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No Bureaucrat Left Behind

by Lawrence A. Uzzell

In domestic policy, the No Child Left Behind (NCLB) education act is the Bush administration's top claim to visionary leadership—its equivalent of the Iraqi war in foreign policy. The administration has used the taxpayers' own money to try to convince them that NCLB has been an unqualified success, draping the Department of Education's headquarters building in Washington in propaganda banners and fake little red schoolhouses. It has hired a public relations firm specifically to ballyhoo this one statute, which the White House has likened to landmark programs such as the Social Security Act or the Homestead Act. In his acceptance speech at the 2004 Republican convention, President Bush called NCLB "the most important federal education reform in history." Even before his second inauguration, he proposed to extend its provisions from elementary schools to high schools.

Especially striking is Bush's boast that he has increased federal spending on education faster than any president since Lyndon Johnson. That is a reversal as profound as the Clinton administration's embrace of welfare reform in 1996; in both cases the party in power accepted ideas long associated with its opponents. The Republican reversal is the more stunning of the two because most members of the president's party on Capitol Hill changed course with him. During the Republican party's rise to majority status from the 1960s to the 1990s, it usually opposed centralized federal programs in education as in other areas. As recently as 1996, the party's platform pledged to abolish the U.S. Department of Education.

With party loyalty keeping most congressional Republicans from criticizing NCLB, its skeptics currently find themselves marginalized in Washington. But in the long run the statute should and will be judged by its actual results.

Dangers of Centralization

NCLB's success will depend on whether it is possible to produce excellent educational performance through centralization. Its advocates are in a self-contradictory position. They recognize that the educational policies of the last four decades—a period of almost uninterrupted centralization—have failed, but their remedy for that failure is yet more centralization. While invoking the principles of an "ownership society" on issues such as Social Security reform, they are pursuing almost the exact opposite model in schools. In a period of growing social mobility and individual

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Lawrence A. Uzzell is an independent researcher and former staff member of the U.S. Department of Education and the U.S. House and Senate committees on education. This article is drawn from a longer study published in the Cato Institute Policy Analysis series.

South Carolina Gov. Mark Sanford discusses his high grade on Cato's "Fiscal Policy Report Card on America's Governors" at a press conference on March 1. New Mexico Gov. Bill Richardson and Cato media director Jamie Dettmer listen. See pp. 14, 18.

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Does Anybody Believe in Federalism?

If conservatives don't want federalism any more, will liberals pick up the banner? Federalism has always been a key element of American conservatism. In 1960 the founding document of Young Americans for Freedom declared that "the genius of the Constitution—the division of powers—is summed up in the clause that reserves primacy to the several states, or to the people, in those spheres not specifically delegated to the Federal government." Ronald Reagan ran for president promising to send 25 percent of federal taxes and spending back to the states. As Republicans took control of Congress in 1995, Newt Gingrich stressed that "we are committed to getting power back to the states."

Lately, though, conservatives—at last in control of both the White House and both houses of Congress—seem to have forgotten their longstanding commitment to reduce federal power and intrusiveness. Instead, they have taken to using their newfound power to impose their own ideas on the whole country.

"Conservatives have taken to using their newfound power to impose their own ideas on the whole country."

Conservatives once opposed the creation of a federal education department. Congressional Republicans wrote: "Decisions which are now made in the local school or school district will slowly but surely be transferred to Washington. . . . The Department of Education will end up being the Nation's super schoolboard. That is something we can all do without." But President Bush's No Child Left Behind Act makes every local school district accountable to federal bureaucrats in Washington.

The 2002 election law imposed national standards on the states in such areas as registration and provisional balloting. A 2004 law established federal standards for state-issued drivers' licenses and personal identification cards. President Bush's Project Safe Neighborhoods transfers the prosecution of gun crimes from states to the federal government. The administration is trying to persuade federal courts to block implementation of state initiatives on medical marijuana in California and assisted suicide in Oregon.

Perhaps most notoriously, President Bush and conservatives are pushing for a constitutional amendment to ban gay marriage in all 50 states. They talk about runaway judges and democratic decision-making, but their amendment would forbid the people of Massachusetts, Connecticut, California, or any other state from deciding to allow same-sex marriage. Marriage law has always been a matter for the states, and it is strikingly centralist to impose one uniform marriage law on what conservatives used to call "the sovereign states."

Most recently we have the specter of the Republican Congress seeking to override six Florida court decisions in the tragic case of Terri Schiavo, intruding the federal government into yet another place it doesn't belong. Asked on Fox News about the oddity of conservatives seeking to override states' rights, *Weekly Standard* editor Fred Barnes responded passionately: "Please! States' rights? Look, this is a moral issue."

Which is what liberal Democrats always said, of course, as they spent 50 years eroding federalism and expanding the power of the federal government at` every turn. They had a point when it came to the civil rights laws; Southern states were violating the constitutional rights of black citizens. But that was no excuse for federalizing everything from the minimum wage to the speed limit to environmental regulations. For decades liberals scoffed at federalist arguments that the people of Wisconsin or Wyoming understood their own needs better than a distant Congress. They brought more and more power to Washington, overriding state legislatures and imposing mandates on every nook and cranny of governance.

Now those chickens have come home to roost. Republicans run Washington, and they're using the federal power that liberals built in ways that liberals never envisioned.

Some liberals are rediscovering the virtues of federalism. They dimly recall that Justice Louis Brandeis called the states "laboratories of democracy" and are seeking to pursue their own policies at the state level when they fail in Washington. The prospect of a constitutional amendment banning gay marriage has made some liberals appreciate the virtues of having 50 states, each free to make its own marriage law. Some have even come to appreciate the value of diversity: Virginia and Vermont may have different marriage laws, and that's OK. Maybe it would even be OK for Los Angeles and Louisiana to have different environmental regulations.

But most liberals can't give up their addiction to centralism. Even as they rail against federal intervention in the Schiavo case—arch-liberal Eleanor Holmes Norton, the District of Columbia's delegate in Congress, discovers for the first time in her life that "the bedrock of who we are" is the "Founders' limited vision of the federal government"—they push for stricter regulations on painkillers, a higher national minimum wage, and federal gun control laws.

No one really supports federalism these days except libertarians. And the American people, who oppose the congressional intervention in the Schiavo case by 82 percent and believe by 78 percent that the federal government has too much power.

Only one modern political party has a history of taking federalism seriously, but Republicans have decided to abandon this principle to pander to small but vocal constituencies. The nation will be poorer for it.

—David Boaz

Social Security speakers include Nobel laureate, three senators

Conference Helps Launch Reform Drive

Reforming Social Security has been Cato's signature issue for a quarter century. This year, as the issue has moved into the limelight, Cato has been ready with a series of high-profile events to provide policymakers and the media with authoritative information on personal accounts.

On February 8 and 9, Cato brought some of the Social Security debate's brightest minds together with its most influential policymakers for a two-day conference, "Social Security: The Opportunity for Real Reform." Harvard economist and former Council of Economic Advisers chairman Martin Feldstein and 2004 Nobel laureate Edward Prescott delivered keynote speeches. Luncheon addresses were delivered by senior White House adviser Al Hubbard and Sen. Rick Santorum (R-PA), number three in the Senate leadership. Two other senators and three representatives also spoke, as did Congressional Budget Office director Douglas Holtz-Eakin, pollsters John Zogby and Scott Rasmussen, and Michael Barone of *U.S. News and World Report*. The conference was a big hit, with more than 200 attendees each day filling the F. A. Hayek Auditorium to overflowing.

White House economic adviser Allan Hubbard meets the press after his speech to Cato's conference, "Social Security: The Opportunity for Real Reform," on February 8.

