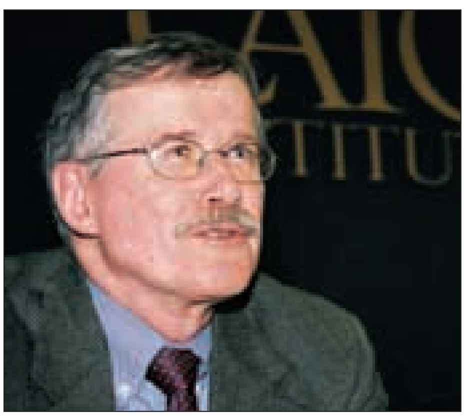
Seminars held in Palo Alto, Portland, Seattle, Chicago, and New York

Nobel Laureate Vernon Smith Speaks at Cato

◆**October 1:** The curtailment of civil liberties over the course of the last year illustrates the absence of the "golden rule" in American politics, according to author and social critic Wendy Kaminer. Speaking at a Cato Book Forum dedicated to her recent work, ***Free for All: Defending Liberty in America Today***, Kaminer suggested that, on the left as well as the right, "people are likely to defend liberty as a general principle only when their own freedoms are at risk." Comments on the book were offered by writer and George Washington University law professor Jeffrey Rosen, who wryly praised Kaminer as "my kind of principled paranoid."

◆**October 3:** Author Jerome Tuccille discussed his new biography of Federal Reserve chairman Alan Greenspan, ***Alan Shrugged***, at a roundtable luncheon held at the Cato Institute. He related details of Greenspan's time as a jazz musician and as a member of novelist Ayn Rand's inner circle.



◆**October 4:** George Mason University economist and Cato adjunct scholar **Vernon Smith** was the guest at a Cato roundtable luncheon, where he spoke about his pioneering work in experimental economics. Five days later he was awarded the 2002 Nobel Prize in economics for his groundbreaking application of empirical methods to the study of markets.

◆**October 10:** Defenders of open markets, quipped Columbia University economist Jagdish Bhagwati at a Cato Book Forum titled **"Free Trade Today . . . and Tomorrow,"** "have no prizes or surprises. . . . You have to fight protectionists all your life." Baghwati, author of *Free Trade Today*, noted that however many times anti-free-trade arguments are refuted, they arise again in slightly different form. The Brookings Institution's Robert Litan followed up on Bhagwati's remarks, saying that the United States had "moved backwards" since the beginning of the Doha trade negotiations.

◆**October 16:** For more than a century, the Posse Comitatus law has barred the American military from carrying out domestic police functions. At a Cato Policy Forum, **"The Posse Comitatus Act: Venerable Safeguard—Or Old Hat?"** moderated by Rep. Bob Barr (R-Ga.), Paul Schott Stevens of the law firm Dechert International argued that the war on terror required a looser interpretation of Posse Comitatus. Cato associate analyst David Kopel and appellate attorney Stephen Halbrook were more cautious, citing historical instances in which the blurring of the line between the responsibilities of the police and the military had disastrous consequences.

◆**October 17:** The commissioner of the Immigration and Naturalization Service, James Ziglar, discussed the new challenges faced by his agency over the past year at a Cato Policy Forum, **"Reflections on Immigration and Border Security in a Free Society."** After describing steps taken by the INS to tighten security since the attacks of September 11, 2001, he outlined what he believed were its major tasks in the coming years.

◆**October 17:** The Cato Institute's 20th Annual Monetary Conference, cosponsored by *The Economist* and held in New York City, was devoted to the question **"International Financial Crises: What Role for Government?"** William J. McDonough, president of the Federal Reserve Bank of New York, opened the conference with a keynote address on ways to promote financial resilience. John Taylor, under secretary for international affairs at the U.S. Treasury, outlined strategies for the promotion of growth and stability in emerging markets. The bulk of the conference consisted of panels devoted to an exchange of views on more narrow topics related to international financial crises, including the Argentine crisis, sovereign bankruptcy, and banking stability rules.

◆**October 21:** Perhaps more than any other contemporary thinker, Harvard professor **Robert Nozick** forced mainstream academia to take libertarian ideas seriously. At a Cato Book Forum, University of Arizona philosopher David Schmidtz, editor of the essay collection *Robert Nozick*, summarized some of Nozick's most important contributions to political philosophy. William Galston, a liberal political theorist at the University of Maryland, related Nozick's political thought to the American constitutional tradition. Cato senior fellow Tom G. Palmer offered a survey of his own, concluding that the most renowned modern redistributionist philosopher, John Rawls, had never adequately responded to Nozick's devastating critique.

(Top Left) University of Pennsylvania economist Mark V. Pauly talks about the ways markets solve adverse selection problems in health insurance at a November 1 Cato Policy Forum.

(Left) Paul Schott-Stevens, Rep. Bob Barr, and Cato's Timothy Lynch discuss the Posse Comitatus Act as David Kirby waits to show them to the auditorium for a Cato Policy Forum.

Wendy Kaminer chastises left and right alike for being unconcerned with the civil liberties of their opponents at a Cato Book Forum devoted to her most recent book, *Free for All: Defending Liberty in America Today.*

At a Cato Hill Briefing aired live on C-SPAN, Mark Cooper, director of research at the Consumer Federation of America, and *Regulation* editor Peter VanDoren debate the merits of economic regulation.

Columbia University economist Jagdish Bhagwati talks about the travails of defending economic liberalization at an October 10 Cato Book Forum on his book *Free Trade Today.*

◆**October 22:** Author John Attarian summarized the main ideas of his book ***Social Security: False Consciousness and Crisis*** at a Cato Book Forum. Resistance to reform of Social Security, said Attarian, is in large part a function of widespread misperceptions about the current system. Suffolk University law professor Charles Rounds added that even supporters of reform had mistakenly adopted the inaccurate language of property to describe Social Security. George Washington University sociology professor Amitai Etzioni offered a dissenting voice, claiming that the picture of a thoroughly deceived public conflicted with the libertarian conception of individuals as capable of making informed decisions in the marketplace.

◆**October 25:** The government's response to a string of corporate scandals and bankruptcies has been hobbled by a fundamental failure to understand the causes of those scandals, argued two Cato scholars at a Cato Hill Briefing, **"Corporate Scandals: Misdiagnosis Leads to Misguided Cures."** Senior fellow Alan Reynolds said the government had mistakenly blamed the crises primarily on crooked accounting and failures of "investor confidence." Cato's chairman William A. Niskanen suggested that the real problem was not with corporate accounting standards but with biases in the tax code and foolish corporate governance rules.

◆**October 28:** Brazil's secretary of production and trade, Pedro de Camargo Neto, told the audience at the Cato Policy Forum on **"Global Agricultural Trade: Where It Stands, Where It's Going"** that agricultural trade between Brazil and the United States must become more open if his country is to get out of the economic doldrums in which it currently languishes. While heartened by proposals floated at the Doha Round of trade talks, he observed that "law is much stronger than any proposals." John Wood, New Zealand's ambassador to the United States, sounded a similarly frustrated note, but American Farm Bureau president Bob Stallman was more optimistic about the next round of World Trade Organization negotiations, observing that even countries that would prefer to retain agricultural protections seek liberalization elsewhere, opening the door to tradeoffs.

◆**October 29:** The government's chief response to a series of scandals and bankruptcies in corporate America, aside from the ostentatious arrests of a few executives, has been the passage of the Sarbanes-Oxley Act, which establishes a new Accounting Oversight Board. At the Cato Policy Forum **"Corporate Accounting: Before and after the Sarbanes-Oxley Act,"** experts savaged the bill, describing it as not merely ineffective but positively destructive. By treating accounting and auditing as the primary sources of crisis, said Richard Bassett of Risktoolz, Sarbanes-Oxley obscures more serious problems and exposes firms to the risk of frivolous or unpredictable litigation. Peter Wallison, resident fellow at the American Enterprise Institute, argued that the new board might spot errors but would be unlikely to uncover cases of genuine fraud. He also questioned the act's constitutionality. Cato chairman William A. Niskanen echoed those sentiments, saying that current accounting rules gave careful investors all the information they needed.

◆**October 29:** Experts addressed a Silicon Valley audience at Cato's **"Liberty, Tech-**

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David Friedman discussed how technology will change the feature at Cato seminars in Portland and Seattle in October.

EVENTS *Continued from page 5*

nology & Prosperity" city seminar in Palo Alto, California, where they spoke on topics of special interest to those in the technology industry. Cypress Semiconductor CEO T. J. Rodgers and Cato senior fellow Alan Reynolds examined different aspects of Congress's scandal-prompted panic to reform accounting law and tax treatment of stock options. Cato president Ed Crane made the case for limited government in a post–September 11, post-Enron context. Adam Thierer, Cato's director of telecommunications studies, discussed the "Digital New Deal" and reasons for Silicon Valley firms to be wary of the market-distorting effects of government pork.

