

## A Libertarian Looks at Human Accomplishment in the Arts and Sciences

by Charles Murray

Six years ago, for reasons unknown, it popped into my head that a cool title for a book would be *An Inquiry into the Nature and Causes of Human Accomplishment*. My immodest idea was to do for human accomplishment what Adam Smith did for economic growth in *An Inquiry into the Nature and Causes of the Wealth of Nations*—explain how, where, and why it happens. The title did not survive, and I am under no illusion that the book is in the same league with *Wealth of Nations*, but it did get written. It will appear in October as *Human Accomplishment: The Pursuit of Excellence in the Arts and Sciences, 800 B.C. to 1950* (HarperCollins).

I expect libertarians to read *Human Accomplishment* as I read books by libertarians who have strayed from policy issues into other fields, curious about how the author's political philosophy affects his analysis. Here are the answers from my perspective:

On a few issues, the story turned out as I expected. Economic growth is strongly related to the appearance of what I call *significant figures* in the arts and sciences, even after controlling statistically for a variety of other factors. Totalitarian regimes quash human accomplishment—no surprise there. But I knew from the outset that there could be no easy fit between the story of human accomplishment and the principles of a free society, for an obvious reason: the bulk of great achievements in the arts and sciences did not occur in free societies. Even the imperfect liberal democracies of the West have been around for only the last two cen-

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John Stossel of ABC, John Fund of the Wall Street Journal, and Andrew Napolitano of Fox News Channel discuss Fareed Zakaria's speech at Cato's semiannual New York City seminar on June 5.

tures, and human beings plainly managed to produce spectacular artistic creations and scientific advances before that. And there was indeed no easy fit.

The first lesson I had to absorb was humility about the role of the United States. Americans often use "West" when talking about our civilization, as if Europe and America had produced it as partners, but the data collection for *Human Accomplishment* forced me to realize how presumptuous that is. In his landmark *Configurations of Culture Growth* (1944), written during the 1930s, A. L. Kroeber observed in passing that "it is curious how little science of highest quality America has produced"—a startling claim to Americans who have become accustomed to American scientific dominance since 1950 (the stopping point for *Human Accomplishment*). But Kroeber was right. Americans are right to brag about the Yankee ingenuity that

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# Monetary Policy Is Still Too Tight



**P**resident Bush faces the prospect of a jobless recovery during the 2004 election year, the same condition that contributed to his father's defeat in 1992. Whatever one's views on the reelection of George W. Bush, a jobless recovery is not a condition to be welcomed. So some policy should be changed, both to sustain the recovery of total output and to initiate a recovery of total employment. An increase in money growth is the only policy that would achieve both of those objec-

tives, and that should be the primary focus of the meeting of the Open Market Committee of the Federal Reserve System in September. For total demand has been growing at too low a rate to increase employment.

Let's review the arithmetic: During the seven quarters of the current economic recovery to date, total nominal demand (final sales to domestic purchasers) has increased at only a 4.5 percent annual rate. Given an inflation rate of 1.2 percent during this period, the demand for goods and services has increased at only a 3.3 percent annual rate. During this period, however, non-farm business sector productivity has increased at an unusually high 4.5 percent annual rate. Those conditions, by themselves, suggest that the demand for labor during this period declined at a 1.2 percent annual rate. In fact, total nonagricultural employment during this period declined at a 0.8 percent annual rate, the difference due to a small decline in average weekly hours. All of the output growth during the current recovery has been due to increased productivity, with no increase in output due to an increase in employment.

Switching to unconventional monetary policy targets and instruments may be necessary to avoid the continuation of a jobless recovery. First, may I suggest that the Fed replace its inflation rate target with a demand level target. The case for this change should be understood. An inflation target requires tighter money in response to an adverse supply shock and increased money growth in response to a favorable supply shock, increasing the variance of real economic conditions. A demand level target, in contrast, absorbs a supply shock by a temporary change in the inflation rate. Given a 4.5 productivity growth rate, aggregate demand must increase at a 5.5 percent annual rate, the same trend in the demand level that the Fed maintained with very little variance for six years prior to the bubble, just to maintain the *current* level of employment. If, as expected, the productivity growth rate falls

to a 2.5–3.0 percent range, a 5.5 percent annual increase in demand would be sufficient to absorb the annual increase in the labor force without an increase in inflation.

Second, may I suggest that the Fed replace the federal funds rate with some measure of the money supply as its primary policy instrument. After a 550 basis point reduction since January 2001, the federal funds rate is now only 1 percent; this has led to some unfounded speculation that the U.S. economy is now in “a liquidity trap,” that the Fed has lost any potential to increase demand. This is misleading; the Fed can always buy longer-term government securities. The main point, however, is to increase the money supply enough to achieve the demand level target on a sustainable basis, whatever the maturity of the government bonds that it chooses to buy. The objective, again, is to stabilize the path of aggregate demand, not to stabilize inflation, interest rates, or the rate of money growth.

And third, these major changes in monetary policy targets and instruments should be made as soon as possible, preferably at the September meeting of the Open Market Committee. The important issue at stake is whether the United States will avoid the policy mistakes that led Japan into a stagnation that has now lasted more than a decade.

A wise but cynical economist at the American Enterprise Institute recently observed, “Central bankers have an exasperating habit of abandoning the right policy course, but only after careful consideration.” I am more optimistic about the Federal Reserve, which often adopts

the right policy course but only after convincing themselves that they discovered it without any outside help. So be it. More is at stake in this issue than any one economist's professional pride.

**“I suggest that the Fed replace the federal funds rate with some measure of the money supply as its primary policy instrument.”**

—William A. Niskanen

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# Cato Scholars on Television

Cato Institute scholars have been busy taking libertarian ideas to the airwaves in recent months. They have appeared on major television shows more than 50 times each month in 2003. Some highlights follow.

- Charles V. Peña, director of defense policy studies, has been named an MSNBC on-air analyst and appears regularly on MSNBC, CNBC, and NBC.
- CNNfn, Fox News, Voice of America, and Radio Free Europe each featured Cato analysts more than 20 times in the first five months of the year.



Chuck Peña on MSNBC.

- Foreign policy analysts Ted Galen Carpenter, Christopher Preble, Doug Bandow, and Peña appeared on all the major American networks as well as BBC, CBC, and other international networks in March to discuss the war with Iraq.
- C-SPAN has recently broadcast such Cato events as Social Security University on Capitol Hill; a Hill Briefing on the Patriot Act; a Policy Forum on defense transformation; Book Forums on U.S.-Cuban relations, H. L. Mencken, teachers' unions, William O. Douglas; and an interview with Jerry Taylor on Earth Day.
- On *Meet the Press* on April 20, Tim Russert asked Sen. Richard Lugar, chairman of the Senate Foreign Relations Committee, to respond to Cato's criticisms of the war in Iraq.
- Doug Bandow appeared on ABC's *Nightline*, *World News Now*, and *World News Tonight* in January to defend the volunteer army against new calls for a draft.
- Aaron Brown's guests on CNN's *Newsnight* have included Tim Lynch discussing medical marijuana on February 6, Jerry Taylor discussing the EPA on May 21, and Adam Thierer discussing the FCC's media ownership rules on May 30.



David Boaz discusses libertarianism live on C-SPAN, August 12.

- Ian Vásquez was interviewed on CNN's Spanish network in January, February, April, and May on international trade and Latin America.
- National Public Radio interviewed Stephen Moore, William Niskanen, and Chris Edwards on tax cuts; Ted Carpenter on nuclear proliferation; Ed Hudgins on free markets in space; and Chuck Peña on Iraq.
- Veronique de Rugy took on the challenging tasks of discussing tax cuts on Pacifica Radio and the U.S. war with Iraq on French-Canadian television.

Cato's communications staff, including vice president for communications Richard Pollock and director of broadcasting Evans Pierre, work closely with broadcast producers to make sure they know about Cato's scholars and their work. They also work with the scholars to improve their communications skills.

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Hill Briefings on entitlement spending, Medicare, free trade, global warming

## Speakers Consider What to Do Now in Iraq

◆**June 4:** As North Korea continued its pursuit of nuclear weapons and demanded unilateral negotiations with the United States, Cato scholars Doug Bandow and Ted Galen Carpenter convened a Cato Policy Forum, “The United States and Korea: Endless Entanglement or Crossroads for Change?” to discuss the crisis and America’s role in Korea. Defense consultant Bill Taylor warned that the administration’s refusal to negotiate with North Korea has led to unnecessary and dangerous brinkmanship. Ed Olsen, a professor of national security affairs at the Naval Postgraduate School, warned of rising anti-American sentiment in South Korea and urged Washington to prepare for the possibility of Korean unification. Bandow

argued that the United States should withdraw troops from the South and lower its profile in the region to force North Korea to negotiate directly with its neighbors.

◆**June 6:** An aging population and rising health care costs are leading to an entitlements crisis, said Congressional Budget Office director Douglas Holtz-Eakin at a Cato Hill Briefing, “Entitlement Spending Explosion: Implications for the Federal Budget, Taxpayers, and Young Americans.” Jagadeesh Gokhale of the American Enterprise Institute valued the long-term imbalance at \$44 trillion, which would require payroll taxes to increase by 17 cents on every dollar earned. Cato’s Chris Edwards warned that large entitlement spending increases will begin by the end of the decade, which leaves little time for delay.