In their keynote addresses, Feldstein and Prescott each argued that reforming Social Security with personal accounts would have salutary effects, and each described a hypothetical personal accounts proposal to illustrate its benefits. Feldstein stressed that if the system is not reformed soon, large tax increases will be inevitable. Prescott predicted that, because workers are likely to perceive their personal accounts as more directly benefiting themselves than Social Security, the accounts would create incentives for increased productivity. That "labor effect," he argued, would increase economic growth and provide the government with additional tax revenues.

The policymakers present were bullish on personal accounts as well. Hubbard stressed the president's commitment to the idea and addressed several objections commonly raised by opponents of reform. Both

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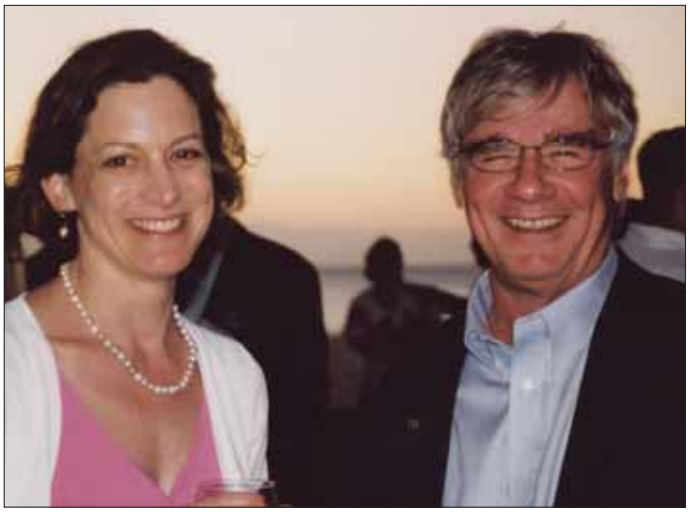
Less military spending could yield more security

Report Cards for Governors, Congress

◆**February 1:** As Harvard president Lawrence Summers recently discovered, there is a strong taboo in modern America against attributing the unequal career accomplishments of men and women to anything other than discrimination. But in his new book, ***Why Men Earn More: The Startling Truth behind the Pay Gap–And What Women Can Do about It,*** Warren Farrell shows that other factors can often explain men's greater career success and higher pay. Men, for example, are more likely to take high-risk, stressful jobs. At a Cato Book Forum, Farrell disputed the notion that the pay gap puts women at a disadvantage. To the contrary, he said, in many cases the gap is a sign that women have chosen careers that are less lucrative but more fulfilling than jobs typically chosen by men.

◆**February 7:** At a Cato Hill Briefing on telecommunications policy, **"The Telecom Act Nine Years Later: Why Reform Can't Wait,"** Adam Thierer lamented the leadership vacuum on high-tech policy among Washington's elected officials. George Gilder of the Discovery Institute emphasized that the failure to sufficiently deregulate the telecom sector in the 1990s led to enormous missed opportunities for economic growth. The Discovery Institute's John Wohlstetter warned that the United States is falling behind nations such as Japan and South Korea in high-speed Internet usage; typical broadband service in those countries is 10 times faster than it is here. The panelists urged Congress to pass a new act that honors the deregulatory promises made but not delivered by the 1996 Telecommunications Act.

◆**February 8:** January's elections in Iraq exceeded virtually everyone's expectations. At a Cato Hill Briefing, **"Exiting Iraq: What the Recent Iraqi Elections Mean for U.S. Strategy,"** Cato director of foreign policy studies Christopher Preble arued that the apparent success of those elections strengthens the argument for a speedy withdrawal of American troops from Iraq. America's continued presence in Iraq, he said, is counterproductive because the American military is a focal point for insurgents and a convenient scapegoat for the country's other problems. America, Preble concluded, must offer a specific timetable for the withdrawal of its troops to give Iraqis confidence that the United States is not planning to occupy the country permanently.



Some 100 Cato Benefactors joined Cato staff on Grand Cayman Island for the 17th Annual Cato Benefactor Summit February 16–20. Speakers included Social Security reformer José Piñera (above), Anne Applebaum of the *Washington Post* and climatologist Pat Michaels (left), and Federal Express founder Fred Smith.

◆**February 8–9:** At a two-day conference, **"Social Security: The Opportunity for Real Reform,"** some of the world's most distinguished experts on Social Security explored the policy and politics of personal accounts. Two distinguished economists—Martin Feldstein of Harvard and 2004 Nobel Prize winner Edward Prescott—gave keynote addresses. Panelists discussed the nature of the Social Security crisis, the impact of the present system on disadvantaged groups, and financing the transition to personal accounts. White House economist Al Hubbard, as well as three representatives and three senators, discussed the tradeoffs and political implications of the various Social Security reform bills that have been introduced in Congress.

◆**February 10:** America spends about a half trillion dollars on defense each year. Are we getting our money's worth? At a Cato Policy Forum, **"Defense Spending, National Security, and the War on Terrorism,"** Stanley Weiss of Business Executives for National Security contended that the Pentagon could be getting a lot more bang for its defense buck. He advocated outsourcing ordinary commercial services, continuing to close unneeded bases, and encouraging closer cooperation between business and government to protect national security. Winslow Wheeler, author of *Wastrels of Defense,* tallied up America's military spending and found that, when related expenses such as the Department of Veterans Affairs are counted, the government spends more than $600 billion each year for national defense. Cato's Chuck Peña emphasized that drawing down U.S. troop commitments overseas would allow the United States to defend itself with a much smaller budget.

◆**February 14:** Cato's Roger Pilon and J. Peter Byrne, faculty director of the Georgetown Environmental Policy and Law Institute, debated the protections that the Constitution gives to private property holders against incursions by state and local governments. The Supreme Court is scheduled to hear two cases on the subject this session.

In his opening remarks in the debate, titled **"Resolved: The Court Should Better Protect Property Rights,"** Pilon argued that the Fourth Amendment's takings clause protects the property owners in each case. Byrne retorted that the courts should not second-guess social and economic legislation. In his rebuttal, Pilon warned that when courts fail to adequately protect private property, government officials often use their power to redistribute wealth to the well connected.

◆**February 15:** Government is still stuck in the 20th century, argued William Eggers, author of ***Government 2.0: Using Technology to Improve Education, Cut Red Tape, Reduce Gridlock, and Enhance Democracy,*** at a Cato Book Forum. Businesses have enthusiastically adopted digital technologies to cut costs and improve their services, but government agencies have adopted information technologies sparingly, if at all. Robert Atkinson, vice president of the Progressive Policy Institute, chided Democrats for their reflexive defense of outdated bureaucratic institutions. And he argued that Republicans should focus less on smaller government and more on better government. Cato's Stephen Slivinski disagreed. He argued that, although making government more efficient is a worthwhile goal, it would be wrongheaded to streamline an unnecessary, ineffective, or unconstitutional government program.

◆**February 16:** At a Roundtable Luncheon, Eric Jackson discussed his book ***The PayPal Wars,*** which charts the rise of online payment company PayPal and its battle for survival against entrenched incumbents seeking to preserve the status quo. Jackson, who directed PayPal's marketing efforts, said that he encountered a business climate hostile to entrepreneurship.

◆**February 16–20:** The **17th Annual Cato Benefactor Summit** was held in the tropical Cayman Islands. Frederick W. Smith, CEO of FedEx and a member of Cato's board, described the process of globalization from his unique vantage point as the head of "the biggest transportation system ever built in history" and explained how his growing appreciation for free markets, civil society, and deregulation led him to be a strong Cato supporter. Anne Applebaum of the *Washington Post* editorial board discussed her research on the Rus-sian gulag and how Western attitudes toward communism affect our attitudes toward the atrocities committed there. Mornings were filled with presentations by Cato's scholars, followed by afternoon breaks in which attendees participated in the Summit's annual tennis tournament and in stingray snorkeling and a visit to the Cayman Turtle Farm.

George Gilder, author of *Wealth and Poverty* and *Telecosm,* discusses the need for telecom deregulation at a Cato Hill Briefing on February 7.