◆**October 30–31:** The Cato Institute held **"Policy Perspectives 2002"** city seminars in Portland, Oregon, and Seattle, Washington. Economist David D. Friedman described the potential of rapidly developing technologies to create either a golden age for privacy and human freedom or a total surveillance state. Cato president Ed Crane rebutted claims that terrorism and corporate misdeeds had undermined the case for limited government. Education analyst Marie Gryphon detailed the features state voucher programs must have in order to pass constitutional muster in the wake of the Supreme Court's historic *Zelman* decision, and senior fellow Tom G. Palmer traced the history of limited government, closing with an analysis of the serious challenges the idea faces today.

◆**November 1:** The debacle of California's energy crisis has given "deregulation," the term inaptly used to describe electricity policy in that state, a bad name. At a recent Cato Hill Briefing, two experts on regulation, Mark Cooper, director of research at the Consumer Federation of America, and Peter VanDoren, editor of Cato's *Regulation* magazine, debated the source of America's economic problems: **"Too Much Deregulation or Not Enough?"** Cooper argued that "American capitalism dominated the 20th century because we found the right balance between private incentives and public responsibility." VanDoren countered that "public" and "government" interests coincide far less readily in practice than they do in rhetoric.

Commenting on Wendy Kaminer's book, Jeff Rosen of the *New Republic* said that civil libertarians would regret the departure of Dick Armey and Bob Barr from Congress.

◆**November 1:** The prospect of seeing one's health insurance premiums skyrocket as the result of some unanticipated health emergency is unsettling, but is regulation of the insurance industry the only answer? A panel of scholars wrestled with that question at the Cato Forum **"Protection against Higher Premiums Based on Changes in Health Status: Is There a Market-Based Solution?"** Two pairs of policy "tag teams"—Mark Pauly of the University of Pennsylvania with Emory University's Bradley Herring and Keith Crocker of the University of Michigan with Syracuse University's John Moran—presented empirical findings suggesting that this purported market failure can be circumvented, either by writing flexible guaranteed renewability into insurance contracts or as a side effect of linking insurance to employment. Rick Curtis of the Institute for Health Policy Solutions provided a contrarian counterpoint, and Cato's Tom Miller summed up what he saw as the policy implications of the empirical data.

◆**November 7:** In defiance of historical trends, the president's party gained seats in both houses of Congress in the midterm elections, a development analyzed by scholars at the Cato Hill Briefing **"Election 2002: A Look Back."** This atypical result, said John Samples, director of Cato's Center for Representative Government, was due in no small part to the president himself. *Campaigns & Elections* editor Ron Faucheux warned that, for that very reason, Republicans should not interpret the victory as a mandate for their policies. The more interesting development, he suggested, was the apparent collapse of Democratic hegemony in the South. Cato's Patrick Basham observed that, while the race may seem to have been competitive if one focuses on the contest between the major parties, the same could not be said for contests between incumbents and challengers.

◆**November 7:** The Chicago edition of the **"Policy Perspectives 2002"** city seminar opened with a talk by New Mexico's outspoken Republican governor, Gary Johnson, who argued that America's war on drugs has been a catastrophic failure. Cato's executive vice president David Boaz asked, "Is freedom winning?" After surveying the policy trends of the past quarter century, he answered with a qualified yes, stressing the need for continued vigilance against state expansion, a theme picked up by senior fellow Stephen Moore, who discussed the tactics of the battle against big government. Novelist and *Forbes FYI* editor Christopher Buckley gave the keynote address in which he turned his withering satirist's eye on life inside the Beltway.

◆**November 7–10:** Cato Sponsors sharpened their rhetorical skills at **"Arguments and Liberty: How to Defend Individual Rights and Limited Government,"** a Cato University weekend seminar held in San Diego, California. Attendees heard from Cato scholars such as Gene Healy, who outlined the most common logical fallacies and how to spot them; Tom Palmer, who made the case for rhetoric as a weapon for liberty in modern as well as ancient times; and Dan Griswold, who demonstrated effective ways to argue in favor of free trade, as well as how to convey libertarian ideas to strongly religious persons. Distinguished outside lecturers included Don Boudreaux, chair of the George Mason University Economics Department, public opinion expert Lance Tarrance, Slate.com columnist William Saletan, GMU law professor Karol Boudreaux, University of California at San Diego literature professor Stephen Cox, and Goldwater Institute executive director Darcy Olsen.

◆**November 11:** Terry Teachout, author of the new biography ***The Skeptic: A Life of H. L. Mencken,*** discussed his iconoclastic subject at a Cato Book Forum. Perhaps most surprising to new readers of Mencken, he noted, is how modern the pieces he wrote in the 1920s still seem. This is, Teachout suggested, a function of both the "self-assured crackle of his prose" and Mencken's "unpretentious grappling with big things." Cato's H. L. Mencken research fellow, humorist, and author, P. J. O'Rourke, praised the "Sage of Baltimore" as both "the pioneer of a pyrotechnic use of a specifically American language" and one of the first journalists to bring a light touch to the "serious" subject of politics.

◆**November 14:** The Cato Institute's Sixth Annual Technology and Society Conference, **"Telecom and Broadband Policy: After the Market Meltdown,"** looked back at the causes and consequences of the precipitous decline of the dot-coms and ahead to the future of high-speed network access, both through the wires and over the airwaves. In his morning keynote speech, Howard Waltzman, counsel for the House Energy and Commerce Committee, blamed stagnant broadband and wireless development on regulatory frameworks that reduced incentives for investment. FCC commissioner Kathleen Abernathy's luncheon talk sketched a surprisingly radical vision for the future of spectrum policy, combining a more marketlike approach to large portions of spectrum and experimentation with a "commons" model in unlicensed bands. Panels included a postmortem of the dot-com collapse and discussions of the future of spectrum policy and broadband infrastructure regulation.

◆**November 15:** Manhattanites gathered at the Waldorf-Astoria Hotel for lunch and discussion at the New York **"Policy Perspectives 2002"** city seminar. Linguistics professor John McWhorter of the University of California at Berkeley kicked off the event, speaking at length about the reasons for black Americans' disillusionment with the Democratic Party. McWhorter suggested that a serious effort by conservatives and libertarians could convince many to shed their current political affiliations. Cato scholar Robert Levy questioned the constitutionality of the USA PATRIOT Act, which he characterized as eviscerating traditional rights of due process and habeas corpus, and David Boaz provided a more optimistic counterpoint, detailing some of the ways freedom has been expanded over the past decades. The luncheon speaker was syndicated columnist Robert Novak, who surveyed the political landscape in the aftermath of the 2002 midterm elections.

◆**November 19:** Author and American Enterprise Institute scholar Mark Falcoff exploded some of the most persistent myths about the history of Cuban-American relations at a Cato Book Forum, **The Cuban Revolution and the United States: A History in Documents 1958–1960**, dedicated to Falcoff's recent collection of the same title. Among those myths were the notion that the United States had attempted to prop up the failing Batista regime, that it had "forced" Castro into the arms of the Soviet Union, and the pervasive belief that the hostile relationship between the two countries was an inevitable result of Castro's nationalization of U.S. assets. William LeoGrande, acting dean of the School of Public Affairs at American University, gave additional commentary. ■

Charles Rounds of Suffolk University deplores the misleading semantics of the Social Security debate—use of terms such as "trust fund" and "rate of return"—at a Cato Book Forum.

Cato's Jacobo Rodríguez and Jim Dorn flank monetary scholars Anna J. Schwartz and Allan H. Meltzer at Cato's Annual Monetary Conference in New York.

Misguided Cures for Corporate Scandals

The Cato Institute held a Forum on Capitol Hill in October to discuss the recent wave of corporate scandals and Congress's response, the Sarbanes-Oxley Act. The speakers were Alan Reynolds, Cato senior fellow, and William A. Niskanen, chairman of Cato and former acting chairman of President Reagan's Council of Economic Advisers. Excerpts from their remarks follow.

Alan Reynolds: After the economy slipped into recession and profits collapsed, the stock market collapsed, and several huge companies declared bankruptcy, the political response to those problems was: "Maybe it's just a matter of accounting. If only we would count things more carefully, record them more carefully, present the information more carefully, then everything would be OK. Because the real problem, you see, is the accounting." So we were all suddenly swept up in a frenzy of accounting reform, which culminated in the Sarbanes-Oxley Act. But the crusade was founded on two fundamentally incorrect premises.

The first was that the bankruptcies of Enron and WorldCom were caused by bad accounting, rather than the other way around. A Brookings Institution paper claimed, for example, "Both bankruptcies resulted from accounting malpractice." Well, that's pretty nonsensical. Bankruptcies always result from having too much debt and too little income, and that's the case in this instance too.

The second premise was the idea that stock prices had collapsed merely for a psychological reason—lack of investor confidence. Proponents of accounting reform virtually promised that if only we would enact this kind of legislation, it would restore investor confidence and raise stock prices. That was said over and over again, and it was echoed by the press.