◆**June 10:** At a morning Cato conference, “Getting Out and Moving On: The Second Gulf War and Its Aftermath,” two panels of speakers debated the future of Iraq and America’s presence there. John Hulsman of the Heritage Foundation argued that the United States should seek a decentralized Iraq with three regional governments dominated by Shia, Sunni, and Kurds, respectively. Joshua Muravchik of the American Enterprise Institute said that U.S. troops should stay as long as necessary to ensure that democracy takes root. Cato’s Leon Hadar stressed the difficulty of occupying a country as complex and

chaotic as Iraq. Michael O’Hanlon of the Brookings Institution agreed and urged the White House to seek peacekeeping assistance from other nations. Cato’s Christopher Preble pointed out that occupation would be expensive in terms of dollars, troop morale, and Iraqi resentment. Alan Tonelson of the U.S. Business and Industrial Council Educational Foundation recommended stronger homeland security measures. Finally, pollster John Zogby presented the poll results from the “Arab street,” which showed that American technology and culture are generally popular, but the American government and its policies are not.

◆**June 11:** In a Cato Forum, “Taxing the Internet: Questions for Governors and Legislators,” Gov. Bill Owens of Colorado disputed the contention that sales tax exemptions give Internet firms an unfair advantage over brick-and-mortar rivals. Online businesses don’t receive the same benefits from the state as do brick-and-mortar businesses, nor do they have the luxury of charging only one local tax rate. Owens also warned that creating a “sales tax cartel” would erode the flexibility of state and local governments to have different tax policies. And, he said, stifling the growth of the Internet will harm the economy and reduce long-term revenues.

◆**June 13:** In a Cato Hill Briefing, “Canning Spam: Can We Shift the Cost of Unsolicited E-mail Back to Spammers?” three experts on spam expressed dismay at the rapidly growing problem and urged private actors to address it before Congress intervenes. Clyde Wayne Crews Jr., Cato’s director of technology policy, warned that an overly broad law would burden legitimate users more than serious spammers. Commissioner Orson Swindle of the Federal Trade Commission cited an FTC study that found that two-thirds of all spam e-mails were fraudulent. He was, he said, committed to free-market principles but believed narrowly tailored legislation might be needed. Dave Baker, vice president for law and public policy at Earthlink, highlighted Earthlink’s legal and technical efforts to combat the problem.



**Top:** Book marketer Amy Mitchell gives George P. Bush a copy of Cato’s Constitution at a Washington reception.



**Anne Applebaum, author of *Gulag: A History*, displays a map of the vast Soviet prison system at a Cato luncheon on July 17.**

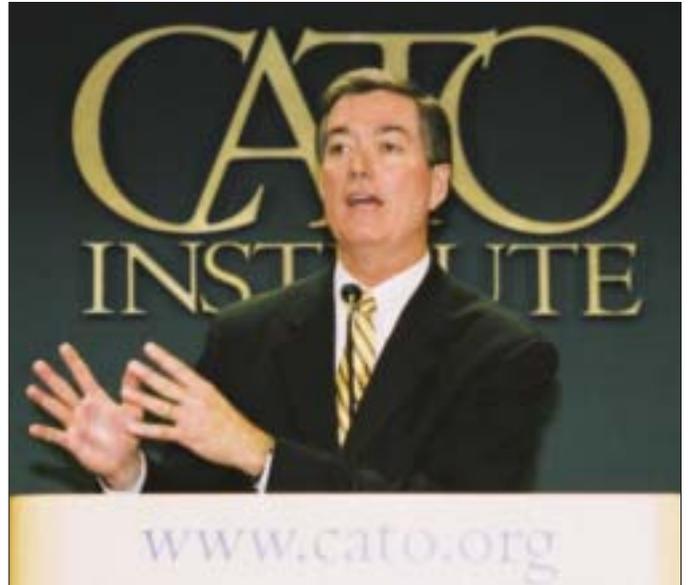
◆**June 18:** Although complaints about drug costs are understandable, Americans shouldn't lose sight of drugs' immense benefits, said Cato's Doug Bandow. Speaking at the Cato Forum "Demonizing Drug Makers: The Political Assault on the Pharmaceutical Industry," Bandow cautioned that price controls and drug reimportation laws risk slowing the development of new drugs. Scott Gottlieb of the Food and Drug Administration said that drug makers are facing new challenges, including the rising costs of new technologies and greater difficulty discovering "new molecular entities." Dan Mandelson, managing director of the Health Strategies Consultancy, suggested that drug companies' unpopularity might be explained by the fact that Americans pay more out-of-pocket for drugs than for other health care expenses.

◆**June 19:** The 1978 passage of Proposition 13, which limited California property taxes, sparked a wave of tax cutting and tax limitation across the country. Participants at a Cato Policy Forum, "Tax Limitation 25 Years after California's Proposition 13," discussed the successes and failures of the tax limitation movement sparked by the passage of Proposition 13. Rep. Doug Ose (R-Calif) described the climate of fear that motivated many people on fixed incomes to support Proposition 13. Jon Coupal, president of the Howard Jarvis Taxpayers Association, criticized the "tax and spend lobby" that continues to support spending increases in California despite this year's record deficit. Lewis Uhler, president of the National Tax Limitation Committee, said that good tax limitation measures should require supermajorities to override them and should limit the rate of growth in taxes to population growth plus inflation. Cato adjunct scholar Michael New surveyed more recent limitations, highlighting the billions in rebates taxpayers have enjoyed under Colorado's Taxpayer Bill of Rights.

◆**June 19:** The authors of two books championing liberty participated in a Cato Book Forum titled "The Passion and Practice of Liberty." Philosopher Tibor Machan, author of *The Passion for Liberty*, defended the libertarian conception of a free society as the ideal society for free people. Business-



**Top: David Boaz examines the war on drugs in a Capitol Hill speech on July 14, part of Cato's summer intern lectures.**



**Colorado Gov. Bill Owens makes the case against taxing the Internet at a Cato Policy Forum on June 11.**

man and philanthropist Philip D. Harvey, author of *Government Creep: What the Government Is Doing That You Don't Know About*, examined some of the many ways in which American society falls short of Machan's ideal and told chilling anecdotes about the hazards of overweening government power.

◆**June 20:** A panel of experts gathered at a Cato Hill Briefing to discuss "What's Right and Wrong about the Senate Medicare Bill?" and whether meaningful reform was achievable. John Goodman of the National Center for Policy Analysis warned that cost controls were needed to prevent unfunded liabilities from bankrupting the nation. Michael O'Grady, senior health economist of the Joint Economic Committee, echoed that concern, urging a focus on "getting the incentives right" so that health care providers will be more cost conscious. Cato's health policy director, Tom Miller, warned that the total cost of the drug benefit would be much larger than the proposed \$400 billion, which he said was "just the down payment." Sen. Don Nickles (R-Okla.)

spoke briefly, thanking the other speakers for their work in support of Medicare reform.

◆**June 20:** A Cato Hill Briefing asked "Can Free Trade Promote Peace in the Middle East?" and both participants answered in the affirmative. Dan Griswold, associate director of Cato's Center for Trade Policy Studies, emphasized that free trade between America and Jordan has produced numerous benefits, including improved relations, rising living standards, increased stability, and promotion of political liberalization. Manar Dabbas, the first secretary for political and congressional affairs of the Jordanian Embassy, agreed with Griswold and pointed out that the United States is now Jordan's top export destination.

◆**June 26:** Cato hosted a half-day conference on Iraq, titled "Rebuilding Iraq: Prospects for Freedom and Prosperity." Speakers on the first panel focused on the "prosperity" angle, arguing that Iraq needs secure property rights, the rule of law, and a stable money supply to flourish.

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**EVENTS** *Continued from page 5*

ish. Patricia Adams, author of *Odious Debts*, recommended that Iraq repudiate debts used to oppress the Iraqi people, and Randal Quarles, assistant secretary of the treasury for international affairs, outlined the administration's efforts to stabilize the Iraqi financial system. There were sharp disagreements among the speakers on the second panel, which examined the prospects for democracy in Iraq. Patrick Basham, a Cato senior fellow, opined that Iraqi society would need to become wealthier and more tolerant before democracy was feasible.



**Top: Scott Gottlieb of the FDA discusses the challenges facing drug manufacturers at a June 18 Policy Forum.**



**Congressional Budget Office director Douglas Holtz-Eakin at Cato's June 6 Hill Briefing on the "entitlement spending explosion."**

Radwan A. Masmoudi, president of the Center for the Study of Islam and Democracy, disagreed, citing Iraq's well-educated populace and history of secular government. Michael Hudson of Georgetown University expressed doubts that America could solve Iraq's political problems and urged that American troops be withdrawn as soon as possible.

◆**June 27:** It is said that death and taxes are the only sure things, but many urban commuters would add rush hour traffic to the list. But is congestion really inevitable? In a Cato Hill Briefing, "**Innovations in Transportation Policy: Applying Free-Market Reforms to the Highway, Amtrak, and FAA Reauthorization Bills,**" Rep. Mark Kennedy (R-Minn.) presented details of his plan to allow toll-financed lanes on interstate freeways, something federal law now prohibits. The law would require that tolls last only until construction costs had been recouped. Peter VanDoren, editor of Cato's *Regulation* magazine, argued that prices are crucial to assessing the costs and benefits of new capacity, that congestion pricing would help to keep traffic flowing smoothly at peak times, and that market mechanisms could reduce cross-subsidies between users of different types of transportation.