Author Linda Killian examines the Republican takeover of Congress at a Hill Briefing on March 22 to release *The Republican Revolution 10 Years Later: Small Government or Business as Usual?* edited by John Samples (left) and Chris Edwards.

◆**February 22–25:** Michael Tanner, director of Cato's Project on Social Security Choice, spent four days on Capitol Hill conducting **"Social Security University."** The weeklong series of lunch-hour Hill Briefings, which have become an annual Cato tradition, gave Hill staffers an in-depth understanding of the Social Security issue—what's wrong with the program, why personal accounts are vital to any solution, how the plans currently before Congress stack up, and what the polling data imply for the success of reform efforts. One of the sessions was broadcast by C-SPAN.

◆**March 1:** Senior fellow Stephen Moore and Cato's director of budget studies Stephen Slivinski unveiled the 2004 edition of Cato's biennial **"Fiscal Policy Report Card on America's Governors"** at the National Press Club. Moore chastised those governors who suc-

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cumbed to the temptation to raise taxes because tax hikes harm economic growth and thereby depress future tax revenues. Republican governors given top billing included California superstar Arnold Schwarzenegger, Colorado governor Bill Owens, and South Carolina's Mark Sanford. Sanford and the best-performing Democrat, Bill Richardson of New Mexico, attended the press conference to pick up their report cards in person. They lauded Cato's efforts to hold governors accountable as they make unpopular decisions in a challenging fiscal environment.

◆**March 1:** Today's health insurance market is fractured into 50 state markets, each with its own regulations. Consumers unlucky enough to live in poorly regulated jurisdictions are trapped with poor policies and high premiums. A proposal by Rep. John Shadegg (R-AZ) would change that by **"Making Coverage Affordable through a Nationwide Marketplace for Health Insurance."** At a Cato Policy Forum, Shadegg explained that under his proposal insurance providers would still be required to meet all of the regulatory requirements of one state. But having received regulatory approval in that state, the company would be free to sell its policy in all 50 states. Michael O'Grady of the Department of Health and Human Services expressed support for the proposal and predicted that it would help reduce health insurance premiums.

◆**March 3:** Federal financial aid for college students was supposed to make college affordable to everyone, giving poor kids the same opportunities long enjoyed by wealthy children. At a Capitol Hill Briefing, **"Financial Aid or Financial Burden? How Federal Financial Aid Leads to Higher College Tuition,"** Krista Kafer of the Heritage Foundation argued that federal education spending has redistributed wealth, but in the opposite direction. Because those who attend college are disproportionately wealthy and successful, federal education subsidies effectively take from today's poor to fund the educations of the next generation's wealthy, she said. Gary Wolfram of Hillsdale College, author of a new Cato study on the topic, contended that federal subsidies have been largely self-defeating, as colleges have responded by jacking up tuition rates. Frederick Hess of the American Enterprise Institute concurred, noting that when students pay only 40 percent of the cost of their education—much of that with federally subsidized loans—schools have little incentive to control costs.

◆**March 8:** Chinese exporters who become the target of an antidumping complaint are subject to a process that lacks even the semblance of fairness or due process. Because the Commerce Department has chosen to designate China a "nonmarket economy," Chinese producers facing dumping complaints are judged, not on the basis of prices in their home market, but on the best guess of Commerce Department bureaucrats about fair price levels. At a Cato Policy Forum, **"U.S. Antidumping Policy toward China: Justified or Gratuitous?"** trade attorney Ned Marshak argued that the process allows Commerce bureaucrats to fudge the rules and impose punitive tariffs at the behest of powerful domestic industries. Cato policy analyst Dan Ikenson agreed, urging the Commerce Department to graduate China to "market economy" status so that it will be subject to the same rules as most other WTO nations. Former assistant secretary of commerce James Jochum, however, disagreed. China's economy is still highly distorted by state interference, he said, and nonmarket methodology is an imperfect but necessary way to protect American businesses.

Warren Farrell discusses his new book, *Why Men Earn More: The Startling Truth behind the Pay Gap—And What Women Can Do about It,* at a February 1 Book Forum.

◆**March 16:** Congress's most consistently pro-free-trade senator and representative joined Dan Griswold, director of Cato's Center for Trade Policy Studies, on Capitol Hill for the unveiling of Cato's biennial trade report card, **"Who Are the Real Free Traders in Congress?"** Sen. John Sununu (R-NH) emphasized that a dynamic economy must be focused on developing competitive new industries rather than trying to protect every existing industry from decline. Rep. Jeff Flake (R-AZ) emphasized that true free trade encompasses a wide range of issues, from cutting farm subsidies to lifting sanctions against Cuba.

◆**March 22:** Ten years ago, a freshly elected Republican majority in Congress swept to power with a mandate to reduce the size of government. Ten years later, Cato's John Samples and Chris Edwards examined the first decade of Republican rule in ***The Republican Revolution 10 Years Later: Smaller Government or Business as Usual?*** At a Capitol Hill Briefing, Samples argued that despite the failure to substantially cut the size of government, the Republican Congress can point to substantial accomplishments. Almost all of the elements of the "Contract with America" were brought to a vote as promised. And a continued Democratic majority would likely have expanded government much more than the Republicans have done, he said. Edwards hailed Republican successes in reforming welfare and cutting taxes but criticized the lack of spending restraint. Linda Killian, author of *The Freshmen: What Happened to the Republican Revolution?* argued that the limited success of the Republican Congress is partly due to poor leadership.

◆**March 22:** Recent years have seen a dramatic rise in the number of single-specialty hospitals focused on a particular area of care. Critics charge that they are engaged in cream skimming, attracting patients with the most lucrative Medicare reimbursement rates and leaving the rest to general-purpose hospitals. At a Cato Policy Forum, **"Is America's Hospital Sector Open to Competition?"** Cato adjunct scholar David Hyman said that the attack on specialized hospitals amounts to little more than entrenched incumbents trying to shut out new competition. James Harris, executive vice president of MedCath, a specialty hospital, touted the record of specialty hospitals and stressed that the unique physician-ownership structure of specialty hospitals is vital to their success. Jeff Micklos of the Federation of American Hospitals charged that physician ownership of specialty hospitals represents a conflict of interest, because it allows doctors to refer the most lucrative patients to their own hospitals and other patients to community hospitals. Mark Miller, executive director of the Medicare Payment Advisory Commission, recommended extending the moratorium on specialty hospitals to give policymakers more time to study the issue.

◆**March 24:** The wave of free-market reforms that swept Latin America during the 1990s did not go deep enough to root out the entrenched special privileges of the region's elites, argued Alvaro Vargas Llosa, author of ***Liberty for Latin America: How to Undo Five Hundred Years of State Oppression,*** at a Cato Book Forum. Latin American societies, he said, are still too hierarchical and corrupt. The state still chooses winners and losers in the market process, and the wealthy continue to use the state to redistribute income from poor to rich. Michael Shifter of Inter-American Dialogue surveyed the Latin American world and concurred with Vargas Llosa's assessment that the region needs further reforms. However, he said, liberal reforms cannot take place until more immediate crises, such as runaway inflation and military conflict, are dealt with. Latin American countries have made impressive progress on those fronts in recent years, he said.

◆**March 28:** In the conventional wisdom, Zimbabwe's precipitous economic decline since 2000 was caused by a severe drought that devastated the country's agriculture-heavy economy. But as Craig Richardson argues in ***The Collapse of Zimbabwe in the Wake of the 2000–2003 Land Reforms,*** the droughts were not especially severe. The far more serious problem was President Mugabe's "land reforms," which confiscated white-owned commercial farms and turned them over to Mugabe's cronies. At a Cato Book Forum, Richardson demonstrated that this blatant abrogation of private property was most to blame for Zimbabwe's economic tailspin. Roger Bate of the American Enterprise Institute lauded Richardson's book, calling it an important contribution to scholarship on private property and economic contractions.