Implicitly, what people were saying when they claimed that the stock market was down only because of lack of investor confidence was that stocks were cheap. They were saying the price-to-earnings ratio was very low. In fact, it was quite high, but not unusually high. The only other thing that could make stocks go down, if the P/E ratio was constant and sensible, is earnings. Well, the earnings of the S&P 500 companies were down 47 percent from the peak by the second quarter of 2002, and the S&P 500 stock index was down 42 percent. That's really all you need to know about the stock market. Earnings went down; that's a real problem. For all the problems we might have with the accounting, that was the accountants' report of earnings. If you're trying to explain that decline in earnings, you might say companies had been exaggerating earlier on. But then, why didn't they continue to exaggerate? The only way you could explain the change would be to say there was a sudden rash of honesty among accountants. I don't find that very plausible, so in short, we had a misdiagnosis of the problem. The problem was real; the problem was economic.

Despite that, we began to focus on narrow bookkeeping issues, rather than economic fundamentals, rather than genuine corporate governance issues—separating CEOs from boards of directors, that sort of thing—and rather than tax policy distortions. What we got instead was the Sarbanes-Oxley bill, a bill that was unnecessary, damaging, *and* insufficient.

It was unnecessary because the Securities and Exchange Commission and the Department of Justice already had ample powers to investigate fraud, to prosecute, and to seek civil and criminal sanctions. The only things SEC officials lacked were knowledge and an incentive to blow the whistle. If you are a government official and you dare to blow the whistle on a company and you're wrong, you lose your job. Whereas if you keep your mouth shut and go about your business and pretend that you're working hard, you can keep your job and your salary's the same in either case. The whistles that were blown were always inside the companies. WorldCom? The SEC didn't find anything wrong with WorldCom. That was true of Enron, it was true of Xerox, Lucent, and a number of other cases. Internal sources always discovered the problems.

Sarbanes-Oxley is damaging because of its requirement that CFOs and CEOs vouch for the accuracy of their financial statements. That tends to criminalize failure and risk. The effort is to make the CEO and CFO accountable for complex statements that they have no part in preparing—somebody else does the work—and that CEOs (unlike EFOs) are not usually qualified to audit or to check out. The only effect this is likely to have is to cause executives to be extremely timid about taking risks. Deliberate fraud is another matter. That is and always will be punishable by prison sentences, but ignorance and incompetence are not, and probably never will be. The last thing the U.S. economy needs right now is to scare businesspeople into playing it safe and retrenching.

The bill was insufficient because it swept all of the really substantive, important issues off the table—legal obstacles to corporate takeovers, tax distortions that encourage companies to use too much tax-deductible debt rather than double-taxed equity, and so on. Many of those things were never even brought up, because the issue was defined as a bookkeeping problem.

My task at this point is to suggest that although the Sarbanes-Oxley Act had little to do with actual problems, it presents many new problems of its own, and many unintended consequences. One unintended consequence is that fewer startups will go public. More companies will remain closely held, and the reason, of course, is to avoid the extra regulatory expenses and added risk of litigation now facing public firms. Is that a problem? Well, closely held firms are outside the realm of regulation; I'm not sure that's a bad thing. But they're also outside my ability to invest in them, and that is a bad thing. I would very much like to invest in Gallo Winery, for example, but it's not a public company. Some currently public companies will probably be taken private, and foreign companies will be less likely to list on the U.S. stock exchange.

A second unintended consequence is a dilution of the talent pool. Fewer qualified people will be willing to serve as chief executives or directors—unless they are very well compensated for the extra risk of doing so. That is fairly standard economic reasoning. The folks who passed this law certainly didn't set out to fatten the pay packages of officers and directors, but that is the predictable result.

"Sarbanes-Oxley swept all of the important issues off the table—legal obstacles to corporate takeovers, tax distortions that encourage companies to use too much debt, and so on."

The third unintended consequence is that stock prices will henceforth remain lower than they would otherwise be. That's because public companies now face higher costs for executive compensation, higher costs for regulatory compliance, higher costs for insurance to cover the added risks of class action suits and other litigation. Higher costs and higher risks translate directly into lower stock prices, the exact opposite of what the legislation promised.

Aside from the ritual of having executives certify financial reports, the flashiest, most publicized reform had to do with delegation of sweeping powers to yet another new agency, an agency designed to do what the others had not. The SEC, the DOJ, the Financial Accounting Standards Board had the power, but they didn't do anything. So we're going to set up another agency called the Accounting Oversight Board. That new agency was being created at the same time the Senate was failing to confirm all but one appointment to the SEC, and senators were expressing doubts about the one they confirmed (Harvey Pitt). Perhaps to avoid the messy process of having the president make appointments and the Senate confirm them, otherwise known as the Appointments Clause of the Constitution, this new agency is supposedly not a government agency at all; it's private and independent.

That's obviously not true; if it were, it would just be a clone of the American Institute of Certified Public Accountants. That's private and independent. But the AOB may in fact override the AICPA, though it may not, since it doesn't know how. The AICPA in turn must conform to the rules of FASB, although FASB certainly solicits advice from the AICPA about its rules. Meanwhile, the SEC, which appoints members of the AOB and FASB, can override them both. In short, the SEC is theoretically in charge of it all, just as it was before. In fact, the SEC is charged with oversight of the new oversight board, and a congressional committee exercises oversight over the SEC's oversight of the oversight board.

Alan Reynolds exposes the flawed premises underlying the Sarbanes-Oxley Act at a Cato Hill Briefing on October 25.

Now, all of those incestuous relationships and overlapping responsibilities can come in handy when it comes to finger-pointing, if you want to say, "Oh, that's not my responsibility." The trouble for those of us in the private sector is that creating more agencies means more uncertainty for investors and businesses. We don't know what the rules are because we don't know who's making them.

The new AOB has been granted vast discretionary powers—very few rules, lots of discretion, powers that far exceed its likely abilities. The board registers all accounting firms and audits the publicly traded companies and inspects the biggest ones every year. The board can compel companies to provide documents and testimony, assess fees and fines, and levy "appropriate sanctions." It is to be financed by a stealth tax, of dubious constitutionality, on the capital of publicly traded firms. It can deny registration to some accounting firms, which would effectively put them out of business, and it can dispense rather nice favors to others, including exempting them from the restrictions that are applied to other firms when it comes to nonauditing services. The whole idea that this is some sort of private agency is really a hoax.

Now, any such vast grants of new authority are bound to be politicized, if not corrupted. Just to make that result more likely, the law virtually mandates a bare minimum of professional competence: a majority of the AOB must consist of *non*accountants. You probably read in the paper that on the first list of likely appointees were a lawyer, a lobbyist, and a former director of the Central Intelligence Agency. Perfect people to supervise accounting. This mandated rule by amateurs is one reason the new board will surely have to hire experts. And where will it get the experts? From the accounting firms. So they will hire some experts from the accounting firms to inspect the accounting firms. In the end this whole idea of putting nonaccountants in charge of accounting, which wasn't a particularly clever idea in the first place, will end up as just a dream, if not a nightmare.

To summarize, the Sarbanes-Oxley Act was a largely irrelevant and potentially troublesome response to several misdiagnosed problems. The law was unnecessary, damaging, insufficient, and a major distraction from several far more relevant issues that remain neglected.

William A. Niskanen: Our Cato project to extract policy lessons from the collapse of Enron addresses four areas of concern: accounting, auditing, taxes, and corporate governance.

First, accounting. May I first acknowledge that I am an economist, not an accountant, as will be apparent shortly. President Reagan once described economists as people who were good with numbers but without enough personality to become accountants. I have been studying a lot of accounting to understand the collapse of Enron, but my wife tells me that any side benefit

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“Enron and other corporations did not fail because they violated accounting standards; they violated accounting standards to cover up their financial weaknesses.”

POLICY FORUM *Continued from page 9*

has yet to be realized.

My primary lesson from studying the accounting issues is a caution. Don’t count too much on accounting for the following reasons: Enron and other corporations did not fail because they violated accounting standards; they violated accounting standards to cover up their financial weaknesses. The primary effect of better accounting and auditing would be to accelerate their failure, as a rule, not to avoid it. Second, accounting rules, under American accounting conventions, are very complex, and a wide range of behavior is consistent with those rules. The volumes describing the generally accepted accounting principles are now more than 4,500 pages, with over 700 pages specific to the rules for the treatment of derivatives. Most important, the best financial accounts do not provide sufficient information to assess the health of many corporations. The market value of most corporations is now a multiple of the value of the assets that they own, the differences reflecting the quality of their management and employees, the reputation of their products and services, their dependence on regulatory decisions, and so forth. A firm may experience a substantial decline in its earnings prospects with no change in its financial accounts, the result, for example, of the Food and Drug Administration not approving a drug developed by a firm at high cost, or the SEC charging a CEO with an insider trading violation, both of which have happened recently with respect to ImClone and Martha Stewart. There are many such examples; a lot can happen, for the good or bad of a firm, that is in no way reflected in the best possible financial accounts. If a firm loses its chief scientist, or for whatever reason is able to recruit unusually talented young people, that is not picked up in the financial accounts. Some of the intangibles are measurable, but they cannot be valued by accounting rules. In summary, good financial accounting is valuable but is nowhere near sufficient to describe the potential for future earnings or the value of a firm.