◆**July 2:** This term the Supreme Court decided 73 cases, the lowest number in modern history, said attorney Thomas Goldstein at a Cato Policy Forum, "**The Supreme Court: An End of Term Review,**" but those decisions sparked plenty of controversy. Charles J. Cooper examined the term's affirmative action cases, in one of which the Court struck down the University of Michigan's "formulaic" undergraduate admission policy but upheld the more open-ended law school admissions policy. He criticized the latter decision for encouraging "stealth quotas." Erik S. Jaffe criticized the *Virginia v. Black* decision to uphold Virginia's cross-burning law, which he said should have been struck down on First Amendment grounds. Jaffe also praised the *Lawrence v. Texas* decision striking down sodomy laws.

◆**July 7:** Cato chairman William A. Niskanen and Christopher Culp, managing director of CP Risk Management LLC, discussed

their new book, *Corporate Aftershock: The Public Policy Lessons from the Collapse of Enron and Other Major Corporations*, at a Cato Book Forum. They were joined by four other experts in corporate governance and risk management, who recounted Enron's early innovations as an "asset lite" natural gas market maker and Enron's expensive—and ultimately fatal—expansions into markets outside its core competence. They also explained the basic concepts of structured finance, which Enron misused to hide its debts, and Enron's role in national electricity markets.

◆**July 7:** Environmental protection and free markets go hand in hand, said Richard Stroup, author of *Eco-nomics: What Everyone Should Know about Economics and the Environment*, at a Cato Hill Briefing. As an example, Stroup discussed the dismal record of the Superfund program, which takes longer and is more expensive than the property-protecting tort system that preceded it. Stroup also highlighted research showing that demand for a clean environment grows at more than twice the rate of national income, implying that environmentalists should embrace economic growth.

◆**July 10:** Most high school students learn of World War I as an idealistic crusade, spearheaded by a reluctant Woodrow Wilson, to make the world safe for democracy. In his new book, *The Illusion of Victory: America in World War I*, historian Thomas Fleming paints a very different picture. Speaking at a Cato Book Forum, Fleming detailed how the United States was duped into entering the war by British propaganda, how the war was strongly opposed by many members of Congress and many of the American people, and how the war led to abuses of civil liberties.

◆**July 11:** At a Cato Hill Briefing, "**Global Warming: The Always-Imminent Threat,**" Cato scholar Patrick J. Michaels presented a survey of global warming research and discussed controversies over carbon dioxide emission rates, changes in precipitation, and the global temperature history. Despite those controversies, he said, the science is clear on at least one issue: imple-



**At a June 26 Policy Forum, "Rebuilding Iraq," Patricia Adams recommends that Iraq's new government repudiate the debts run up by Saddam Hussein.**

menting the Kyoto Protocol would have a negligible effect on warming rates over the next century. Michaels also pointed out that thousands of Americans move to warmer states voluntarily and have few problems adjusting to the higher temperatures.

◆**July 14:** Cato executive vice president David Boaz made the case to a packed room of Capitol Hill interns for ending the **War on Drugs**, which he said increases crime and violence, destroys communities, and erodes civil liberties. Some politicians have argued for escalating the drug war still further, but Boaz argued for the opposite approach, citing the end of alcohol prohibition as a model. Decriminalization won't solve all drug-related problems, he said, but it is likely to reduce violence and corruption, end schoolyard drug pushers, and increase the safety of now-illegal drugs. He cited changing public opinion, the growing medical marijuana movement, and Canada's decision to decriminalize marijuana possession as positive signs.

◆**July 17:** At a Roundtable Luncheon, *Washington Post* editorial writer Anne Applebaum discussed the lessons she learned in writing her new book, *Gulag: A History*. She noted that one little-known aspect of the Soviet Union's vast prison system was its importance as a source of forced labor in the Soviet economy.

◆**July 18:** For more than two decades, the U.S. government has been fighting a losing war to stop drug production in Latin America. That failure is no accident, said Cato scholars Ted Galen Carpenter and Ian Vásquez at the Cato Hill Briefing "**Bad Neighbor Policy: Washington's Futile War on Drugs in Latin America.**" Carpenter pointed out that eradication efforts suffer from the "push down, pop up" problem: success in one area creates higher profits for growers in other areas, leaving total production unaffected. Vásquez pointed out that prohibition-inflated drug profits provide a lucrative source of funding for rebel groups and terrorists in Latin America. Furthermore, crop spraying programs and American bullying of Latin American governments have generated anti-American sentiments and boosted anti-Ameri-



**Fareed Zakaria explores the themes of his book, *The Future of Freedom: Illiberal Democracy at Home and Abroad*, at Cato's June 5 seminar in New York. Keynote speaker Rep. Pat Toomey discussed Social Security privatization.**

can politicians in many countries. That has undermined reformist and pro-American governments and threatened the fragile liberal democracies that are still just taking root in many Latin American countries.

◆**July 22:** A battle over Medicare reform is brewing in Congress, and one of the leaders of the reform effort is Rep. Paul Ryan (R-Wis.), who joined Cato health policy director Tom Miller for a Cato Hill Briefing titled "**Medicare Reform: Will the House-Senate Conference Committee Save It or Sink It?**" Medicare, Ryan said, has failed to keep up with health care advances and is hurtling toward insolvency. To solve both problems, Ryan advocated opening the system to private insurers, who would eventually compete with the classic Medicare program for seniors' Medicare dollars. That would save money and empower seniors to choose options that better fit their needs. Miller examined the competing House and Senate Medicare bills, concluding that the House bill contained badly needed reforms that the Senate version lacked.

◆**July 23:** At a Roundtable Luncheon, **Otto Guevara**, the first Libertarian to be elected to Costa Rica's congress, described how the

Movimiento Libertario has been winning over people in a country with a long-standing tradition of social-democratic policies. In 2002 the ML elected to congress six Libertarians, who constituted 10 percent of Costa Rica's legislature. Guevara also discussed the prospects for the Central American Free Trade Agreement with the United States, which is currently being negotiated.

◆**July 25:** Jerry Taylor, Cato's director of natural resource studies, questioned the need for a national energy policy in a Cato Hill Briefing, "**Left, Right, and Wrong on Energy.**" Energy independence is a misguided goal, he said, because achieving it would not insulate the United States from global oil price spikes. Nor is the energy strategy an efficient way to protect the environment. Taylor also discussed other current energy controversies, criticizing ethanol, hydrogen-powered cars, renewable energy mandates, and higher fuel economy standards. He skewered two conservative "sacred cows," pointing out nuclear energy's prohibitive capital costs and suggesting that ANWR be turned over to a private conservation group, which, he predicted, would allow drilling and use the proceeds for environmental improvement elsewhere. ■

# Rebuilding Iraq: Prospects for Democracy

**O**n June 26 the Cato Institute hosted a half-day conference, “Rebuilding Iraq: Prospects for Freedom and Democracy.” The first panel looked at economic issues; the second explored the prospects for democracy. On the second panel were Patrick Basham, senior fellow with Cato’s Center for Representative Government; Radwan Masmoudi, president of the Center for the Study of Islam and Democracy; and Michael Hudson, professor of Arab studies at Georgetown University. Excerpts from their remarks follow.

**Patrick Basham:** My nomination for the political understatement of the year already goes to President Bush, who on May 2 told the world that in Iraq the transition from dictatorship to democracy will take time.

The president believes that an Iraqi democracy will serve as a model throughout the Islamic world, something of a democratic domino, in fact. But is Iraq really capable of moving smoothly from dictatorship to democracy? In my opinion, the White House will be gravely disappointed with the result of its effort to establish a stable democracy in Iraq or any other nation that is home to a large Muslim population.

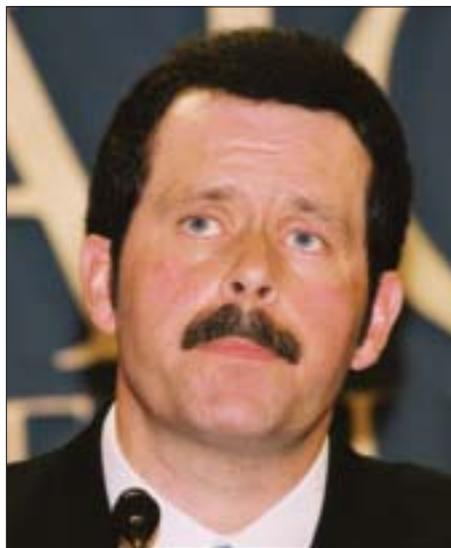
According to Freedom House, not a single Arab country qualifies as an electoral democracy. It is hard to be optimistic about the chances of Iraq establishing a stable, democratic political system, at least in the short to medium term. My pessimism also stems from reflection on what causes democracy to flourish in a society. There is a vast body of quite rigorous scholarship already assembled on how societies democratize.

Political scientist Ronald Inglehart studied the past 21 years of responses to the World Values Survey, which measures the values and beliefs of people in 70 countries, from established democracies to authoritarian dictatorships, including 10 Islamic nations. Inglehart analyzed the relationship between the survey responses within each society and each society’s level of democracy as measured by Freedom House. He concluded that the prospects for democracy in any Islamic country seem particularly poor.