Latin America still needs a free-market revolution, said Alvaro Vargas Llosa at a March 24 Book Forum for his book, *Liberty for Latin America: How to Undo Five Hundred Years of State Oppression*.

◆**March 29:** With no end in sight to American troop commitments in Iraq, talk on Capitol Hill has turned to expanding the size of the U.S. Army. At a Capitol Hill Briefing, **"The United States Does Not Need a Larger Army,"** Cato's Chuck Peña offered a counterproposal: the United States should reduce its troop deployments overseas, especially in wealthy nations such as Germany and Japan. If America adopted a less promiscuous foreign policy, he argued, the current size of the military would be more than sufficient. Moreover, Peña noted, the Army is already having difficulty meeting its current recruitment goals. Dan Goure of the Lexington Institute agreed with Peña that a larger army was unnecessary, but for different reasons. He argued that integrating more troops would be a distraction as the military struggles to transform itself into a lean, flexible, 21st-century fighting force.

◆**March 30:** At a Capitol Hill Briefing, **"The Case for CAFTA: Consolidating Central America's Freedom Revolution,"** Cato trade scholars Dan Griswold and Dan Ikenson made the case for ratifying the CAFTA trade treaty with Central American nations and the Dominican Republic. Ikenson argued that narrow-minded trade deficit calculations miss the point: both imports and exports benefit American consumers. Griswold demonstrated that many of the critics' claims about the treaty are false or misleading: CAFTA meets the same high labor and environmental standards as other recent trade treaties. More to the point, Griswold argued, free trade is the best way to promote labor and environmental progress by spurring economic growth, giving Central American nations the wealth they need to improve their working and environmental conditions. Finally, he said, a trade agreement would help to consolidate the democratic gains in Central America, just as the 1994 NAFTA agreement did in Mexico.

◆**March 31:** At a Cato Hill Briefing featuring his latest book, ***The Korean Conundrum: America's Troubled Relations with North and South Korea,*** coauthored with Doug Bandow, Cato vice president for defense and foreign policy studies Ted Galen Carpenter advocated a "grand bargain" with North Korea: the United States would give the North the nonaggression pact it seeks. In return, North Korea would agree to terminate its nuclear program and allow nuclear inspectors into the country. Alternatives—such as preemptive strikes or sanctions—would be ineffective or dangerous, or both, he said. ■

Social Security: Time for Real Reform

On February 8 and 9 the Cato Institute held a conference, "Social Security: The Opportunity for Real Reform," in the F. A. Hayek Auditorium. Major speakers included Cato president Ed Crane, Harvard economist and former Council of Economic Advisers chairman Martin Feldstein, assistant to the president for economic policy Allan Hubbard, Social Security trustee Thomas Saving, and Cato senior fellow Jagadeesh Gokhale. Excerpts from their remarks follow.

Ed Crane: The Cato Institute has worked on Social Security since 1978, and we are delighted to see it as a major part of this administration's initiatives for the coming four years. From our standpoint, the essence of America is a respect for the dignity of the individual. And it seems axiomatic that the more control people have over their own lives, the more their dignity is enhanced.

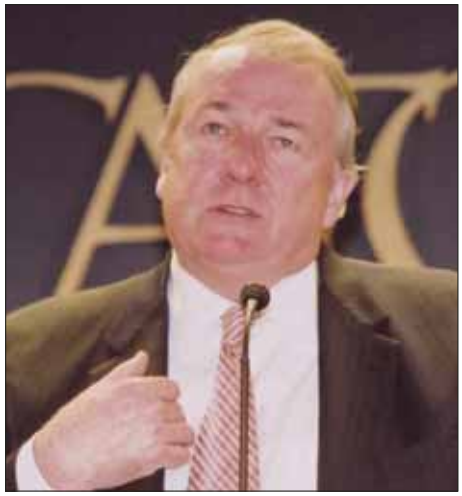
In that regard, Social Security as it exists today comes up a bit short. In 1960 the Supreme Court ruled in *Flemming v. Nestor* that we as Americans have no right to the money we pay into Social Security. The Court said that Social Security is a social program of Congress and that what you get back at retirement is entirely up to the whims—I guess the word "whims" doesn't appear in the decision, so let's say entirely up to the discretion—of 535 politicians. That is why we at Cato think personal accounts are so important.

I think the three key arguments for personal accounts are ownership, wealth creation, and inheritability. But before I discuss those briefly, let me address the Social Security Trust Fund, because there is a lot of confusion about it.

People argue about what is going to happen in 2042 when the trust fund goes broke. But the reality is that the trust fund is already broke. There are no assets in the trust fund. When the Social Security Administration opens the lock box in 2018, there will be a lot of pieces of paper called special Treasury notes. And the Department of the Treasury, to redeem those notes, will need to increase taxes, increase borrowing, decrease Social Security benefits, or decrease other spending. But let's imagine that in 2018 we open the lock box and a moth flies out; there is nothing else inside. The options for the government would be precisely the same. To pay promised benefits, the government would need to increase taxes, increase borrowing, decrease Social Security benefits, or decrease other spending.

Therefore, I would suggest that the special Treasury notes have no value. And, in fact, I am not alone in that assessment. In the fiscal year 2000 budget of the Clinton administration, there is a whole section on how, in an economic sense, there are no real assets in the trust fund. So we should get beyond that and recognize that the cash flow will turn negative around 2018, and from that point forward the problem will get progressively worse.

I would not center this debate on the question of whether there is a crisis or not. What the opponents of personal accounts shy away from like a vampire from the cross is the issue of ownership.



Ed Crane: "The more control people have over their lives, the more their dignity is enhanced."

Under a system with personal accounts, you would purchase real assets that you would own and that would be inheritable. And one of the most attractive aspects of the inheritability argument is recognition bonds that Rep. Sam Johnson's bill, which I think is unique among the other bills promoting personal accounts, provides for. As soon as you choose a personal account, you get a recognition bond that is your property and can be passed on to your heirs.

To me, it is outrageous that you can pay into the present system your entire working life and when you pass away the money goes poof and disappears. Where is the humanity in such a system? But with personal accounts—and particularly with recognition bonds—all of that money is inheritable, which is very important.

Martin Feldstein: We often hear that there is no need for structural reform. The basic facts, I think, are these: the Social Security system, because it is a pay-as-you-go system, is very sensitive to changes in demographics. The changing age structure is going to lead to very substantially increased taxes if benefits are going to be maintained. The tax for retirees' and survivors' benefits is now 10.6 percentage points of the 15.3 percent total payroll tax. The rest goes for disability and Medicare.

The Social Security actuaries tell us that that 10.6 percent will eventually have to rise to 16.6 percent, a 6 percentage point increase in the payroll tax. But even that is an understatement, because it does not take into account something that every public finance economist knows: that increasing marginal tax rates by 6 percentage points will shrink the tax base; people will work less and change their form of compensation.

So the actual tax increase, in order to meet that same financing goal and, moreover, to offset the loss of revenue to the personal income tax, would have to be even higher. The current combined payroll tax of 15.3 percent would have to rise to well over 22 percent. That would hurt the economy, and it would be a very substantially increased burden on middle- and lower-income households. Avoiding that tax increase completely would require cutting benefits by about a third.

Postponing reform until there is a crisis would mean an increase in taxes, because the political reality is that you cannot suddenly cut benefits. A failure to deal with the problem at the present time, when we have the time to lay the foundations, is really an agreement to have a tax increase in the future. If we want to avoid the unpleasant choice between unacceptable benefit cuts and a very damaging tax increase, we have to act now.

Can Social Security be fixed without structural reform? Well, without structural reform, without moving to an investment-based system of individual accounts, there really is no choice other than increas-

"The president believes that there is no comprehensive fix that does not include personal accounts."

es in taxes or reductions in benefits. One common tax increase proposal is to raise the amount of income that is taxable under the payroll tax.