Now they’re asking corporate CEOs, who are not accountants and did not prepare the accounts, to do something that I could not do with my own taxes—to ensure that those accounts, to the best of their knowledge, are an accurate reflection of the financial health of the firm. As I say, I couldn’t even do that with my own taxes, and requiring CEOs or even CFOs to write that on their annual and quarterly reports under penalty of a 10- or 20-year jail sentence is going to lead to either massive lying or massive risk aversion. You just can’t solve a problem like this with that kind of affirmation and jail sentences. The difference, by the way, between a 20-year jail sentence and one of fewer than 10 years is more than a matter of time. In the 10 to 20 year range, you don’t go to Club Fed. You go to a jail with common thugs, rather than your fellow corporate thugs.

Next, auditing. My primary lesson from studying the auditing issues is also a caution. Don’t count too much on auditing for the following reasons: Every link in the audit chain in the Enron case failed—the audit committee of the board, the board, Arthur Andersen, the market specialists in Enron stock, Enron’s major creditors, the credit-rating agencies, the business press, and the Securities and Exchange Commission. It was almost as if each link in this chain was free riding, counting on some other link to detect and act on any unusual problems. That’s not unusual, by the way.

Most of the market specialists advised their clients to buy Enron stock well into the fall of 2001. Enron declared bankruptcy on the second of December of that year. The three credit-rating agencies did not downgrade the Enron debt until November 28, five days before Enron filed for bankruptcy. The SEC last reviewed Enron’s annual report for 1997 and did not renew an investigation until August 2001, after the first unfavorable press and the resignation of Jeff Skilling as Enron CEO. Moreover, those problems are in no way specific to Enron. Every major accounting firm has been subject to a massive financial fraud by one or more of its major clients. In fact, a leading consultant to the industry concluded that audit reports “are probably not worth their weight in paper,” a conclusion that is disturbing, even if possibly overdrawn. At this point, I ask you to reflect on why Congress seems to believe that a new law that focuses entirely on accounting and auditing issues will solve this problem.

Third, taxes. My primary conclusion is that our current tax code *increases* the conditions that lead to corporate bankruptcy. Firms go bankrupt because their obligations to their creditors are too high relative to their ability to meet them. They have taken on too-risky investments and incurred too much debt. The corporate income tax in the United States, by treating interest payments as a deduction from revenues that would otherwise become earnings—by treating interest as a deduction but not dividends—leads corporations to use too much debt. The U.S. corporate income tax is now the fourth highest among the industrial nations, and with some changes that have already been announced, it will be the second highest within a few months. U.S. corporations, as a consequence, have an unusually high debt burden.

Dividends are now taxed at roughly twice the rate of long-term capital gains on the personal income tax schedule. The long-term capital gains tax rate is 20 percent, and for most people who own shares, the combined federal and state tax on dividends is in the 40 to 50 percent range. This leads to several traps. Corporations rely too much on retained earnings and capital gains, relative to dividends, to distribute the returns to equity, inviting increasingly risky investments. Second, the discipline to maintain a cash flow sufficient to pay dividends is reduced. Third, the role of corporate managers in the allocation of capital is increased relative to that of investors. Corporate managers have the dominant role in deciding how all of those retained earnings are going to be invested. But if the focus were more on dividends than on retained earnings, which managers hope will lead to capital gains, there would be smaller retained earnings, more of them would be distributed as dividends, and investors rather than corporate managers would have the bigger role in deciding the allocation of capital in this country.

A provision of the 1993 tax act limits the amount of individual salary that may be deducted to a million dollars. That may

❝The rules of corporate governance must be changed to restore the power of shareholders relative to that of corporate managers.❞

seem like a lot of money, but at the moment the average CEO in the top 1,500 firms or so is paid about $20 million a year. That encourages firms to offer a larger proportion of executive compensation in the form of stock options, and that, in turn, invites risky investments, because stock options are a one-sided bet. People who have stock options lose nothing if the stock price does not exceed the exercise price, and they gain the difference if the stock price, for whatever reason, exceeds the exercise price. That leads to a temporary inflation of reported earnings and sometimes the hyping of the stock to increase its price. A substantial change in the corporate income tax would be necessary to address those problems.

At the Waco summit, Charles Schwab suggested the sorts of tax measures that would be most effective. Among the very few unscripted moments at Waco were Schwab's suggestions to reduce the double taxation of dividends, to increase the limits on individual retirement accounts, and to provide symmetric treatment in the tax code for capital gains and capital losses. (Those of you who have examined your taxes within the past several years may find that you're taxed on all your capital gains, but you can deduct only $3,000 in capital losses against your other earnings. That $3,000 limit was set in 1978 and it is way out of date.) Those are the kinds of tax cuts that would most help both the stock market and the general economy in the near term. President Bush was in fact quite interested in those proposals, only to find out that his Treasury Department was not at all enthusiastic.

Finally, and most important, the rules of corporate governance. My primary conclusion here is that the rules of corporate governance must be changed to restore the power of shareholders relative to that of corporate managers, for the following reasons: For 34 years, beginning with the federal Williams Act of 1968, the rules of corporate governance have progressively favored corporate managers relative to shareholders, substantially reducing the potential for hostile takeovers. Those rules of corporate governance, the effective constitution of a corporation, are a complex combination of federal laws, federal court decisions, state laws, state court decisions, and many rules that have been approved by firms' own boards. Now, as you know, in the United States corporations are chartered by states, not by the federal government, and so the states have approved a wide range of rules.

Cato chairman William Niskanen tells congressional staffers that the corporate tax code increases the likelihood of corporate bankruptcies.

One consequence of the erosion of the protection of corporate investors in favor of corporate managers has been an explosion of executive compensation, especially in the 1990s. One estimate that I have tried to check out is that in 1980 the average compensation of a major corporate CEO was about 40 times that of hourly workers; in 1990 it was about 80 times, and in the year 2000 about 500 times. There has been a massive explosion of executive compensation relative to that of hourly workers.

There is no objective basis for saying those disparities are right or wrong. What we do know, however, is that one reason compensation is exploding is that corporate boards are no longer very effective at disciplining corporate management. Basically, executive compensation is not an arms-length transaction any more, and the rules are biased in favor of corporate management.

Another consequence has been a substantially lower rate of return on investments at management-friendly firms than at shareholder-friendly firms. A Harvard Business School study of last summer did a very important service. The researchers looked at the top 1,500 firms in the United States with only a single class of shares. (They did not include some big firms like Ford or Berkshire Hathaway that have multiple classes of shares, but most firms have only a single class of shares.) Second, they came up with a complex 24-point index of whether the rules that affected the firms were management friendly or shareholder friendly, on the basis of the rules they were subject to from state courts and state legislatures, plus the rules that had been approved by their own boards. Third, the researchers looked at the stock performance of those firms over the course of the 1990s. What they found was that the top decile of the shareholder-friendly firms had 8 and a half percent higher returns per year than the top decile of the management-friendly firms. The management-friendly firms were much more casual with their investment decisions, particularly in good times when nobody minds the store.

Several knowledgeable commentators, such as Warren Buffett, have described this process as a massive transfer of wealth from shareholders to corporate managers. Reversing that process is important but will be complex. Only a few of the rules are federal; some are state laws and court decisions, and corporate boards have approved many. But it is important to start in the right direction, rather than to maintain the illusion that Sarbanes-Oxley is either necessary or sufficient to address the major policy problems raised by the collapse of Enron. ■

What's wrong with antidumping laws and the "Digital New Deal"

Study Warns of High Costs of Empire

Critics of U.S. foreign policy have long warned of the creation of an "American Empire." Since the attacks of September 11, 2001, some frighteningly earnest pundits have turned that warning into a prescription, urging the United States to civilize the world's "troubled lands," by force of arms if necessary. Cato defense policy expert Ivan Eland delivers a stinging rebuttal to the neoimperialists in the new Cato study "The Empire Strikes Out" (Policy Analysis no. 459). As an increasingly interconnected world makes the maintenance of good economic and diplomatic ties more important and technology increases the ability of the disaffected to wage "asymmetrical warfare," writes Eland, the consequences of backlash against American arrogance grow more dire. Imperial overextension, he argues, would cost U.S. taxpayers dearly and, by exciting international fear and hostility, make Americans even less safe.

Ivan Eland

◆Protectionism by Any Other Name

We are all, in principle at least, free traders now. Although few people are willing to openly advocate raw protectionism in the current climate, barriers to international exchange remain in the guise of laws purported to counteract "unfair" trade practices. In "Antidumping 101: The Devilish Details of 'Unfair Trade' Law" (Trade Policy Analysis no. 20), Cato trade experts Brink Lindsey and Dan Ikenson methodically deconstruct the rhetoric of "level playing fields" used to conceal old-fashioned rent seeking by domestic industries. Using a series of detailed case studies, the authors show that the arbitrary and biased procedures used to detect "dumping" fail to distinguish "unfair trade" from ordinary competition and do not accurately measure differences between the prices of goods in foreign and domestic markets.