The building blocks of a modern democratic political culture are not institutional in nature. By that I mean the building blocks are not elections, parties, and legislatures.

Rather, the long-term survival of democratic institutions requires a particular political culture, one that solidly supports democracy.

So what are the cultural factors that play an essential collective role in stimulating and reinforcing a stable democratic political system? The first is political trust, the assumption that one’s opponent will accept the rules of the democratic process and surrender power if he or she loses an election. The second is social tolerance, the acceptance of traditionally unpopular minority groups such as homosexuals. The third is popular support for gender equality. The fourth is widespread recognition of the importance of basic political liberties such as freedom of speech and popular participation in decisionmaking.



**Patrick Basham: “The Iraq democratic reconstruction project will be a good deal harder than White House theorists expect.”**

Unfortunately, in Iraq as in many neighboring countries, most of the ingredients critical to the development of a civil pluralist society are either absent or diminished by years of neglect. Iraqi political culture is still dominated by identity politics, the elevation of ethnic and religious solidarity over all other values, including individual liberty. In this deeply paternalistic political culture, most people adopt a political passivity that acts as a brake on the development of ideas, such as personal responsibility and self-help, that are central to the development of economic and

political liberalism. Hence, political freedom is an alien concept to most Iraqis.

Although recent Kurdish experience may be reason for cautious optimism in some quarters, it also demonstrates how slowly the collective mindset changes. The largely autonomous regions of the Kurdish-controlled north were relatively freer and better off than the rest of Saddam’s Iraq, but Kurdish political culture remains largely mired in authoritarianism. Frank political debate, for example, was almost unheard of as tribal leaders from respective parties dominated specific regions and exhibited the top-down leadership style characteristic of the old Baathist Party elite.

Political culture is clearly related to the level of economic development, specifically, rising living standards and a large middle class. Both the historical record and three decades of empirical research have demonstrated repeatedly that democratization is much more likely to occur and much more likely to take hold in richer than in poorer nations. A higher standard of living breeds values that demand greater democracy.

Turkey, the most economically developed, secular, and socially tolerant Islamic country, is currently progressing into what is referred to as a democratic transition zone. The Turks are not where we are, but they are not where they were. Meanwhile, as we are witnessing day by day, the Iranian political culture increasingly exhibits signs of popular pressure for democratization, as befits the second most economically developed Islamic country. But, like so many of its poorer brethren, Iraq won’t be a stable democratic nation until it is much, much wealthier.

The realization of Iraq’s democratic potential will depend more on the introduction of a free-market economic system and its long-term positive influence on Iraqi political culture than on any U.N.-approved election. But the Bush administration’s plan for the democratization of Iraq is premised on the rapid adoption of a new constitution that will be successfully implemented by groups of Iraqi elites bargaining among themselves. The White House, in my view, is placing an extremely large wager that the formation of democratic institutions in Iraq can stimulate a democratic culture. What President Bush seeks to achieve in Iraq has never before been accomplished.

## “In the Islamic calendar, this is the beginning of the 15th century, not the 21st century. The Iraqis are at a different stage of political evolution.”

In post-Saddam Iraq, vivid demonstrations of religious fervor and, in some cases, undemocratic intent, in tandem with clerics who have taken the political initiative by gaining control of numerous towns, villages, and sections of some major cities caught our political leadership completely off guard. Whether by setting up Islamic courts of justice or applying pressure against liquor distributors, music stores, cinemas, and unveiled women, religious fundamentalists are coercing their communities into a stricter Islamic way of life.

How did the White House stumble into this predicament? The Bush administration believed that Iraq was too secular a country to foster a populist, religious-based antipathy to American interests. In reality, however, the notion of a secular Iraq requires considerable qualification. Over the past 35 years of Baathist rule, Iraq's outward appearance of religious moderation largely reflected the Hussein regime's preference for institutionalized thugery over religious fanaticism.

The Baath Arab Socialist Party that provided Saddam's political backbone was philosophically and operationally fascist, inspired more by the muscular Arab nationalism adapted from European national socialism than by dreams of an Islamic afterlife. Saddam himself springs politically from Iraq's minority Muslim population, the Sunnis, who are considered moderate in comparison with the Shia Muslim majority, a sizable proportion if not a majority of which adheres to the faith promulgated by Iran's fundamentalist Islamic leadership.

So, can Iraq be democratic? In the very long term, perhaps it can. But the Iraqi democratic reconstruction project will be a good deal harder, I believe, than White House theorists expect: The project is not just about establishing electoral democracy. It is about establishing liberal democracy. So there is a real danger, for example, in holding national elections too soon.

Before elections take place, the tangible foundations of a free and open civil society need to be built in Iraq. It is critically important that Iraq's first national election not be its last.

Optimists about Iraq and democracy should consider Bernard Lewis's reminder: In the Islamic calendar, this is the beginning of the 15th century, not the 21st

century. The Iraqis are at a different stage of political evolution. We are attempting to sow the seeds of 21st-century political institutions in the soil of a 15th-century political culture. Hence, my forecast that in coming seasons a bountiful democratic harvest in Iraq is quite an unrealistic prospect.

**Radwan A. Masmoudi:** In Iraq, I believe that we have won the war but may be losing the peace. Iraq is quickly becoming a quagmire. Peace and security cannot be established, according to many military experts, with fewer than 250,000 troops, not the present 150,000. At the same time, we cannot withdraw because we would appear to be losing face or leaving Iraq worse off than it was before the war.



**Radwan A. Masmoudi: “The Iraqis are very interested in and capable of developing their own government and their own democracy.”**

The situation in Iraq today appears to most Iraqis—and I am in touch with many of them—more an occupation than a liberation. Most Iraqis in the beginning, and I think most of them until now, welcomed us as a liberating force: we were there to liberate Iraq, to build democracy, to get out as soon as possible, and to give Iraq back to the Iraqis.

But it appears that we are shifting toward trying to impose our values and our views on the Iraqis, and many of them are resenting it. I am very sorry, for example, that we used the word “occupation” in the latest

U.N. resolution. To us, it seems like a technical term that we have to use for legal reasons, but that word really resonated in Iraq and in much of the Arab world.

What they are saying in the media is, aha, the United States is finally admitting that it is here to occupy Iraq, not to liberate Iraq. If our presence is seen as an occupation, then I think we can expect mounting resistance.

The last 30 years have been very oppressive, but Iraq has a proud history of tolerance and civil society. In the middle of the 20th century, Iraq was a very progressive and a very liberal state. So I don't think that it is true that there is no political development in Iraq or in the Arab world. Yes, there was a big setback during the last 30 years. But the Iraqis are very interested in and, I think, capable of developing their own government and their own democracy. In fact, they are eager to do so.

That democracy will be slightly different, maybe very different, from our own democracy, but that is the whole point of democracy. Not all democracies are similar.

Despite the recent problems, and the security problems in particular, major Iraqi groups are working today to establish an Iraqi government. Even though Paul Bremer cancelled the elections—in fact, that has infuriated most of the Iraqi groups, including the secularists, that were supporting the U.S. government—the groups are working together to develop their own platform and their own government.

It might be even better for democracy if the Iraqis took their own initiative instead of waiting for a green light or permission from Bremer or anybody else. That would show that the Iraqis are capable of working together despite their religious and ethnic differences. Kurds, Shia, and Sunni work together in the Iraqi groups. They are capable of building a coalition government that is democratically elected and accountable to the Iraqi people.

Another positive note is that Iraqi Shia are very different from the Iranians. They don't want a theocracy. Iraqis are learning from the Iranian experience. They see that, even in Iran, most Iranians including the clergy are now convinced that too much mixing of the religious establishment and the government is bad for both the government and Islam.

*Continued on page 10*

**“We need to convince the Iraqis that democracy is compatible with Islam. That is the only way they will accept democracy.”**

**POLICY FORUM** *Continued from page 9*

What should we do? First, it would be a tragic mistake to be afraid of elections. There is no doubt that the Iraqis are ready for democracy. All the experts who have visited Iraq before or after the war keep saying that Iraqis want democracy. They are ready for democracy. Their nascent democracy will probably not be a perfect democracy, but they are ready for democracy.

They have suffered for a very long time under one of the most oppressive and brutal regimes in the world. And because of that they have been vaccinated against oppression and against dictatorship. I don't think they will allow anybody, religious or secular, to oppress them again because they have seen what oppression does to them and to their families and to their societies.

Third, most analysts estimate that moderate Islamic parties are probably going to win the elections in Iraq. I would venture to say that that will be the case whether

we have elections today or 20 years from now. The reality is that secularism is very unpopular in the Arab world and in most of the Muslim world. And in any real elections, the secularists will not win more than 10 or 20 percent of the vote.

That is the case, by the way, even in Turkey, where in election after election the Islamists have been winning. They are moderate Islamists. They are not radicals, they are not extremists, but they are Islamists. Right now we have a moderate Islamic party that has accepted secular rule in Turkey. After 20 or 30 years of being allowed to participate in the political process, the Islamists themselves are seeing that secularism is beneficial.

In Iraq and the Arab world, secularism has been discredited in the last 30 years, thanks to Saddam Hussein and other secular dictators, who, in the name of secularism, have tortured people and killed religious leaders.