Today, the payroll tax applies to the first $90,000 of income. And the proponents of this alternative say, well, why don't we just raise that to $120,000? I will tell you why we should not raise it to $120,000. That would create substantial disincentives to work for everybody whose marginal tax rate would jump immediately by 12 percentage points, for those between today's $90,000 and $120,000, and it would produce very little revenue.

With a colleague at the National Bureau of Economic Research last year, I looked at what would happen if we raised the payroll tax ceiling from $90,000 to $120,000. First of all, if there were no behavioral response at all, the amount of revenue that would be produced would be relatively small, about half a percent of payroll. So it would hardly make a dent in the shortfall.

But much more important is the fact that the higher marginal tax rates would shrink taxable income because people would work less and shift their compensation to fringe benefits and other untaxed forms. Even more important, because of the shrinking of taxable income, the personal income tax and the Medicare HI tax would bring in much less revenue.

Here are the numbers: If there were no behavioral response, then the proposed increase, or suggested increase, when we calculated it according to the rules as they were about a year ago, would have produced $19 billion. Taking into account behavior would shrink that to only about $5 billion. There would be about $11 billion of revenue lost to the personal income tax and the Medicare tax, plus about a $3 billion reduction in the amount of money collected by the payroll tax itself.

The result would be a big increase in marginal tax rates for an important group of people with incomes between $90,000 and $120,000 and virtually no additional revenue. That amounts to a backdoor way of shrinking the funds going into the personal income tax in order to build up the funds going into the payroll tax.

I think there is a serious problem. And without structural reform, we will have to see a big increase in tax rates or a big reduction in benefits.

Allan Hubbard: The president has made it very clear that he is not going to give people the opportunity to participate in risky personal accounts. His plan is based on the federal Thrift Savings Plan, where there are a limited number of index funds, stocks, high-grade corporate bonds, and Treasury bonds for you to invest in. There will also be a life-cycle fund, which will adjust your allocation among stocks and bonds to be appropriate for the number of years you have until retirement.

You are not going to be able to take the money out early. Just like Social Security today, you cannot take the money out early. You cannot borrow against it. When you retire, you will be able to take a lump-sum payment out of your personal account. But you will have to leave in enough, when combined with what the Social Security Administration owes you, to ensure that you will never go below the poverty line.

Martin Feldstein: "Without moving to an investment-based system of individual accounts, we will have to see a big increase in taxes or a big reduction in benefits."

The president believes very strongly that there has got to be a comprehensive reform to fix Social Security permanently. And he also believes that there is no comprehensive fix that does not include personal accounts. Without the personal accounts, any fix is going to be unfair to younger generations.

There are enormous benefits to personal accounts. Number one, a personal account is going to be something you own and you control. The government cannot ever take it away. No matter what Congress decides, it cannot change the benefit structure. That personal account is yours forever. It is a nest egg for retirement. And if by chance you were to die before retirement, it is something that would go to your estate and would be passed on to your heirs.

The current system does not give a very good return on your Social Security taxes. The actuaries have found that, on average, you will get a much higher return from a personal retirement account than you will from money going into the Social Security system.

Some people claim that President Bush's proposed personal retirement accounts actually benefit the federal government more than the account holder by providing a clawback. That drives me absolutely crazy. There is no clawback. I do not know how anyone could have ever gotten that idea.

When you get a high return on your personal account and then the government takes a piece of it back, it's called a clawback. That's not how the president's plan works. The government is not allowed to touch anything in your personal account. No matter how successful you are, it is yours forever.

Thomas Saving: Is the crisis real? In considering that question, we need to think about several important dates. One is the date of the first deficit, 2018. Another is the date of peak contributions to federal revenues, 2008. Each year after 2008, Social Security's contributions to Congress's ability to spend will decline. The Treasury is going to feel the pinch not in 2018 but in 2009.

Another important date is the date when the share of federal tax revenues required to pay benefits reaches 5 percent. That is 2021—just three years after the system starts running deficits. At that point we will already be transferring 5 percent of federal income tax revenues to Social Security.

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"It is a mistake to label the transition financing for Social Security reform a 'cost.' A better label would be 'transition investment.'"

POLICY FORUM *Continued from page 9*

Only twice have we had to transfer significant amounts of the federal income tax revenue to Social Security—in 1978 and 1982. The maximum we have ever transferred is 4.5 percent of federal income tax revenues. So three years after the system turns negative, we are already going to be transferring more than we have ever transferred.

What did we do the two times we transferred large amounts? We changed the system. In 1983 we raised taxes by accelerating scheduled tax increases and reduced benefits by raising the retirement age for future generations and by taxing benefits.

What about the Social Security Trust Fund? Keep in mind that the trust fund provides no revenue to the Treasury, and the benefits have to be paid from Treasury revenues. What is the trust fund then? In a sense, the way current law reads, it is the authorization to pay benefits. In effect, it is as if I said to all of you, "I authorize you all to take two weeks and go to Paris if you can find the money." If you don't have the money, authorization does not mean anything.

Only the cash flows between the Treasury and Social Security really matter. And those cash flows have nothing to do with the trust fund. So when we have to start transferring money to pay benefits, we have to find that money somewhere. The trust fund will not help us.

Once we recognize that the trust fund cannot provide anything to pay these transfers, then the real transfer that the current working generation has to make to the present retired generation, and future working generations to future retired generations, is $13 trillion. That is how much money they have to come up with, because the trust fund does not have any real money in it.

Jagadeesh Gokhale: Over the next 75 years, the Social Security system has a projected financial shortfall with a present value of $3.7 trillion. That means that today we would have to put $3.7 trillion in the bank, and earn interest, in order to meet our obligations over the next 75 years. But it's worse than that. The demographic imbalance is permanent and will continue to worsen over time. So we have to look further into the future, even further than 75 years, to see the full extent of the problem. In fact, the long-term shortfall in Social Security is about $12 trillion. That is, we would need $12 trillion in the bank today, with interest, in order to permanently restore Social Security to sustainability.

If we don't have $12 trillion in the bank today, then we must raise an equivalent amount of resources by changing Social Security's current tax and benefit policies, because those policies are unsustainable. We have to either increase taxes or cut the obligations that those taxes finance in terms of Social Security benefits.

Thomas Saving: "Each year after 2008, Social Security's contributions to Congress's ability to spend will decline."

Now, the tough question becomes: Who bears the burden of these fiscal adjustments? How much will each birth cohort have to pay? Most reform proposals set forth the principle that those who are retired already or close to retirement—roughly speaking, 55 or older—are not going to bear the burden of any policy changes. So the entire burden of financing the $3.7 trillion shortfall over 75 years (or a $12 trillion shortfall in perpetuity) must be borne by those who are younger than 55 today and by future generations.

You have only two variables: taxes and benefits. One way to deal with the problem is to improve the quality of benefits. How could we do that? We might allow a worker to invest a portion of his payroll taxes in personal accounts, which would be invested in private market securities. In exchange, the government's future benefit obligations to that worker will be scaled back.

How does that improve the quality of benefits? Well, we know that scheduled benefits today for Social Security are more than what is payable today under today's tax laws. And in addition, polls show that most young folks do not really expect to receive the scheduled benefits. Many people actually say that they do not expect to receive anything from Social Security when they retire, because they doubt that the program is actually going to be around then.

So reducing scheduled benefits in exchange for the ability to take a part of the payroll tax and invest it in personal accounts might be a good bargain for some young folks. In addition, the quality of benefits would be better with personal accounts because personal accounts would have additional features. For example, people would have greater flexibility in withdrawing assets from their personal accounts and would have the option to bequeath their accounts to their heirs.

Of course, there is a further problem. We are talking about adjustments for the people younger than 55. But those older than 55 still have to be paid their benefits. If fewer payroll tax revenues are coming into the Social Security system, the government has to raise money from somewhere else to make up the shortfall in order to pay current retirees their benefits.