Brink Lindsey

Dan Ikenson

◆The Reforms Need Reform

With new campaign finance restrictions due to kick in for the 2003–04 races, Cato scholar Patrick Basham surveys our brave new electoral world in "This Is Reform? Predicting the Impact of the New Campaign Financing Regulations" (Cato Briefing Paper no. 78). The unappealing consequences of McCain-Feingold, writes Basham, will include less competitive races, lower voter turnout, more negative campaigns, and the diversion of funds from parties to political action committees. The new restrictions will also, he says, increase the relative influence of mainstream media outlets, whose support for regulation was, unsurprisingly, nearly unanimous.

Patrick Basham

◆Judging by the Numbers

In the modern federal courtroom, writes University of Utah law professor Erik Luna in "Misguided Guidelines: A Critique of Federal Sentencing" (Policy Analysis no. 458), the moral evaluation of judges has been supplanted by a set of pseudoscientific sentencing rules that "make the federal tax code look like *Reader's Digest*." Though federal sentencing laws were passed with the noble intention of ending the dissimilar treatment of similar cases, they have transferred power from impartial judges to federal prosecutors and the politically unaccountable U.S. Sentencing Commission. Worse, the guidelines themselves subvert due process guarantees by making dramatic differences in sentences handed down depend on "relevant conduct" demonstrated by a "preponderance of the evidence," rather than "beyond a reasonable doubt"—even if the defendant has been formally acquitted of that conduct by a jury. As it stands, says Luna, judges and prosecutors frequently conspire to circumvent federal guidelines and arrive at a sentence comporting with common sense. Better, he suggests, to scrap the guidelines and allow judges to actually exercise judgment.

◆Freedom from Want of Bandwidth

The collapse of the dot-com boom has sparked calls for government intervention to buoy up America's battered technology sector. Legislators are responding with a spate of pork-barrel spending proposals, which Cato's Adam Thierer, Clyde Wayne Crews Jr., and Thomas Pearson dub a "Digital New Deal" in a recent Cato Policy Analysis. In "Birth of the Digital New Deal: An Inventory of High-Tech Pork-Barrel Spending" (Policy Analysis no. 457), they report that taxpayer money is now flowing, or slated to flow, into a wide variety of high-tech endeavors, from broadband deployment to cybersecurity. The authors worry that this wave of largesse, which they catalog in some detail, will ultimately displace private investment and cause technology markets to be guided by considerations of political expediency rather than technical superiority or consumer demand.

Clyde Wayne Crews, Jr.

Adam Thierer

◆Mind the GAAP

Both Congress and the Financial Accounting Standards Board have been under heavy pressure to "do something" about the continuing revelations of accounting malfeasance by large (and now largely defunct) corporations. But "Corporate Accounting: Congress and FASB Ignore Business Realities" (Cato Briefing Paper no. 77), a new study by T. J. Rodgers, president and CEO of Cypress Semiconductor Corporation, argues that the proposed changes to generally accepted accounting principles

T. J. Rodgers

(GAAP) will only increase the damage done by America's already confused accounting rules. Like the existing prohibition on "pooling-of-interests" accounting methods, a requirement that companies expense stock option compensation on their financial statements would create a misleading and unrealistic charge against corporate earnings and be inconsistent with standards employed for other financial instruments. Such proposals, Rodgers suggests, are not only destructive but redundant: stockholders are already correcting for the problems in corporate accounting by scrutinizing financial statements more closely and demanding detailed pro forma statements that go above and beyond GAAP.

◆"Cleaning Up" Campaigns Bleaches Out Competition

When Maine passed a Clean Election Act six years ago, people who supported its regime of taxpayer funding for candidates who accepted voluntary spending limits and eschewed private contributions said that it would lead to more competitive elections for state offices. Soon after its implementation, members of the state legislature lined up to announce that it had done just that. But a new paper by Cato scholar Patrick Basham and economist Martin Zelder, "Does Cleanliness Lead to Competitiveness? The Failure of Maine's Experiment with Taxpayer Financing of Campaigns" (Policy Analysis no. 456), gives the lie to that claim. A comparison of districts in which candidates opted for the public-financing scheme and those in which candidates did not reveals that the former were actually home to slightly less competitive races. "Clean" districts exhibited no difference in the average margin of victory or the number of unopposed candidates, and they were even more likely to see incumbents running.

◆A Sequel As Bad As the Original

The Basel Capital Accord, approved in 1988, represented the first attempt to establish a global regulatory scheme for internationally active banks. Many observers, however, believe that the risk-weighted minimum capital standards established by the accord have given banks an incentive to assume undue risk, undermining rather than increasing the stability of the international financial system. According to Cato financial services analyst L. Jacobo Rodríguez, the accord's sequel, Basel II, fails to remedy the central problems in the original agreement and may be worse in some respects. In "International Banking Regulation: Where's the Market Discipline in Basel II?" (Policy Analysis no. 455), Rodríguez criticizes the new accord, scheduled to be implemented fully by 2006, as vague, needlessly complex, and prescriptive in such detail as to stifle private innovation. He concludes that the goal of international harmonization of banking regulations should be abandoned in favor of banking transparency, which would facilitate competition between national regulatory regimes.

L. Jacobo Rodríguez

◆INS Should Say "¡Bienvenidos!"

"U.S. immigration law," writes Cato trade policy scholar Daniel T. Griswold in "Willing Workers: Fixing the Problem of Illegal Mexican Migration to the United States" (Trade Policy Analysis no. 19), "has been overwhelmed by economic reality." While government squanders precious resources and manpower in a futile attempt to prevent peaceful workers from crossing the Mexican border, domestic demand for low-skilled labor guarantees that those workers will continue to attempt the crossing, often at great personal risk and with a high likelihood of being shunted upon arrival into an underground economy lacking legal protections. Contrary to popular apprehensions, says Griswold, immigrants impose no net burden on native taxpayers and would be unlikely to flood across the border in radically greater numbers under a more liberal immigration regime. Easing immigration restrictions, he argues, would improve conditions for migrant workers, benefit the American economy, and allow border control officials to focus on the all-important task of excluding potential terrorists rather than productive laborers. ■

Dan Griswold

Cato Calendar

School Choice and Special Ed: Extending Choice and Opportunity to Children with Disabilities Conference
Washington • Cato Institute
February 13, 2003
Speakers include Sen. Larry Craig, Robert Pasternack, Wade Horn, Jay Greene, Kaleem Caire, and Marie Gryphon

15th Annual Benefactor Summit
Naples, Florida
LaPlaya Beach Club & Resort
February 26–March 2, 2003
Speakers include Gov. Gary Johnson and Walter Williams

Gary Johnson

Walter Williams

Educational Freedom and Urban America
Washington • Cato Institute
May 15, 2003
Speakers include Howard Fuller, Paul Peterson, Lawrence Patrick, Frederick Hess, David Salisbury, and Casey Lartigue Jr.

Cato University
San Diego • Rancho Bernardo Inn
August 2–8, 2003

Europe's Coming Pension Crisis and the Future of the Euro
21st Annual Monetary Conference
Washington • Cato Institute
November 20, 2003

For more information, visit www.cato.org

"In the majority of Latin American countries the reforms undertaken have been, at bottom, not liberal but a caricature of liberal reforms."

LATIN AMERICA *Continued from page 1*

form, because there's a good chance that the uniform will be used, not to defend their safety, but to shake them down. What holds for the police holds for the other institutions as well. In the end, this creates a state of affairs in which the institutions simply can't function, because they aren't sustained or supported by that which is fundamental to any democratic society: the confidence of the citizenry in them and the conviction that those institutions are there to guarantee security, justice, and civilization. This is one of the reasons that the reforms that have been made in Latin America have failed again and again. Paulo Rabello of Brazil has said that the majority of the millions of people who voted for Lula were not voting for socialism. They were voting for something different from what they had, and that "something different" has thus far manifested itself through charismatic leaders and demagoguery.

It is the same thing that has happened, for example, in Venezuela. That country, with its potential for extraordinary wealth, which ought to have a standard of living among the highest in the world, instead struggles through an atrocious crisis and has at the head of its government a colossal demagogue who could truly destroy the country. Of course, it's no accident that Commandante Chávez is in power. He was put in power by the vote of a large majority of Venezuelans who were totally dissatisfied and disgusted with the democracy they had--a democracy in name only, at the twilight of which corruption reigned in a truly vertiginous manner, eliminating for an immense majority of Venezuelans any possibility of realizing their expectations and dreams and enriching the tiny minority entrenched in power. In that context, how can the liberal reforms that we defend, that we promote, that we know are effective means of developing a country, work?

Defective Reform in Peru

A reform poorly done is often worse than a total lack of reform; the case of Peru is a good example. We had, during the dictatorships of Fujimori and Montesinos between 1990 and 2000, what appeared to be radically liberal reforms. More government enterprises were privatized than in any other Latin American country. And how was privatization carried out? Public monopolies were turned into private monopolies. Why was privatization carried out? Not for the reasons one ought to privatize. We liberals support privatization because it promotes competition and the power of competition to improve products and services, to lower prices, and to disseminate private property to those who don't have it, as has been done in the more advanced Western democracies. That is what we've seen in the process of privatization as it was carried out in Great Britain, where it served to spread private property enormously among the shareholders and employees of the privatized companies. In Peru it was done to enrich a specific and predetermined set of interests, industrialists, companies, or the holders of power themselves.