We at the Center for the Study of Islam and Democracy organized three workshops

October year in Morocco, Egypt, and Yemen and invited leading secular and moderate Islamic leaders to talk with each other about democracy, secularism, the role of religion, and women's rights. We were very surprised that all the parties that we thought were secular without exception asked us to please not call them secular. "Call us anything else you want, but do not call us secular."

So it would be an extremely tragic mistake to focus on secularism as if it were the necessary condition for democracy. If we do, we will not have democracy in Iraq. Let us not forget that religion played a big role in the establishment of democracy here in the United States.

What Iraqis need is help in building their institutions. That will take years, it might even take decades, but it can be done. They need help in building democratic institutions. They need help in learning to be nonviolent and to solve political conflicts through peaceful means. They need help in understanding democracy,

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## Leave a Legacy of

# L I B E R T Y

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*Lessons for corporate governance and regulation*

# Enron: What Actually Happened?

The 2001 collapse of Enron set off a flurry of accusations and legislative proposals. What was woefully lacking, however, was in-depth understanding of what actually happened. Why was Enron losing money? How did it hide debt and mislead investors for so long? How did internal and external oversight of Enron's activities fail to flag the problems? Those questions aren't glamorous, but they're crucial to understanding what actually happened and what should be done about it.

A new book from the Cato Institute, *Corporate Aftershock: The Public Policy Lessons from the Collapse of Enron and Other Major Corporations*, fills this gap by offering in-depth information and analysis of the Enron failure. It explains Enron's business and the factors that led to the company's collapse. It also offers introductions to corporate governance, energy markets, structured finance, and credit derivatives—topics crucial to understanding Enron's fate. The book is edited by Cato chairman William A. Niskanen and Christopher Culp, an adjunct professor of finance at the University of Chicago and a principal at CP Risk Management LLC. Most of the contributors are practicing experts in corporate law or risk management.

Not all of Enron's activities were fraudulent or illegitimate. In the first chapter, Culp and Johns Hopkins professor Steve Hanke point out that Enron began its life as an innovative market maker in the newly liberalized natural gas industry. Using a strategy called "asset lite," Enron leveraged its substantial expertise in the natural gas market while avoiding large capital investments in infrastructure that would have weighed the company down. That was a legitimate and valuable service, as it allowed others in the natural gas market to trade more efficiency and helped ensure a smooth flow of gas from producers to end users.

The company's problems largely flowed from two decisions: to expand outside its

core competence in the energy industry and to abandon the asset lite strategy and pursue new markets. Enron's attempt to create a market in bandwidth is a notable example. Enron lacked a comparative advantage in the bandwidth market and, as a result, failed to turn a profit. In the process Enron acquired extensive telecommunications capacity that it did not manage effectively, exacerbating its losses.

Poor business decisions were responsible for Enron's failure, but Enron postponed the day of reckoning by using questionable accounting practices and financial engineering. One example—the use of special purpose entities (SPEs)—is examined in a chapter by Barbara Kavanagh, a principal at CP Risk Management LLC. SPEs are legal entities created by corporations to serve particular purposes—in Enron's case, to conceal debt and mislead investors. While some observers have argued for restrictions on the use of SPEs, risk management expert Barbara Kavanagh writes that this would

be a mistake, because Enron's case was exceptional. Enron's activities flouted standard industry practices, while most other companies follow the rules and use SPEs for legitimate business purposes.

"The greatest tragedy of the Enron debacle is not likely to be the consequences of its bankruptcy," writes University of Chicago law professor Richard Epstein, "but the erroneous institutional reforms that will take hold if its causes are not well understood. This thorough and thoughtful set of essays touches on all aspects of Enron, from accounting practices, to disclosure requirements, to trading strategies, to corporate governance, rate regulation, and much more."

*Corporate Aftershock* helps to distinguish (in Culp's words) "the good, the bad, and the ugly" in the Enron fiasco. Recognizing Enron's good business practices will help to prevent legitimate businesses doing similar work from being tarred with the Enron brush. And distinguishing bad business decisions from ugly financial fraud and deception will help regulators and market participants alike focus on deceptive business practices without preventing businesses from entering into legitimate but risky business ventures.

*Corporate Aftershock*, published by John Wiley for Cato, is available in hardcover for \$39.95. It can be purchased in bookstores, at [www.catostore.org](http://www.catostore.org), or by calling 800-767-1241. ■



**Cato senior fellow Steve H. Hanke, author Andrea Neves, and coeditor Christopher Culp discuss the lessons of the Enron collapse at a Book Forum for *Corporate Aftershock*.**



*"After Victory": time to extricate ourselves from Iraq*

# Federal Regulations Reach a New Record

**A**s the Bush administration struggles to control rising violence against American troops in Iraq, Christopher Preble, Cato's director of foreign policy studies, makes the case for a speedy exit by U.S. forces in "After Victory: Toward a New Military Posture in the Persian Gulf" (Policy Analysis no. 477). Long-term occupation of Iraq serves no vital U.S. interests, he argues, and keeping volunteer soldiers away from their families for months at a time damages troop morale. An extended American presence will also engender hostility among Iraqis and it will be expensive—costing as much as \$135 billion per year. Furthermore, Preble writes, the American oil supply is not dependent on a military presence in the Persian Gulf region, because oil-rich nations can't prevent third parties from reselling oil to America once it leaves their shores. Preble concludes that the White House should ensure that the new Iraqi government will not threaten vital U.S. interests but should leave the Iraqis otherwise free to choose their own form of government, even if an Islamic state is the result.



**Christopher Preble**



**Dan Ikenson**

## ◆Playing Chicken with Trade

In 1963 President Johnson authorized a 25 percent tariff on light trucks as part of a trade war with the European Economic Community. Since then American automakers have purchased stock in foreign rivals, foreign automakers have built plants in the United States, and European companies' share of the American market has dwindled to insignificance. Those developments make the tariff nonsensical even on protectionist grounds: the trade war is now long over, but the tariff lives on. In "Ending the 'Chicken War': The Case for Abolishing the 25 Percent Truck Tariff" (Trade Briefing Paper no. 17), Cato trade policy analyst Dan Ikenson urges immediate repeal. The only plausible argument for keeping the tariff, he writes, is as a "bargaining chip" to exact trade concessions from other nations.

But since most foreign trucks are already produced in the United States (and hence not subject to tariffs), it has limited value in negotiations. And having invested billions in American auto plants, foreign companies are unlikely to close them even if the tariff is repealed.

## ◆Limiting State Budget Growth

Among the most powerful tools for controlling government growth are tax and expenditure limitations (TEs). A new paper by Cato adjunct scholar Michael J. New, titled "Proposition 13 and State Budget Limitations: Past Successes and Future Options" (Briefing Paper no. 83), examines where TEs have succeeded and where they've failed, drawing lessons for the improvement of future TEL initiatives. The first high-profile TEL was California's Proposition 13, which not only cut property taxes in California but also sparked a wave of tax cutting nationwide. New also examines TEs in Washington State and Colorado, concluding that limitations are most effective when they impose broad limits on taxes and spending, when they are indexed to inflation plus population growth, and when there are few opportunities for legislatures to override them.



**Michael J. New**

## ◆Neighborhood Watch

A nuclear-armed North Korea would be a headache for the United States. But Cato senior fellow Doug Bandow argues in "All the Players at the Table: A Multilateral Solution to the North Korean Nuclear Crisis" (Policy Analysis no. 478) that it would be a much bigger headache for China, South Korea, and other regional powers. Bandow advocates a gradual U.S. withdrawal from active involvement in the region to force North Korea's neighbors to take the nuclear threat more seriously. As a first step, Bandow recommends an end to U.S. aid to North Korea. Next, he says, Washington should with-



**Doug Bandow**

draw its objections to a nuclear-armed Japan and South Korea to make North Korea think twice about developing its own weapons. That would also raise the stakes for Beijing, which does not want to see its neighbors acquire nuclear weapons. Finally, Bandow says, Washington should let North Korea's neighbors take the lead in future negotiations.

## ◆Regulation: A New Record

The gargantuan \$2.23 billion federal budget for 2004 actually understates the impact of the federal government by hundreds of billions of dollars because of the added burden of federal regulations. That's the message of this year's edition of "Ten Thousand Commandments: An Annual Snapshot of the Federal Regulatory State" by Cato's Clyde Wayne Crews Jr. In 2002 the *Federal Register*, which is the "daily depository of all proposed and final federal rules and regulations," contained 75,606 pages, a new record. By other measures, the rate of federal regulatory growth slowed this year, but by any measure the total number of rules continues to rise rapidly. Crews estimates that the 2002 cost of federal regulations was as high as \$860 billion. He recommends measures to rein in the regulatory state by forcing Congress to take more responsibility for the adoption of new regulations and to pay more attention to their cost. Proposed measures include an annual "report card" with easy-to-understand summaries of the costs and benefits of various regulations and requiring Congress to vote on all new regulations before they become binding.