The standard assumption is that the government will just borrow the difference. So if, say, 4 percentage points of payroll taxes are invested in personal accounts for those who are 55 or younger, the government will just make up that shortfall in revenues by issuing additional government debt. The increase in the explicit debt of the government is what people call the transition cost.

I'm not sure the label "transition cost" is appropriate. Normally, when the government incurs debt, it means that the government is mopping up resources that the

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"NCLB's advocates recognize that the educational policies of the last four decades—a period of almost uninterrupted centralization—have failed, but their remedy for that failure is yet more centralization."

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autonomy, they are promoting a top-down, Great Society model of reform—transferring power from individual parents, teachers, and principals to distant bureaucracies such as state education agencies.

Ironically, education is precisely that area of social policy that by its nature is least susceptible to centralization. Education is inherently personal and inherently value laden. The key relationships in schools are those between individual teachers and individual students: If the teachers are not willingly committed and highly motivated, no centralized rule books or formulas are going to inspire peak performance. To use social science jargon, schools are "loosely coupled systems"; decrees from centralized administrators have little power to boost their performance from mediocre to excellent but enormous power to impede. Indeed, before the mid–20th century such administrators were either nonexistent or mostly irrelevant; key decisions were made at the level of the individual school.

Moreover, schooling inescapably involves judgments about truth and virtue, about what kind of person a youngster should aspire to be. Americans inevitably disagree with each other about those judgments. Which dead politicians should children be encouraged to revere as heroes? What should they be taught about ancient belief systems such as Christianity and Islam—and about modern ideologies such as feminism and environmentalism? Should "traditional values" such as piety, chastity, and asceticism be celebrated, ridiculed, or simply ignored? Today's Americans have no more chance of reaching consensus on those questions than of agreeing on what church (if any) we should all attend; that is why we keep the state out of controlling churches, just as we keep it out of other value-forming institutions such as publishing and journalism. The more we entrust such decisions to centralized state agencies, the more conflicts we foment. Zero-sum "culture wars" for control of coercive state monopolies make enemies of people who could otherwise be friends.

NCLB does not explicitly call for national curricula. It mandates standards for testing, not for curricula, and leaves the content and design of the tests up to the states. But in the long run tests, at least to some degree, shape curricula. NCLB is already promoting centralization within each state; it could become a force for national centralization as well if future administrations exercise to its full potential their power to deny federal funding to states whose testing programs are deemed inadequate.

So far, the Bush administration has been cautious in exercising that power. During last year's election campaign, the administration tried to perpetuate the congenial atmosphere of the bipartisan signing ceremony when NCLB became law in 2002. But now the administration, and future administrations, will face a dilemma. NCLB virtually guarantees massive evasion of its own intent: It orders the state education agencies to do things that many of them don't want to do—such as instituting detailed, rigorous testing programs that enable the public to distinguish successful from unsuccessful schools—while giving those agencies broad discretion about just how to do those things. As the states devise various tactics for evading the letter and spirit of the law, Washington policymakers will be forced either to let them get away with those tactics or to keep amending NCLB's statutory text (already about 1,100 pages long) and associated regulations in order to keep up with ever more inventive evasions.

A Strategy at War with Itself

If policymakers choose the former course, NCLB might as well not exist; like other federal education programs, it will be just one more drain on taxpayers and provide subsidies to special interests, in this case to the testing companies. But if policymakers instead choose to amend the statute, they will end up making it steadily more prescriptive and top-heavy. Washington's education officials will more and more resemble Soviet central planners trying to improve economic performance by micromanaging decisions from Moscow. Unlike Soviet bureaucrats, however, the federal government lacks a captive labor force; the more centralized the system becomes, the more likely the educators with the greatest creativity and leadership will be to seek careers elsewhere rather than accept being pawns of the central government. As a strategy for promoting "excellence," centralization is inherently self-defeating.

Thus NCLB is a reform strategy at war with itself: It can work on its own terms only if federal officials ride tight herd on their state counterparts, overriding them whenever they sacrifice reform to special-interest pressures. Its authors have already said that they will do no such thing, rightly invoking principles such as states' rights and the absence of a constitutional warrant for federal control of local schools. But if they were truly serious about those principles, they would never have enacted NCLB to begin with. As James Madison observed in the *Federalist Papers*, "The powers delegated by the proposed Constitution to the federal government are few and defined. Those which are to remain in the State governments are numerous and indefinite. The former will be exercised principally on external objects, as war, peace, negotiation, and foreign commerce. . . . The powers reserved to the several States will extend to all the objects which, in the ordinary course of affairs, concern the lives, liberties and properties of the people, and the internal order, improvement, and prosperity of the State." The word "education" does not once appear in the Constitution.

If federal policymakers decide to get truly serious about using NCLB as a tool to muscle through fundamental reforms against the will of the entrenched special interests, they will find that they have to discard whatever remains of their constitutional scruples. Future historians may look back on NCLB as simply one more phase in the gradual building of a national ministry of education—a ministry explicitly responsible not only for testing but for curriculum content and even for the administration of schools. Parents with complaints about their children's textbooks or teachers would have to take those complaints, not to their local school board, but to Washington. That scenario may seem far-fetched: There is no clear evidence that the proponents of NCLB consciously intend to create a national cur-

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"NCLB may give us the worst possible scenario: unconstitutional consolidation in Washington of power over the schools, with that power being used to promote mediocrity rather than excellence."

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riculum or a European-style ministry of education. But few of those who voted for the 1965 Elementary and Secondary Education Act, which was only a few dozen pages long, intended to start down a path leading to ever more detailed federal controls and culminating in the 1,100-page NCLB. Once Washington sets up such regulatory and spending machines, they tend to acquire a life and logic of their own. It seems not at all implausible that Congress may enact more sweeping centralization within the next decade—especially if an increasingly comfortable Republican majority grows ever more accustomed to bloating the Department of Education with "pork-barrel" earmarks for its allies.

Optimists might suggest that such hypercentralization could bring back the educational standards of 1901, when the College Entrance Examination Board published a list of specific literary classics that it recommended that every college freshman should have read before matriculating. If education means requiring a youngster to learn things that he is unlikely to learn if left unsupervised, then perhaps centralized coercion is a good thing. But that argument ignores the crucial fact that curricular relativism and fragmentation have grown hand in hand with the growth of centralized power over education in both Washington and the state capitals. The people who control the key institutions of the government school establishment—the teachers' unions, the teacher-training institutions, the state education agencies, the career staff of the federal education colossus—are not Victorian-style elitists seeking to mold the masses according to lofty standards of classical learning. Quite the opposite: In today's America, the masses are more elitist (in the desirable sense of demanding serious academic standards) than the establishment with its quasi-mystical cult of "equality." When given a free hand, working-class parents make sounder educational choices than the establishment tries to dictate to them. Consider the nearly total absence of destructive fads such as "bilingual education" in private schools, even when those schools have large minority enrollments.

Thus NCLB may end up giving us the worst possible scenario: unconstitutional consolidation in Washington of power over the schools, with that power being used to promote mediocrity rather than excellence. It is too early to know which scenario will prevail, but it is already clear that state and local education officials are skillfully protecting their interests in ways that undermine the intent of NCLB. Especially telling has been their widespread dishonest reporting in at least four areas: graduation rates, school violence, qualified teachers, and proficiency tests.

Covering Up Problems

About one-third of students who enter high school fail to graduate. Under NCLB the states are supposed to provide detailed reports on graduation rates; without that information it is impossible to know whether increases in a school's test score averages represent real improvement or merely an increase in the number of dropouts of youngsters who would have performed poorly if they had taken the tests. But the Education Trust has found that most states have significantly overstated their graduation rates. North Carolina, for example, claimed a graduation rate of 92.4 percent; an independent study found the true rate to be 63 percent. In response to such flouting of its own law, the federal Department of Education has been essentially passive.