How can Peruvians believe us when we tell them that privatization is indispensable to a nation's development if privatization, for Peruvians, meant that the ministers of President Fujimori enriched themselves extraordinarily, that the companies owned by Fujimori's ministers and associates were the only companies to receive extraordinary benefits during the years of that dictatorship? For that reason, when the demagogues say that "the catastrophe of Peru, the catastrophe of Latin America, is the neoliberals," the cheated and exploited people believe them. Because they need a scapegoat, someone to hold responsible for how badly things are going, they hate us, the "neoliberals."

The government of Alejandro Toledo has tried to privatize several companies in Arequipa, the city where I was born. The town came out en masse, ripped up the paving stones and filled the streets with barricades, and halted privatization. If one looks at the numbers on paper, it's foolish, absolutely demented. The companies to be privatized weren't serving any purpose, were not at all fulfilling the functions with which they'd been entrusted, and were parasites on the country and the state—which is to say, on poor Peruvians--whereas the companies that had won the bidding, some Belgian firms, were going to inject fresh capital and install themselves in Arequipa. Moreover, they had offered a series of additional investments; they were going to benefit the town hugely, but none of that was believed by people profoundly deceived during 10 years of supposed radical liberalism under Fujimori.

That's what has happened in the majority of Latin American countries. The reforms undertaken have been, at bottom, not liberal but a caricature of liberal reform. We know that, but it is not known to the misinformed public—a good number of whom are locked in a fierce battle for mere survival, because Latin America, and this is a very sad thing to have to say, has grown tremendously poorer in these last decades. It has gotten poorer, in the case of some countries, to a truly dreadful degree.

At the end of 2001 I was traveling through what's called the "Andean Trapeze" in Peru, a part of Ayachucho, traditionally a very poor region, that was tremendously mistreated in the era of terrorism. I'd passed through there many times between 1987 and 1990 and left genuinely frightened by the impoverishment that region had experienced, because as poor or as miserable as I had remembered it being, it was much, much worse. The region had been impoverished, as the rest of Peru had been impoverished, while a cabal of bandits, gangsters ensconced in power, enriched themselves vertiginously. So when we talk about development, we can't focus on the idea of development as a series of economic reforms that are going to put the productive apparatus of the country on the march, augment our exports, and finally allow our country to enter into a process of modernization. No, the development we need has to be a simultaneous development, a development that, while it improves our indices of growth and production, makes the institutions that today are not working begin to work and earns them the credibility, the confidence, and the solidarity that make such institutions effective in a democratic society. That doesn't exist in Latin America, and it's one of the reasons for the failure of the economic reforms, even when they're well crafted.

Need to Clean Up Politics

Carlos Alberto Montaner has said some-

“Politics is the art of enriching oneself, the art of robbery; that is the definition of politics for an immense majority of Latin Americans.”

thing that to me seems precisely right. We have to clean up politics a bit. It's not possible for countries to develop if those who govern, or those with political responsibilities, are Alemán (Nicaragua), Chávez (Venezuela), Fujimori (Peru), real gangsters, authentic bandits who go into government like thieves go into houses—to rob, to sack, to enrich themselves in the fastest and most cynical way possible. How can politics be an attractive pursuit for idealistic people? The young, naturally, look on politics as robbery. And the only way to clean up politics is to bring decent people into politics, people who don't steal, people who do as they say they will, people who don't lie or who lie only a bit, since some lying is probably inevitable.

I've been asked many times, "Whom do you admire in Latin America?" I always cite the same person, whose name I fear many of you haven't heard or have forgotten: President Alfredo Cristiani of El Salvador (1989–94). He's someone I admire a great deal, and he's not a politician; he's an entrepreneur. Cristiani, a businessman, decided to enter politics during a terrible, tragic time when the military and the guerrillas were killing each other in the streets of San Salvador, and the dead, the disappeared, and the tortured were innumerable. It was at that point that Cristiani, a fundamentally decent man, not at all charismatic, not at all the typical Latin American strongman, and a bad speaker, decided to go into politics. He won the election and control of the government. And he governed prudently, not at all charismatically, and he left his nation better than he found it. That may not seem like much, but in reality it was a virtually unique achievement. When Cristiani went into government, people were killing each other in the streets of San Salvador and there were too many bodies to count, and when he left, the guerrillas and the government had finally signed off on a peace, and the guerrilla fighters offered themselves as candidates on the ballot, asked the people for their votes, went into the parliament, and there's been peace in El Salvador ever since. It's now a country that, as was so well said by Montaner, makes slow progress, but makes real progress, which is to say, makes progress in many directions at once. Well, that's what we need in Latin America. We need decent people like Cristiani—businessmen, professionals—to decide to go into politics to clean up the fundamentally dirty, immoral, corrupt activity that, unfortunately, has passed as politics for us.

The October 14 launch of the Fundación Internacional Para la Libertad (International Foundation for Liberty) in Madrid, Spain, brought together Gerardo Bongiovanni of Argentina's Fundación Libertad, director of Cato's Project on Global Economic Liberty Ian Vásquez, Gonzalo Torrico Flores, renowned author Mario Vargas Llosa, Cato adjunct scholar Lorenzo Bernaldo de Quirós of Spain's Fundación Iberoamérica Europa, adjunct scholar Enrique Ghersi of Peru's Citel, Cato financial services analyst Jacobo Rodríguez, and José María Marco of Spain's FAES.

Culture and Liberalism

Another aspect of development that's fundamental is cultural development. Culture in Latin America is, unfortunately and with few exceptions, a privilege of minorities, and in some places of quite tiny minorities. Latin America is possessed of great creativity: it has produced musicians, artists, poets, writers, and thinkers, but the truth is that in the majority of our countries culture is the monopoly of an insignificant minority and is in practice out of the reach of the majority of society. On that foundation, it is not possible to build a genuine democracy and working institutions, nor is it possible to enact liberal reforms that give the creative and productive the results that they ought to get. There has, unfortunately, been a terrible lack of awareness of this in Latin America. Culture is still considered, by those who are aware of its existence, as a separate world, as a pastime, as an elevated form of leisure, and not as what it is: a tool fundamental to the ability of men and women to make sound decisions in their personal lives, in their family lives, in their professional lives, and above all, in politics when the time comes to make a momentous decision.

Culture is a defense against demagoguery, a defense against the terrible error of a poor electoral choice. On that front, unfortunately, almost nothing is done. Perhaps, in a more self-critical spirit, I should say that we are doing almost nothing, by which I mean we liberals. For our useful and idealistic liberal institutes and think tanks, culture is the lowest priority, and that is an error, a most grave error. Culture is fundamental because it helps to create the sort of consensus that has made possible, for example, the often-exemplary cases of Spain and Chile.

Progress and Civilization

I want to talk about Chile for a moment because of some things said by Hernán Büchi, who is a friend of mine, an intelligent person, and someone who as a minister in Chile made some admirable, effective reforms. Chile is a unique case in Latin American history, and it is a unique case because a military dictatorship, as Pinochet's regime was, had some economic successes. Pinochet allowed liberal economists to make well thought out, functional reforms. I felt happy for Chile, which is a country that I always mention, but it's an example that we need to cite with all sorts of disclaimers,

Continued on page 19

And when will we get our broadband connections?

Telecom Policy: What Went Wrong?

The tech-sector jamboree of the late 1990s has ended, and with it the breathless predictions of high-speed fiber optic cables running into every home "any day now." As the bleary-eyed participants gather their remaining venture capital and stagger home, consumers are left wondering precisely what happened, and what comes next. Technology experts, economists, and industry players convened on November 14 at the Cato Institute's Sixth Annual Technology and Society Conference, "Telecom and Broadband Policy: After the Market Meltdown," to attempt to answer those questions.

House Energy and Commerce Committee counsel Howard Waltzman looked back at legislative missteps that had hampered broadband deployment in his morning keynote address. Among them, he gave pride of place to an unreflective decision to treat broadband Internet providers like telephone companies, replete with mandatory "open access" requirements that made privately owned lines available to competitors. Waltzman argued that this had deterred firms from building their own facilities, saying it was as if government had told firms, "Spend shareholder money so your competitors can come in and eat your lunch."

The day's first panel, a postmortem examination of the telecommunications market collapse, was conducted in talk-show style. Cato's director of telecommunications studies Adam Thierer roved through the audience soliciting comments and questions for panelists Larry Darby of Darby Associates, Robert Gensler of T. Rowe Price, Anton Wahlman of Needham & Co., and Discovery Institute senior fellow John Wohlstetter. Gensler pointed his finger squarely at the regulatory structure surrounding telecommunications infrastructure, saying that "there are some unique examples which are worse than ours, but you'd have to try pretty hard to find them." Many participants thought progress was hobbled by a "chicken-and-egg" problem: media companies waited for high-speed infrastructure to be built before offering content, while the firms that built infrastructure waited for content to stimulate demand for high-speed lines. Wahlman saw the problem as a distinctly low-tech one, observing that "Moore's Law," which predicts the doubling of computer processor speed every 18 months, "does not apply to union labor."