**Wayne Crews**

## ◆A Two-Pronged Approach to Free Trade

Some free traders have criticized bilateral free-trade agreements (FTAs) such as the U.S.-Jordan free-trade agreement signed in 2000. Those agreements, critics argue, distract negotiators from global talks through the World Trade Organization. Furthermore, critics point to the problem of *trade diversion*: producers in favored nations receive unfair advantage over producers in nations not party to such agreements. Those

advantages can cause a loss of tariff revenue with no gains in economic efficiency. While acknowledging those concerns, Daniel



Daniel T. Griswold

T. Griswold, associate director of Cato's Center for Trade Policy Studies, argues in "Free Trade Agreements: Stepping Stones to a More Open World" (Trade Briefing Paper no. 18) that FTAs have important benefits that outweigh the costs.

FTAs, he says, ensure that trade liberalization continues even if WTO negotiations stall and can serve as blueprints for future multilateral agreements. Furthermore, by choosing FTA partners wisely, the United States can find large new markets for U.S.

products and inject competition into domestic U.S. industries. FTAs can also reward and stabilize economic reforms in fragile Third World nations. For all those reasons, Griswold urges the United States to pursue free trade both through the WTO and through FTAs with Chile, Singapore, Australia, and other nations.

#### ◆Don't Stifle Financial Innovation

In the years leading up to its collapse, Enron made frequent use of complex financial arrangements called special purpose entities (SPEs) to conceal debt and mislead investors about the state of its finances. That has led many commentators to question the legitimacy of all SPEs. In "The Uses and Abuses of Structured Finance" (Policy Analysis no. 479), Barbara Kavanagh of CP Risk Man-

agement LLC gives an overview of SPE transactions, also known as structured finance. Structured finance, she says, has been in widespread use for three decades and serves many legitimate financial needs, including "risk management, liability management, accessing alternative funding sources, and maximally leveraging internal expertise." Enron's use of SPEs to hide debt was an aberration made possible only because several customary safeguards against the abuse of SPEs failed simultaneously. Restricting the use of SPEs, she argues, would punish the many legitimate users of SPEs for the misdeeds of a single company. ■



Barbara Kavanagh

## News Notes

# Wright, Becker, and Hertzog join Cato

**M**ichael Wright has joined the Cato Institute as director of public affairs. He has a long record as a journalist, having started with publications that many reporters would consider the culmination of a career: the *Atlanta Constitution* and *US News & World Report*. For eight years he was an editor and writer at the *New York Times*, working on the "Week in Review" and the *New York Times Magazine*. For 16 years he was executive editor of one of Washington's insider publications, *National Journal*. His articles and opinion pieces have appeared in such publications as *The Atlantic Monthly*, *Fortune*, *Conde Nast Traveler*, the



Michael Wright

*LA Times Magazine*, the *New York Times Book Review*, and the *Washington Post*. After spending the past year as a freelancer, he told the *National Journal*: "I can't say I didn't enjoy reporting for work to a home office . . . all of 10 feet from my bedroom. But having a desk at Cato, in a building spilling over with many of the most original thinkers in Washington, is my idea of a great opportunity."

Susan Becker, who holds an MBA from Duke University, has joined Cato as direc-



Susan Becker

tor of marketing. She has more than 10 years in marketing for such companies as Bell South, Nextel, Network Solutions, and AT&T and for nonprofits including Johns Hopkins' Community of Science program and the Lupus Foundation. She has extensive experience in all facets of marketing, from developing and implementing strategic plans to niche marketing, advertising, launches, online newsletters, branding, Web management, e-communications, and direct mail.

Linda Hertzog has joined Cato as conference director. She has more than nine years of event-planning experience with such organizations as the Nuclear Energy Institute and the National Council of State Housing Agencies. At Cato she and her staff will be responsible for organizing more than 100 events a year, from major conferences in Washington and elsewhere—including Moscow in 2004—to Policy Forums and luncheons.



Linda Hertzog

**T**om Miller's congressional testimony, titled "Genetic Privacy," was one of the top 10 downloads for June at the website of the AEI-Brookings Joint Center for Regulatory Studies. The paper has been downloaded more than 500 times since it was posted at [www.aei-brookings.org/publications/abstract.php?pid=282](http://www.aei-brookings.org/publications/abstract.php?pid=282).

# “A major stream of human accomplishment is fostered by a culture that encourages the belief that individuals can act efficaciously as individuals, and enables them to do so.”

## ACCOMPLISHMENT *Continued from page 1*

converted science to technology, but throughout the 19th century and into the first decades of the 20th, the explosion in basic scientific knowledge occurred overwhelmingly in Europe. In the arts, a large dose of American humility is in order. Much as we may love Twain, Whitman, Whistler, and Copland, they are easily lost in the ocean of the European oeuvre. What we are pleased to call Western civilization was in fact European civilization throughout the period I studied.

The data also forced me to think hard about the complicated relationship of freedom to great accomplishment. Levels of political freedom varied widely across time (Britain before the Glorious Revolution versus Britain after; Britain before and after the great liberal reforms of the 1830s) and across countries (18th-century France versus 18th-century Britain), but this variation was not statistically related to the appearance of significant figures. If you don't trust statistics on such matters, look at the qualitative record. The same absolutist France that oppressed peasants and jailed political dissidents was such a vibrant center of achievement in both the arts and the sciences that no comparison with postrevolutionary France can favor democracy and liberalism over absolutism. What's the explanation? The answer takes the better part of three chapters in the book, but part of it has to do with the *de facto* freedom of action that a regime accords to its creative elites. It is not an appealing truth, but it seems to be a truth nonetheless: great artistic and scientific achievement doesn't require freedom for everyone, just for those who are likely candidates to produce great work. Historically, absolutist regimes have done as well in that regard as democratic ones.

Most of the other hard thinking that the data forced on me led in more optimistic directions. Two of the dynamics that animate human accomplishment are what I call purpose and autonomy, and their meanings are close to Randian. Here's my proposition regarding purpose: "A major stream of human accomplishment is fostered by a

culture in which the most talented people believe that life has a purpose and that the function of life is to fulfill that purpose." And here's my proposition regarding autonomy: "A major stream of human accomplishment is fostered by a culture that encourages the belief that individuals can act efficaciously as individuals, and enables them to do so." Conclusions like these should get a nod of approval from Ed Crane and David Kelley alike. And, I am happy to report, they have the advantage of being not only attractive but historically true.

As I pursued these ideas, I went through one of those evolutions that are the point of spending all that time and effort learning something new (new to me, anyway). It is summarized in this proposition: "A major stream of accomplishment in any domain requires a well-articulated vision of, and use of, the transcendental goods relevant to that domain." The transcendental goods to which I refer are the classic triad: truth, beauty, and the good. A "well-articulated vision" means one with gravitas. Chinese artists of the Song dynasty and Italian artists of the Renaissance had different visions of beauty, but both were explicit, carefully thought out, and rooted in insights about what is aesthetically pleasing to human beings. Confucius and Aristotle had different visions of the good, but both are profound and rooted in deep insights about the human condition. Andy Warhol's vision of beauty (if he had one) doesn't cut it, nor do New Age clichés about being a nice person.

My conclusion regarding science (including social science) is that where scholars do not have allegiance to ideals of truth, the work tends to be false. That much is not open to much dispute. But I also conclude that where artists do not have coherent ideals of beauty, the work tends to be sterile, and where they do not have coherent ideals of the good, the work tends to be vulgar. Lacking access to either beauty or the good, the work tends to be shallow. These conclusions are subject to all sorts of objections. Among other things, I am by implication writing off some huge proportion of 20th-century art, literature, and music

as sterile, vulgar, and shallow.

Some libertarians, sensitive to invocations of the nonrational, will also detect a whiff of religiosity in these themes. This was for me the biggest surprise in the writing of the book. I have always been respectful of the great religions, but I remain an agnostic. And yet I came to the end of the book convinced that the role of religion is indispensable for igniting great accomplishment in the arts. I use religion at once loosely and stringently. Going to church every Sunday is not the definition I have in mind, nor even a theology in its traditional sense. Confucianism and classical Greek thought were both essentially secular, and look at the cultures they produced. But they were tantamount to religions, as I am using the word, in that they articulated a human place in the cosmos, laid out a clear understanding of the end toward which a human life aims, and set exalted standards for seeking that end. That brings me to the sense in which I use religion stringently: Confucianism and Aristotelianism, along with the great religions of the world, are for grownups, requiring mature reflection on truth, beauty, and the good. Cultures in which the creative elites are not engaged in that kind of mature reflection don't produce great art.

And so *Human Accomplishment* offers targets to my friends who occupy the severely rationalist corners of libertarianism, along with a host of targets for the left (the chapters on the dominance of Europe and of males in human accomplishment see to that). But lest you think I have strayed too far, let me give you *Human Accomplishment's* bottom line, from the opening of the last chapter: "If the last several hundred pages can be said to have a principal message, it is this: Excellence exists, and it is time to acknowledge and celebrate the magnificent inequality that has enabled some of our fellow humans to so enrich the lives of the rest of us." The libertarian beliefs we share are about how to free everyone to reach whatever heights are in him. *Human Accomplishment* is the story of the outer limits of those heights. ■

*Free Speech, privacy, domain names: challenges for international law*

# What Legal Rules for the Internet?

In the early years of the Internet boom, there was much heady talk of the transformative power of the Internet. Cyberspace, we were told, would transform cultures, undermine repressive governments, and revolutionize economies. Some observers even argued that local laws and governments would become irrelevant, as the Internet allowed people to relocate their virtual identities and assets to avoid the long arm of the law.