Similarly, the state education agencies have found it easy to avoid providing honest reports about which schools are unsafe for students. Though NCLB ostensibly requires the states to identify those schools that are "persistently dangerous," only three admit to having any such schools. The others want us to believe that the most dysfunctional, crime-ridden parts of cities such as Cleveland, Detroit, Los Angeles, New York, and Washington do not have even one unsafe school. Whether or not the state bureaucrats actually believe that claim themselves, their federal counterparts have not publicly challenged it.

NCLB is also supposed to ensure that by 2006 all schoolchildren will have "highly qualified" teachers who have demonstrated competence in the subjects they teach. But the statute allows great leeway in the standards for measuring such competence, and many states have adopted standards so lax as to be meaningless. Maine, for example, allows teachers to substitute a huge range of supposed credentials for passing an objective test or university coursework equivalent to a major. They can earn "points" for attending a conference or workshop, serving as an after-school tutor, being a "participant in a state or national stakeholders group"—or even for writing a grant proposal. A study by the National Council on Teacher Quality found that "only a handful of states appear willing to comply with the spirit of that portion of the law" that seeks to improve teacher quality.

The most important part of NCLB, its goal of 100 percent academic "proficiency" among America's schoolchildren by the year 2014, is also the easiest to manipulate. The statute does not even define the word "proficiency," though it appears hundreds of times. Under NCLB the states have manifold opportunities to "game the system." They can use tests with questions that are too easy. They can lower the "cut score," the number of questions that must be answered correctly to claim proficiency. They can switch tests every few years, creating the artificial appearance of short-term gains. They can abuse statistical techniques such as "confidence intervals" by treating the most wildly optimistic interpretation of test results as definitive even if there is only a microscopic possibility that this interpretation is correct. They can fail to adopt rigorous procedures to prevent or detect cheating, as recently documented in Texas. In hopes that future lawmakers will relax NCLB, they can set their targets for "adequate yearly progress" in such a way that they commit themselves to only modest annual advances at the outset but to much faster progress as they near the 2014 deadline. Unfortunately, the first three years of NCLB have seen states using all of those tactics. As it becomes increasingly clear that the states can dumb down their standards without adverse consequences, there will likely be a "race to the bottom."

The incentives for evading the truth will grow as NCLB's annual targets get more ambitious. No future presidential adminis-

"By 2014 NCLB will be seen to have failed, just as the other centralized education programs enacted since the 1960s have failed."

tration will have the same stake in NCLB as the one that launched it; if the Bush administration has not been willing to withhold funds from states that fudge their numbers, why should future administrations be bolder? In theory the U.S. Department of Education could fine-tune its handling of issues such as graduation rates. But such fine-tuning will work only if the department is willing to exercise in full its powers under NCLB to reject state plans. It may even need to acquire additional powers—bringing still more centralization to a system already dysfunctionally overcentralized. Moreover, the idea of an enlightened federal government forcing the states to do the right thing depends on the assumption that Washington is somehow immune to the interest-group pressures that warp decisionmaking within the state education agencies. That assumption is utterly unrealistic. As experience with other large federal programs has shown, such programs tend over the years to become even more complicated, internally contradictory, and captive to various lobbies with their own inconsistent objectives.

State-level testing and accountability systems enacted before NCLB have tended over time, as Frederick Hess of the American Enterprise Institute puts it, to drift from "tough" to "soft." Standards are gradually relaxed as interest groups mobilize against them—especially when presidents and other elected officials are distracted by terrorism, war, and other unpredictable demands. Even if elected leaders remain undistracted, they have to deal with school officials endlessly ingenious at evading unwelcome standards. One thinks of the "Lake Wobegon effect" of the 1980s in which every one of the states was found to be claiming that its students' test scores were above the average for all 50 states—a mathematical impossibility.

NCLB reflects an ideological strain that is novel for Republican presidents, utopianism. Like older forms of utopianism, the Bush administration emphasizes collective action rather than individual responsibility: NCLB implicitly treats students as passive commodities, mass-produced by state programs. It also treats parents as unable to select good schools. In its plans for extending NCLB to high schools, the administration has yet to signal that it will even try to revive the choice provisions that were part of its original proposal.

Utopianism usually ends up transforming rhetoric more than reality. In the real world, the chance that not one child in America will fall short of "proficiency" within a decade is the same as the chance that not one child will be a juvenile delinquent: zero. By 2014 NCLB will be seen to have failed, just as the other centralized education programs enacted since the 1960s have failed. It will always be true that some of America's tens of thousands of schools are excellent and some mediocre (or worse). Rather than continuing to use centralized government decrees to turn mediocre institutions into excellent ones, as they have been trying but failing to do for decades, the state and federal governments should be empowering individual families to transfer to schools of their own choice.

That strategy would bring three advantages that are absent from the command-and-control model embodied in NCLB. First, it would allow parents to rescue their children from dysfunctional schools immediately, rather than continue to wait for the public school establishment's tinkerings with the status quo to produce the glorious results that have long been promised but never arrive. Second, it would allow families to pick schools that are compatible with their own philosophical and religious beliefs instead of locking them into zero-sum conflicts to decide which groups win power to impose their beliefs on others. Third, it would unleash the dynamic force of competition. Real accountability to customers free to go elsewhere is qualitatively different from fake accountability to government agencies that can almost always be pressured into keeping the money flowing to schools that are manifestly failing.

The key locus for genuine reform is the states. Under the Constitution it is the states that have legal responsibility for education. The 18th-century principles built into the country's federalist design are better adapted to the challenges of the fast-moving, downsizing, open-ended 21st century than are the static, top-heavy, homogeneous structures still left over from the mid–20th century. The best contribution the national government can make is to get out of the way. ■

Cato Calendar

Cato University
The History and Philosophy of Liberty and Power
Washington • Cato Institute
June 2–5, 2005
Speakers include Steven Davies, Jeffrey Rogers Hummel, Tom G. Palmer, and David Boaz.

Perspectives 2005
San Francisco • Fairmont Hotel
June 17, 2005

Constitution Day
Washington • Cato Institute
September 14, 2005
Speakers include Nadine Strossen and Roger Pilon.

Cato Club 200 Retreat
Santa Fe • La Posada de Santa Fe
September 29–October 2, 2005
Speakers include Patrick Byrne.

Cato University
The Art of Persuasion: Skills for Everyone
Washington • Cato Institute
October 20–23, 2005
Speakers include Nick Gillespie, Tom G. Palmer, Dan Griswold, and Don Boudreaux.

Monetary Institutions and Economic Development
23rd Annual Monetary Conference
Cosponsored with The Economist
Washington • Cato Institute
November 3, 2005
Speakers include Rodrigo Rato, Robert J. Barro, Deepak Lal, Reuven Brenner, and Samuel Brittan.

Perspectives 2005
Houston • Four Seasons
November 8, 2005

Perspectives 2005
Dallas • Crescent Court
November 10, 2005

Perspectives 2005
New York • Waldorf-Astoria
December 9, 2005

Get more details at www.cato.org/events.

Schwarzenegger gets an A for fiscal policy

Medicare Financial Crisis Gets Worse

Reforming Social Security will be an important step toward a sustainable federal budget, but the program's shortfalls are dwarfed by the unfunded liability of the Medicare system. Congress made the problem much worse in 2003 when it passed the Medicare Modernization Act, creating a prescription drug benefit that adds trillions of dollars to Medicare's projected shortfall. In "Medicare Prescription Drugs: Medical Necessity Meets Fiscal Insanity" (Briefing Paper no. 91), Joseph Antos of the American Enterprise Institute and Cato senior fellow Jagadeesh Gokhale urge Congress to take steps to avert that fiscal train wreck by enacting market-based cost-control measures. Waiting would not only worsen the government's fiscal position, they argue, but it would also unfairly shift the burden to future generations, who were too young to vote when the prescription drug benefit was enacted.