The first panel at Cato's Sixth Annual Technology and Society Conference was moderated by Adam Thierer, Cato's director of telecommunications studies, who roved through the audience soliciting questions.

The second panel, which examined the regulation of broadband infrastructure, featured John Ryan of RHK Telecommunications Industry Analysis, American Enterprise Institute scholar James K. Glassman, Brookings Institution fellow Robert W. Crandall, Peter Jew of Optical Solutions, and Competitive Enterprise Institute president Fred L. Smith Jr. Many of the participants argued that talk of a "broadband problem" revealed a technocratic presumption that consumers "should" evince a higher demand for high-speed network access. "We don't need a national broadband policy," said Glassman, "any more than we need a hamburger policy."

The luncheon address, delivered by FCC commissioner Kathleen Abernathy, made clear how far mainstream thinking about broadcast spectrum policy had come since the days when another FCC commissioner responded to economist Ronald Coase's proposal to privatize spectrum bands by asking, "Is this a big joke?" Though Abernathy noted that legislative constraints on her agency foreclose the possibility of full-blown privatization, she voiced her commitment to the maintenance of "quasi-markets" as a second-best solution. She also floated a few ideas as unorthodox now as spectrum markets were when Coase made his proposal, including the creation of an experimental "spectrum commons," open to all users in unlicensed bands, and "spectrum sharing," which would encourage multiple broadcasters to make use of the same bandwidth without mutual interference.

The final and most information-dense panel of the conference explored the potential for the emergence of "open networks" in a spectrum commons. The panelists were New York University law professor Yochai Benkler, systems designer David Reed, Manhattan Institute senior fellow Thomas W. Hazlett, University of Pennsylvania public policy professor Gerald Faulhaber, and Rudy Baca of the Precursor Group. Benkler, Faulhaber, and Reed advanced a new model of spectrum use, the "open wireless network," that relies neither on government allocation nor on private markets. Open networks, they said, could use "smart receivers" to sort out low-power signals, relayed from user to user in the same way cell phone signals travel from tower to tower, to effectively abolish scarcity in radio spectrum. ■

Regulation *looks at 25 years of antitrust and safety laws*

Why Housing Costs So Much

The autumn issue of *Regulation* (vol. 25, no. 3) is out, with articles on the baleful effects of zoning laws, new ways to make private roads work, an extension of the summer issue's quarter-century regulatory retrospective, and more.

The cover story, by Harvard's Edward Glaeser and Josephy Gyourko of the University of Pennsylvania, looks at zoning regulations in tight housing markets and concludes that land use restrictions are in large part responsible for the sky-high prices of homes in such cities as New York and Palo Alto. By artificially limiting new construction, zoning laws guarantee that supply will not grow to meet expanding demand, driving prices up unnecessarily.

Attorney Erik Jaffe and Cato's Bob Levy expose the flawed jurisprudence of campaign finance restrictions, observing that there is something vaguely surreal about a legal theory holding that the First Amendment protects pornography but not political speech.

Two articles offer possibilities for more competitive transportation, which can be achieved in the skies by liberalizing the U.S.-European air transport market and on the ground via an innovative method for auctioning highways to private firms. If Congress approves more stringent fuel standards, we'll need the lower tolls such competition would generate, according to Penn State environmental economist Andrew Kleit, because while new standards would do little to improve air quality, they would increase costs for automakers and consumers.

Two articles give broad retrospectives of the past 25 years of regulatory policy: surveys of antitrust law and safety regulations find little benefit in either. Randolph May of the Progress and Freedom Foundation looks in the other direction, offering a set of criteria for determining how pro-competitive state telecommunications policies are. In his "Final Word" column, Penn Jillette realizes that the Stasi-like TIPS program is too tragically absurd on its own to be satirized effectively.

Regulation ($5.95) can be purchased from Cato Institute Books at 1-800-767-1241 or from the online Cato Bookstore, www.cato.org. One-year subscriptions are available for $20.00 ($5.00 per issue). ■

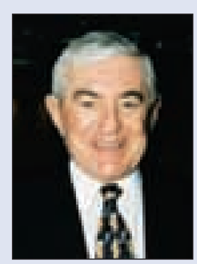
News Notes

Strong Sales for Pocket Constitution

Cato's pocket edition of the **Declaration of Independence and the Constitution** got a lot of attention in late 2002. On the first day of the Christmas shopping season, the *Wall Street Journal* editorialized that it would make a great gift: "Thanks to the Cato Institute, the historic documents have been reinvented as a stocking stuffer. The libertarian think tank has sold or given away close to three million copies since 1998, when it first published a pocket-sized version of the 1776 and 1789 documents." The books were featured in Borders and Restoration Hardware stores, and Fox News pundit Bill O'Reilly gave copies to buyers of his own book.

Cato's website, www.cato.org, was named "Best Advocacy Website" of 2002 by the Web Marketing Association. Two different "Nielsen ratings" of the Internet—Alexa and NetScore—found cato.org the most popular think tank website. The Heritage Foundation's site was second. The *Washington Post* called the results "more evidence that while libertarians don't hold sway in Washington, they rule cyberspace." After those ratings were released, the Cato site had its best month ever in November 2002, with more than 18,000 unique visitors.

A **Cato Institute Briefing Paper**, "10 Reasons to Oppose Virginia Sales Tax Increases," played a role in the sales tax referendums in the Norfolk and Northern Virginia areas. The sales tax increase was backed by Gov. Mark Warner, Sen. John Warner, Rep. Tom Davis, and even conservatives Paul Weyrich and Pat Robertson, but it was defeated by substantial margins in both regions. The Cato study was widely used by opponents of the tax increase, and it drew a point-by-point rebuttal from the tax advocates.


R. T. McNamar

R. T. McNamar has joined Cato as a visiting fellow with the Project on Corporate Governance, Audit, and Tax Reform. He has a long career in business and government and served as deputy secretary of the Treasury in the Reagan administration.

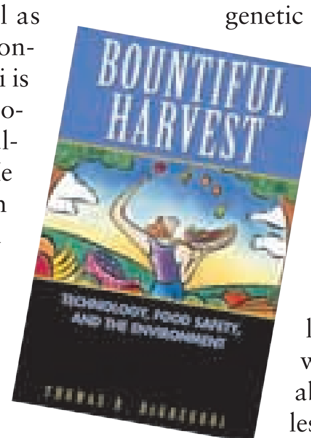
Ian Vásquez, director of Cato's Project on Global Economic Liberty, has been named one of the "100 Most Influential Hispanics" in the United States by *Hispanic Business* magazine. The list, published in the October 2002 edition, also includes State Department official Otto Reich, California Democratic chair Art Torres, Peace Corps director Gaddi Vásquez, San Francisco 49ers quarterback Jeff Garcia, golfer Nancy Lopez, and White House aides Ruben Barrales and Israel Hernandez. In the same issue Cato's Jacobo Rodríguez debates Rep. Loretta Sanchez on Social Security privatization.

Biotech gives us a "bountiful harvest"

Biotechnology and Technophobia

Anyone contemplating the advances in human welfare made over the last hundred years might be prompted to say in earnest what Hamlet says with irony: "What a piece of work is man!" Yet take away our technology, and we're little more than cavemen with more polished grammar. How is it, then, that something as clearly and massively beneficial to humanity as technology has such a bad reputation? Ever since Rousseau, writing from the comfort of a rich patron's study, announced that we'd made a big mistake in coming down from the trees in the first place, it has been fashionable in some quarters to disdain scientific and material progress. "The machine" is now perhaps our chief metaphor for all that is alienating, impersonal, and dehumanizing. Unfortunately, as University of Houston economist Thomas R. DeGregori demonstrates in the new Cato Institute book *Bountiful Harvest: Technology, Food Safety, and the Environment*, irrational technophobia is more than an odd aesthetic preference. That fetishist attitude for "the natural," especially in agriculture, has become a powerful political force, to the severe detriment of those most in need of technology's blessings.

Technophobia is not new. DeGregori finds its origins in ancient Greece, where Plato extolled the virtues of a life of pure contemplation, heaping scorn on artisans and peasants who worked with their hands. The attitude resurfaced in the work of the 19th century's romantic poets and is expressed today by such critics of technology as Neil Postman, as well as many members of the environmental movement. DeGregori is unimpressed with the dichotomy between grubby materialism and "higher" pursuits. He stresses that our tools, which Marshall McLuhan dubbed "the extensions of man," are extensions of our minds. Human reason evolved and continues to develop, not by contact with abstract Platonic "forms," but by engagement with the material world.



The attitude produced by this conceptual error, DeGregori explains, has become an obstacle to the betterment of the lot of the world's poorest people. He writes that a permanent class of concerned citizens, exhibiting a bizarre, one-sided focus, urges panic at the slightest hint of risk arising from new technologies and ignores the harms of such "natural" pollutants as a parasites and bacteria. He even cites a pair of scholars who bemoan the eradication of smallpox. (Really! See pages 56–59.)