That was largely hype. The Internet bubble burst, the novelty of the Web subsided, and governments in repressive countries learned to restrict people's online activities more effectively. People discovered that they still have physical bodies and physical property that can be taxed, regulated, or seized by governments.

Yet the Internet has had some genuinely revolutionary effects. Peer-to-peer file sharing has raised difficult questions about the future of intellectual property. Online communities exist among people who would never have met otherwise. Internet collaboration has expanded the "open source" software movement, in which thousands of volunteer programmers work together to create software and offer it to the public free of charge.

The Internet has vastly reduced the importance of physical location for many types of transactions. In allowing cross-border interactions on a scale never before possible, the Net has raised new and challenging gover-

nance disputes. Laws that traditionally apply to specific geographical areas are hard to apply to activities that might involve citizens living under dozens of different legal regimes.

A new book edited by Adam Thierer and Clyde Wayne Crews Jr., *Who Rules the Net? Internet Governance and Jurisdiction*, considers the legal issues raised by the global reach of the Internet. Vint Cerf, one of the fathers of the Internet, contributes a foreword, and authors include Rep. Christopher Cox (R-Calif.), author of the Internet Tax Freedom Act, and Harvard's Jonathan Zittrain, a noted expert on global Internet law.

Several authors, such as Cato adjunct scholar Robert Corn-Revere and Kurt Wimmer of Covington and Burling, point out that, because few nations protect free speech as robustly as American law does, other nations are likely to object when website operators offer content that violates their prohibitions against libel, hate speech, or criticism of the government. That is a particular threat to multinational companies with assets in other nations that could be seized to enforce judgments against them.

Other authors debate whether cyberspace poses challenges that are fundamentally different from previous forms of mul-

tijurisdiction disputes. Jack Goldsmith of the University of Chicago Law School argues that online transactions are, in essence,

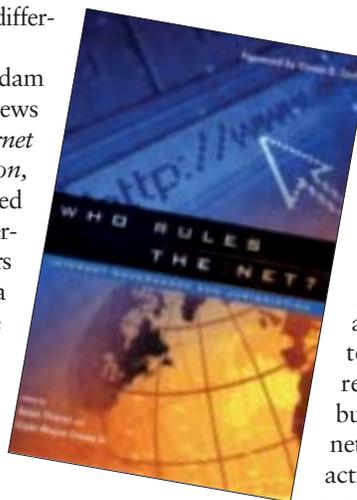
similar to older transactions using such technologies as "mail or phone or smoke signal."

Therefore, existing precedents regarding competing jurisdictions will suffice to govern such transactions. David Post of Temple University Law School argues instead that scale matters—that by dramatically reducing the costs of doing business worldwide, the Internet creates new types of interaction that can't easily be governed by existing law.

A common concern among users of the Internet is privacy. Fred Cate of the Indiana University School of Law surveys the state of privacy on the Internet and competing legal approaches to its protection. Cate examines the comprehensive—some might say draconian—restrictions on the use of personal information in the European Union and more modest attempts in America to achieve the same goal. Excessive restrictions on the collection of personal data by private actors can stifle beneficial uses of information, Cate argues. The more burdensome "command" approach to rule making in the E.U. doesn't necessarily improve upon alternative, private approaches to information security such as those of the American regime.

Harold Feld of the Media Access Project examines the arcane but important topic of who manages the global allocation of names and addresses on the Internet. Since 1997 that function has been served by ICANN, a nonprofit organization created by the U.S. Department of Commerce. Although supporters of ICANN's creation claimed the mantle of privatization and voluntary cooperation in Internet governance, the author argues that the opposite has been the result, leading to greater politicization of the process and rising resentment in many sectors of the Internet community.

*Who Rules the Net?* is available for \$29.95. It can be purchased at bookstores, at [www.cato.store.org](http://www.cato.store.org), or by calling 800-767-1241. ■



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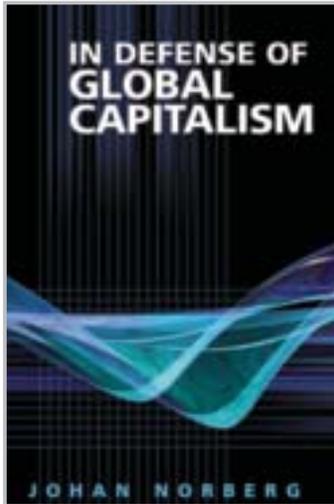
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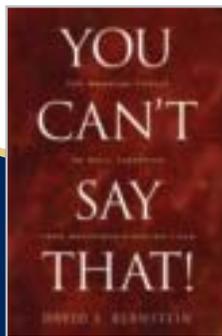


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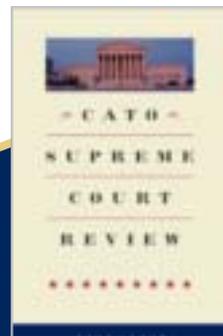
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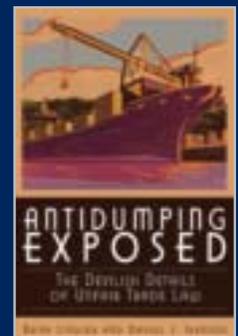
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## “If we look at the history of Iraq, we find an extremely complicated society. It is not just a nation of sheep being led around by the nose by some leader.”

### POLICY FORUM *Continued from page 10*

women's rights, and human rights. And I think they will welcome such help.

Most important, I think we need to convince the Iraqis that democracy is compatible with Islam. That is the only way they will accept democracy. If democracy is seen as something that is alien to their culture or to their religion—95 percent or more of Iraqis are Muslim—they will reject it. It does not matter how good democracy is. If it is against Islam, they will reject it.

Fourth, reforming the educational system is going to be extremely important. Teaching people from kindergarten through elementary and high school about democracy, tolerance, respect for differences of opinion, and respect for other religious minorities and ethnic minorities is going to be extremely important. There is a huge need for appropriate classroom materials not only in Iraq but throughout the Arab world.

It is important to realize that not all Islamists are fundamentalists or radicals. Yes, there are some fringes, but the overwhelming majority of Islamists in Iraq and everywhere else in the Arab and Muslim world are moderate and nonviolent. They are very willing and able to work within a democratic system and to respect others' opinions.

My last recommendation is that we need to involve other Arabs and Muslims, especially supporters of democracy, in the reconstruction of Iraq so that it is not seen as solely a U.S. effort.

To conclude, the Muslim world is in turmoil. A major reason is the perception that the United States has provided uncritical support for Israel and for oppressive regimes in the Arab and Muslim world. There is also a desire for social, economic, and political freedom in the region. The challenge for American policy is to understand the progressive nature of the contemporary Islamic resurgence and to support real and meaningful reforms, good government, and respect for human rights and dignity.

Muslim groups, in particular in the United States, are trying to exert leadership and provide guidance on how Muslims should live and develop their societies in the 21st century. What happens in Iraq will have huge repercussions all over the Arab and Muslim world. It is critical for our national security, and for the sake of peace and security in the region,

that we help to build a real democracy in Iraq, “give Iraq back to the Iraqis,” and leave as soon as peace and security are restored.

**Michael Hudson:** To cut to the chase, if I had to give a clear answer about what should be done, I would say we ought to get out of Iraq as quickly as we can. We ought to immediately set up a transitional regime that will, within a very short period of time, lead to a constitutional convention and the establishment of a permanent, legitimate Iraqi government. I am afraid the longer we stay, the more problems we are going to have. I think we are perhaps truly on the horns of a dilemma in Iraq.

There is no easy way out. Leaving precipitously may well lead to chaos or to



**Michael Hudson:** “The longer we stay, the more we will be disliked and the higher will be the cost of maintaining our presence.”

political outcomes that are incompatible with American interests in the region, such as Israel's security and the suppression of nationalism in the region.

But if we stay for a long time, I am seriously doubtful that we can do as well as the British did. Everybody is going back to history, looking at how Britain not only created Iraq but also then dominated it by mostly indirect means for decades before finally the British postcolonial experiment was overthrown in a violent, nationalist revolution in 1958.

What we are looking at in Iraq, if I may be a cynical academic for a moment, is the

most expensive political science experiment in a long time. We political scientists, especially those of us who work on the Middle East and have been studying what we call the Mukhabarat state—a national security, very authoritarian state—in the Middle East and especially in the Arab world for many years, have often wondered what would happen if a *deus ex machina* should parachute into a place like Baghdad and blow it all away. And Saddam's Iraq was the quintessential Mukhabarat state. What is underneath? What would happen? Well, we are finding out.

There are various models that political scientists have drawn on as they try to interpret the landscape of political change and the possibilities for democratization in underdeveloped regions. Students of political philosophy will remember John Plamenatz's famous article back in the 1950s about the economic and social prerequisites for democracy—that a certain degree of education and economic well-being will produce democracy.

We have different models from our own history, of which the most famous is perhaps the Westminster model: democracy means rule by the majority.

For societies that are kind of “lumpy,” in the sense that there are solidarity groupings that do not easily break down into rational individual units, another kind of democracy was proposed a number of years ago, mainly by the Dutch-American political scientist Arend Lijphart, who coined the term “consociational democracy.” In a consociational democracy specific groups would be guaranteed proportions of power and influence in order to depoliticize the inevitable tensions and rivalries among the various groups.