Professional Cassandras have warned that developments in agricultural science, from synthetic fertilizers to pesticides to genetic modification of crops, would pose dire threats to human health and ecological stability. In each case, DeGregori's survey of the scientific evidence demolishes those claims. His exposure of the meager evidence advanced by doomsayers also serves as an indictment of the media outlets that uncritically repeat their warnings but remain oddly silent about studies and scientists with less pessimistic conclusions

DeGregori takes evident delight in shattering shibboleths. He explodes the idea that "organic" food is healthier or better than any other kind, observing that the harms to humans caused by pesticide spraying are largely speculative, whereas the traditional methods of pest control used by organic farmers are known to leave toxin residues. In rebuttal of those who argue that genetic engineering of crops is a risky, potentially ecologically disruptive hijacking of natural processes, he observes that crossbreeding techniques practiced for centuries, or the movement of "natural" plants to new climates, have far more unpredictable consequences than narrow and deliberate genetic changes. Almost every page features some such goring of a sacred soy-based cow substitute.

DiGregori's able handling of scientific details in his amply footnoted treatment of these controversies does not obscure his view of the larger picture. He is keenly aware of the role that technology and risk taking have played in the evolution of human beings and the role they may yet play in relieving the hunger, malnutrition, and poverty suffered in the developing world.

Bountiful Harvest can be purchased ($12.95 paper) from Cato Institute Books at 1-800-767-1241 or from the Cato website, www.cato.org.

At the Mont Pèlerin Society meeting in London, Ed and Kristina Crane talk with former prime minister Margaret Thatcher.

Scenes from the 20th Annual Monetary Conference in New York: adjunct scholar Roberto Salinas-León, Ian Vásquez of Cato's Project on Global Economic Liberty, and senior fellow Steve Hanke discuss the Latin American financial news; conference organizer and Cato vice president James A. Dorn with Zanny Minton-Beddoes of *The Economist*, which cosponsored the conference, and Jeffrey Sachs of Columbia University; Allan Meltzer and Steve Hanke compare notes; William J. McDonough, president of the Federal Reserve Bank of New York.

MONETARY *Continued from page 3*

Argentina's former finance minister Ricardo López-Murphy, Allan H. Meltzer of Carnegie Mellon University, Johns Hopkins University economist Steve H. Hanke, Columbia University economist Charles Calomiris, and Cato scholar Brink Lindsey. López-Murphy expressed incredulity at the IMF view that tax rates aren't excessive in Argentina, and all disapproved of IMF bailouts.

The day's third panel, with TV Azteca's Roberto Salinas-León at the helm, centered on the relative merits of currency unification and competition between currencies and featured *Financial Times* columnist Samuel Brittan; Cato chairman William A. Niskanen; and Lawrence H. White, an economic historian at the University of Missouri, St. Louis. White argued that no top-down planning was necessary to dictate a particular monetary regime. Instead of "dollarization," for example, White suggested that citizens be allowed to use whatever currency they preferred, with a favorite emerging over time. Niskanen looked at the destabilizing effects of rules that give the Federal Reserve excessive discretion.

The Economist's business editor, Matthew Bishop, led the day's closing panel, on which sat Robert D. McTeer Jr., president and CEO of the Federal Reserve Bank of Dallas; David Malpass of Bear Stearns; David Hale of Zurich Global Asset Management; and Cato financial services analyst Jacobo Rodríguez. The panel focused on the revised Basel Accord on banking stability rules, which are currently being hashed out. Three of the four panelists were highly critical of Basel II's extreme complexity, which may actually add to banking instability and regulatory uncertainty.

The papers presented at the conference will be published in a forthcoming issue of the *Cato Journal*. ■

LATIN AMERICA *Continued from page 15*

the first and most fundamental of which is that, for a liberal, a dictatorship is never, in any case, justifiable. This is very important to say and repeat. There occurred in Chile a kind of beneficent accident, and what luck for Chile. But there are many Latin Americans who want to make that accident their model, and they still repeat the notion that what we need in order to achieve development is another Pinochet. To a fair extent, the popularity of Fujimori was due to the fact that many Peruvians saw in him the Peruvian Pinochet. This is misguided: there are historical accidents, but if there is a constant in Latin American history, it is that dictatorships have never been a solution for Latin America's problems. All of them, without a single exception save Chile's, have contributed to the aggravation of the problems that they said they had come to solve: the corruption, the stagnation, the debilitation, or the collapse of institutions. They have contributed more than anything else to the political cynicism that is perhaps one of the most prominent general characteristics of Latin America. Politics is the art of enriching oneself, the art of robbery; that is the definition of politics for an immense majority of Latin Americans. They believe that because it has been the truth for a good part of our history, and that is the fault of the dictatorships. They made corruption a natural form of government and so created, with respect to politics, that terribly cynical feeling that impedes the great majority of Latin American countries.

I think that it's very important for us liberals, which I presume that we all are, to coordinate our actions, to exchange information at this time in history when, curiously, liberalism is the victim of many who misunderstand it and has come for many people, some of very good faith, to represent the enemy of progress and of justice. It has come to be synonymous with exploitation, with covetousness, with indifference or cynicism in the face of the spectacle of misery and discrimination. We know that to be not merely inaccurate but a monstrous injustice to a doctrine, a philosophy, that is in reality behind every political, economic, and cultural advance that humanity has experienced. Liberalism is a tradition that must be defended, not merely out of homage to truth, but because we live in a difficult time in history, when progress and civilization are threatened. ■

◆Nonsense only an intellectual could believe

In [Nobel Prize–winning novelist] José Saramago's nightmare vision [in his new novel, *The Cave*], the Western world is a commercial anaconda devouring life and substituting itself in life's place. The slogan displayed on the giant billboards is neo-Orwellian: "We would sell you everything you need, but we would prefer you to need what we have to sell." This is capitalist instead of Stalinist mind control, enforced by its easy allure and reinforced by security guards and cameras.

—*New York Times*, Nov. 28, 2002

◆Just plying our trade

President Bush chose a top Republican fundraiser named Christopher J. Christie as U.S. attorney for New Jersey. . . . The titters seem be stopping as New Jerseyans watch a swelling parade of public officials pleading guilty to federal extortion, fraud, tax violations and other corruption charges. . . .

The most high-profile cases so far include the indictment three weeks ago of Essex County Executive James Treffinger, a Republican, on charges of extortion, fraud and obstruction of justice. . . .

Treffinger, a lawyer who at one point sought the U.S. attorney's job that went to Christie, was recorded on a wiretap in January 2001 boasting to an alleged co-conspirator that any concern about being caught "becomes moot if I get to be made U.S. attorney." There are, the indictment quotes Treffinger as saying, "plenty of mobsters to go after. You don't have to go after all these poor politicians trying to ply their trade."

—*Washington Post*, Nov. 27, 2002

◆We card under 12

D.C. police will begin enforcing a new law next month that requires children to ride in a car safety seat until the age of 8, making the District the only jurisdiction in the country to impose such a requirement.

—*Washington Post*, Nov. 27, 2002

◆Hillary Clinton joins the Senate, and sure enough the billing records turn up

Last week, two days before a sub basement storage room in the United States Capitol was to be demolished to make way for a new visitors' center, two Senate staffers took one last look around and discovered an extraordinary artifact of American history. In fact, it's an entire volume of history, a handwritten ledger containing the compensation records of every United States Senator from 1791 to 1881.

—*Newshour with Jim Lehrer*, Nov. 25, 2002

◆Or actually, given the percentage the cut represents, more like squeezing a size 50 into a size 49 after a long holiday binge

In a sign of President Bush's stronger hand in Congress, Senate Republican leaders have agreed to cut $10 billion from this year's batch of domestic spending bills. . . .

But the president's call for spending cuts is virtually certain to ignite fierce fighting in Congress, not only between Democrats and Republicans but also within GOP circles, as lawmakers try to spare their favorite programs from the ax. . . .

"There's going to have to be a lot of inhaling and tucking over here," said James W. Dyer, GOP chief of staff of the House Appropriations Committee. "We're talking about putting a size 50 into a size 34."

—*Washington Post*, Nov. 24, 2002

◆They're our captive audience, not yours

High schools across the nation must provide the directory [of names and addresses of students to the Pentagon]—what one school official called "a gold mine of a list"—under a sleeper provision in the new No Child Left Behind Act, which was enacted this year. Military officials pushed for it to counter a steady decline in the number of people who inquire about enlisting. . . .

Part of their role as educators, they say, is to minimize intrusions so students can learn. Now, they risk losing federal funds if they don't hand over students' names to recruiters who, in the words of Chantilly High School Principal Tammy Turner, "want to capitalize on our captive audience."

—*Washington Post*, Nov. 24, 2002

◆The consumer protection state

Massachusetts regulators are threatening legal action against a small supermarket chain for selling milk too cheaply—as little as $1.49 a gallon, or half as much as the statewide average.

—*Boston Globe,* Oct. 9, 2002

◆Except for individual rights to property, gun ownership, and the money you earn

[Patrick] Leahy was more than a Senate leader; he was one of Congress's most liberal members, a longtime proponent of civil liberties who had always worked hard to keep the government from trampling individual rights.

—*Washington Post*, Oct. 27, 2002

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