Lebanon is an example of consociationalism in the Middle East. And depending on how you look at Lebanon, the glass was half full until 1975; there was a boisterous kind of political system. Even though that system broke down into 20 years of civil war, the Lebanese decided they liked it anyway, and when the civil war finally ended in exhaustion for all parties, they reconstituted it and they are living with it. So that is a model.

But the dominant, historical reality of this region is an authoritarian state, a Mukhabarat state. There are two variations of these states. One is the tradition-

*Continued on page 18*

**POLICY FORUM** *Continued from page 17*

al authoritarian monarchy and the other is the revolutionary, nationalist presidential system. And we have had our share of both of those in the region.

One of the things that both the monarchical and the presidential variations share is a certain intolerance of genuine dissent and an allergy to actually changing through electoral means the real executive power in the government. Genuine executive transfers almost never have happened in the modern Middle East.

So one has to acknowledge that the climate in the region does not look terrifically hopeful. But if we look at the history of Iraq as detailed by my late colleague at Georgetown, Hanna Batatu, we find an extremely complicated society. It is not just a nation of sheep being led around by the nose by some leader. It is not just a collection of ethnic groups or religious groups; hence, possibly the inapplicability of a consociational or a religious kind of model for Iraq.

In the era before the Baathists took over in 1963, Iraq had other social and political forces. So, for American administrators to come in and think that they are dealing with a bunch of folks for whom politics is a totally alien concept is quite wrong. In fact, there has been plenty of politics, maybe too much politics, in Iraq over the years.

What the British were able to do is really quite interesting. When the country was created out of three former Ottoman Turkish provinces after World War I, the British were able, by the judicious and deft use of patronage and force, to establish a monarchical system, an authoritarian system certainly, but one in which there was at least space for maneuver. And the Iraqis were very ready to take advantage of that space. Hence, the history of the country after 1920 was marked by extreme political activity and, occasionally, extreme political violence.

Iraq is a place that has social forces, not just religious people, not just ethnic people, but social forces—the labor force, workers, farmers, a middle class with political aspirations of its own—all of which were reflected during the pre-Saddam period in various kinds of political movements and parties. So there is a history of great political activity, of a certain political sophistication, and a lot of political contestation. There is no denying that politics in

Iraq can be nasty. And maybe there is in Iraq, more than in some other places, a need for a government that can crack down in order to keep things from boiling over entirely.

But there is a history here. There are groups, parties—communists, liberals, nationalists of various kinds—that were very active and the remnants of which are very much there. And they are all beginning to come back now that the lid has been lifted.

I cannot tell you whether, when the United States gets out, if it gets out anytime soon, there will be a happy ending. But what I can say is that you have a political society there that has all kinds of ideological tendencies, all kinds of values, and there is an urgent need somehow in the post-Saddam period that those tendencies and values be allowed to express themselves.

Perhaps there comes a point when you should just leave the government of a country that you have no business being in to the people there and let them work it out for themselves.

One other point: We go into this operation with certain real disadvantages. We are coming into the region with certain political baggage that the Brits didn't have back during and at the end of World War I.

We come into an Iraq, and indeed into a broader Arab region, in which the leitmotif of the history of the 20th century was the struggle for liberation from imperial, foreign, Western rule. The region has been politically radicalized and poisoned.

And one of the things that have most poisoned the political atmosphere against us is, of course, American support for Israel. The Israeli forces' ongoing occupation of Palestinian territories now looks, to many Arab viewers of al-Jazeera television, virtually indistinguishable from what American forces are doing in Iraq.

*Ihtilal* (occupation) is a very dirty word in the Arab and especially in the Iraqi political vocabulary. If we lack the foresight, the ability, and the determination to organize Iraq and hand it back over to the Iraqis, we are going to have a much rougher ride than the Brits had. And they had a pretty rough ride at various times.

So it seems to me that the longer we stay, the more we will be disliked and the higher will be the cost of maintaining our presence. That is why we should be prepared to take the risk and be out of Iraq within a year. ■

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Did the 1991 Civil Rights Act hurt minority hiring?

# Regulation: Space, Media Mergers, Wetlands

The Summer 2003 issue of *Regulation* features articles on space regulation, media cross-ownership, and the perverse effects of the 1991 Civil Rights Act. In the cover story, space policy analyst Molly Macauley considers the cost-effectiveness of the space shuttle compared with generally cheaper expendable launch vehicles. She also discusses the need for reforms in less glamorous areas of space policy, including more market-oriented allocation of geosynchronous orbital “slots,” deregulation of the commercial Earth-observing satellite market, and better ways to limit orbital debris.



A provocative study by Paul Oyer of Stanford University and Scott Schafer of Northwestern University (written up in the July 27 issue of the *New York Times*) finds that the 1991 Civil Rights Act did not, as critics of the act predicted, create a “quota system” in the job market that unfairly favored minorities. On the contrary, they found that after its passage employers hired fewer protected workers and began using more layoffs than firings to dismiss protected workers.

Investment banker Jonathan A. Knee examines the explosion of new media outlets and the effect of media mergers on diversity of viewpoints. Pointing to the explosion of cable channels and the rise of the Internet, Knee challenges the view that today’s consumers enjoy fewer choices than consumers of past

decades. Consolidation, he argues, can even improve the quality of news by spreading the cost of in-depth reporting over several news outlets.

Joel Schwartz of the Reason Public Policy Institute examines the dramatic improvement in air quality since the 1970s and the environmental movement’s refusal to acknowledge it. David Sunding from the University of California at Berkeley examines the prospects for reforming wetlands regulation.

Other articles examine the ethics and economics of the draft, the hidden agenda of biotechnology companies that lobby for new regulations, and the growing problem of frivolous asbestos litigation.

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San Francisco city supervisors voted to regulate fortunetellers. . . . The new regulations require fortunetellers to post a rate schedule, get fingerprinted and offer customers a receipt for their services just like professional masseuses and pawnbrokers. . . . “It is consumer fraud protection,” said Supervisor Aaron Peskin, who sponsored the measure at the request of the district attorney’s office. “It’s about weeding out a few bad apples.”

—*Washington Times*, July 18, 2003

◆ **And a fine platform it is**

A cadre of lawmakers both Republican and Democrat, state and federal, buck their respective party platforms to advance acceptance of marijuana’s purported medical benefits. . . . “These so-called Republicans [who support medicinal marijuana laws] are really Libertarians,” asserts state Rep. Ron Godbey, a New Mexico Republican. “Libertarians have never had a real platform other than to have limited government.”

—*Washington Times*, July 20, 2003

◆ **Making America strong and free**

The USS Ronald Reagan, the nation’s first aircraft carrier named after a living president, was commissioned into service today in a ceremony that extolled the achievements in office and personality of the former commander in chief. . . . Some in the crowd . . . were delighted at the honor being paid to a man whom they remember as having touched their lives.

“I was still working at Harley-David-

son the day Ronald Reagan came,” said Malcolm Wendt, 67, a retired tool and die inspector from York, Pa. “We were almost bankrupt, and Ronald Reagan put a tariff on small cycles coming into the country until we could get back up on our feet. He saved us.”

—*Washington Post*, July 13, 2003

◆ **Or you can just KEEP ON LYING AND DENYING UNTIL YOUR TERM ENDS**

As a media strategist who has worked for both Bill and Hillary Clinton during rough times (and good ones). . . . I also have a lot of sympathy for Arthur Sulzberger Jr. and Howell Raines, or anyone else caught in the maelstrom of a scandal. . . . What should a newspaper or network do when faced with a scandal?

First, remember some of the cliches you reach for when trouble hits the politicians you report on: “The coverup is worse than the crime.” “Everything that can be known will be known, so get it out fast.” They’re cliches, and they’re true.

—Mandy Grunwald in the *Washington Post*, June 8, 2003

◆ **No politics here**

Clinton granted the wish, naming [former senator Dennis DeConcini] to the board of McLean-based Freddie Mac, where DeConcini served for five years and earned tens of thousands of dollars in cash, stock and stock options.

DeConcini, now a Washington lobbyist, is one of many former White House aides, defeated candidates, other former officials and leaders of minority groups whom pres-

idents have appointed over the years to the boards of Freddie Mac and Fannie Mae, its larger D.C.-based rival in the home mortgage finance business. . . . Bush’s new appointees include Victor Ashe, a Yale classmate who is mayor of Knoxville, Tenn., and Molly H. Bordonaro, a former congressional candidate from Oregon who was active in his presidential campaign. . . . Bordonaro, who works in public relations after a stint in a real estate firm run by her father, said, “I don’t think politics necessarily did factor in” her appointment.

—*Washington Post*, June 27, 2003

◆ **Looks like the Republicans have failed**

Republicans and Democrats increasingly use the tax code to deliver benefits to their voter bases: Democrats try to steer funds to their low-income constituents; Republicans aim to ensure middle- and upper-income people don’t pay a disproportionate share of taxes.

—*Wall Street Journal*, June 11, 2003

◆ **Liberating Iraq**

American authorities say they are working on a directive that would ban hate speech and incitements to violence and create a system for registering publications to lend some order to the media landscape. . . . L. Paul Bremer III, the top U.S. administrator in Iraq, . . . said it was not a matter of trying to control the media but more “a question of having some orderly process by which one registers newspaper or magazine, as you’d have in any other country.”

—*Washington Post*, June 8, 2003

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