◆Telecom Whodunit

In "Who Killed Telecom? Why the Official Story Is Wrong" (Policy Analysis no. 533), Cato senior fellow Lawrence Gasman critiques the conventional wisdom on the causes of the telecom crash that began in 2000, arguing that failure to fully deregulate the sector in the 1996 Telecommunications Act and FCC chairman Reed Hundt's inept implementation of that statute created an unsustainable bubble. Hundt, who presided over the FCC during President Clinton's first term, attempted to artificially inflate "competition" in the telecom industry by essentially expropriating the facilities of the Baby Bells for lease to new entrants at below-market rates. Not surprisingly, Gasman writes, the rules attracted "competitors" who didn't bother to build new facilities; they chose instead to simply rebrand the services of their ostensible competitors. The Baby Bells responded by declining to invest in new infrastructure. Perversely, Hundt's regulatory regime did little to encourage new investment on the part of new entrants and discouraged investment by incumbents. The result was reduced capital investment, precisely the opposite of Congress's goals. Fortunately, Gasman says, new technologies like wireless and voice-over-IP are likely to succeed where the FCC failed in creating genuine competition in the telecom sector.

◆Dreaming of DRM

The Internet offers tremendous potential to improve the efficiency and convenience of distributing movies, music, and other media. But the ease with which copyrighted works can be pirated online using so-called peer-to-peer networks has raised serious concerns about protecting intellectual property. In "Peer-to-Peer Networking and Digital Rights Management: How Market Tools Can Solve Copyright Problems" (Policy Analysis no. 534), Michael A. Einhorn, author of *Media, Technology, and Copyright: Integrating Law and Economics,* and Bill Rosenblatt, author of *Digital Rights Management: Business and Technology,* describe a technology for protecting copyrights known as digital rights management. Under DRM schemes, copyright holders specify electronically how a copyrighted work may be used by end users, and the users' own computers enforce those limitations. For example, a user might be permitted to listen to a song but not to share it with others. Einhorn and Rosenblatt suggest that when used together, peer-to-peer and DRM technologies can improve the delivery of copyrighted works while protecting the rights of copyright holders. Moreover, they argue, such technologies can be implemented entirely privately. Congress, they conclude, should keep its hands off and see what the market develops.

◆Taking the Fifth Seriously

The troubling practice of using eminent domain to transfer property from one private party to another for the purpose of "economic development" has come under increasing scrutiny in the courts in recent years. The case of *Kelo v. City of New London,* which was argued before the Supreme Court in February, gives the high court an opportunity to protect private property by prohibiting such takings. In "Robin Hood in Reverse: The Case against Taking Private Property for Economic Development" (Policy Analysis no. 535), Ilya Somin, an assistant professor of law at the George Mason University School of Law, points out that since every business generates economic activity, the "economic development" rationale amounts to a blank check for giveaways to politically connected interests at below-market rates. The Michigan Supreme Court's recent reversal of the infamous *Poletown* decision, which has been cited frequently over the last two decades to justify "economic development" takings, is a hopeful sign in the *Kelo* case, he said.

◆Taxes: Lower, Flatter, Simpler

Fundamental tax reform is a key part of President Bush's second-term agenda. Chris Edwards contributes to that effort in "Options for Tax Reform" (Policy Analysis no. 536) by surveying four leading proposals for reforming the tax code: a flat tax, a retail sales tax, a savings-exempt tax, and a "dual-rate" income tax. Under the dual-rate tax, the first $90,000 of income would be taxed at a marginal rate of 15 percent, and income above that amount would be subject to a 27 percent tax rate. When combined with the payroll tax, Edwards argues, that would make all workers subject to a total tax bite of less than 30 percent, considerably lower than the 35 to 40 percent marginal tax rate most workers now face. Any of the alternatives considered in the paper would make the tax code simpler and more efficient, spurring economic growth and thereby generating revenue increases that would partially offset the initial revenue losses. However, he warned, reformers should be wary of reforms that make it too easy for the government to collect revenues. A value-added tax on businesses, for example, hides the true cost of government from consumers and would likely lead to increased government spending, he said.

◆Grading the Governors

Four governors, including California's Arnold Schwarzenegger, received As for their outstanding fiscal record in "Fiscal Policy Report Card on America's Governors: 2004" (Policy Analysis no. 537). Four other governors, including Republican Bob Taft of Ohio and Democrat Ed Rendell of Pennsylvania, received failing grades. The biennial report, compiled by Cato's director of budget studies Stephen Slivinski and senior fellow Stephen Moore, grades each governor using 15 objective measures of fiscal performance, including the rate of spending growth, the top marginal tax rate, and increases in the cigarette tax.

◆Antidumping's Kangaroo Court

The Department of Commerce, which is responsible for enforcing America's antidumping laws, seems to be determined to use those laws as a pretext to impede trade with China, charges Dan Ikenson in "Nonmarket Nonsense: U.S. Antidumping Policy toward China" (Trade Briefing Paper no. 22). Ikenson details the myriad ways in which the DOC uses China's designation as a "nonmarket economy" to tilt the playing field against Chinese exports. For example, those Chinese companies that the Department of Commerce does not have time to investigate individually are assigned a default antidumping rate that can be as much as 10 times higher than the antidumping rate it imposes on the companies it does investigate. As if that weren't bad enough, Ikenson says, the DOC has proposed tightening the rules to make it even more difficult for Chinese companies to petition for the lower rate. As a result, thousands of Chinese companies could be forced out of the American market, harming both Chinese industry and American consumers.

◆Grading Congress

Cato published its fourth biennial report card on free trade in Congress, "Free Trade, Free Markets: Rating the 108th Congress" (Trade Policy Analysis no. 28). The report, compiled by Dan Griswold, director of Cato's Center for Trade Policy Studies, rates each member of Congress on two criteria: support for reducing trade barriers and support for reining in trade subsidies. Griswold dubs those who oppose barriers and subsidies "free traders." Those who support both are called "interventionists." Those who support barriers and oppose subsidies are called "isolationists," and those who oppose barriers and promote subsidies are called "internationalists." Unfortunately, free traders were in the minority in both houses of Congress and in both parties. In the House, 22 Republicans and 3 Democrats were rated as free traders. In the Senate, 15 Republicans and 9 Democrats earned that distinction. The plurality of members of Congress was internationalist, with 157 representatives and 24 senators opposing trade barriers but supporting trade subsidies. The report also computes "lifetime" rankings, drawing on the past four reports as well as three important trade votes from the early 1990s. Griswold found that the most consistent career free traders in Congress are former senator Don Nickles (R-OK) and Rep. Jeff Flake (R-AZ).

Free trader Sen. John Sununu checks his Blackberry as he waits to speak at Cato's standing-room-only Hill Briefing "Who Are the Real Free Traders in Congress?" on March 16.

◆Highway Pork Explosion

The federal gas tax was supposed to finance the construction of the Interstate Highway System in the 1950s and 1960s and expire in 1972. Unsurprisingly, Congress never allowed the tax to lapse, choosing instead to increase it and use the revenue to fund a variety of lavish transportation programs. In "Liberating the Roads: Reforming U.S. Highway Policy" (Policy Analysis no. 538), transportation economist Gabriel Roth points out the many ways in which the Federal Highway Trust Fund is a bad deal for road users. A quarter of the money, he writes, is diverted to nonhighway projects, such as subsidizing "transit services that have so little appeal to passengers that users are unwilling to pay even the operating costs." In addition, Congress has shown a growing appetite for "earmarks": money for pork projects funneled to the districts of well-connected members of Congress. And many states are net losers, paying more in gas taxes than they receive in highway funding. Roth proposes that the federal government cease funding highway construction as well as mass transit projects, which would allow the gas tax be cut from its current rate of 18.4 cents per gallon to 2 cents, and restore to state government officials the authority to decide how roads will be financed in their own states.

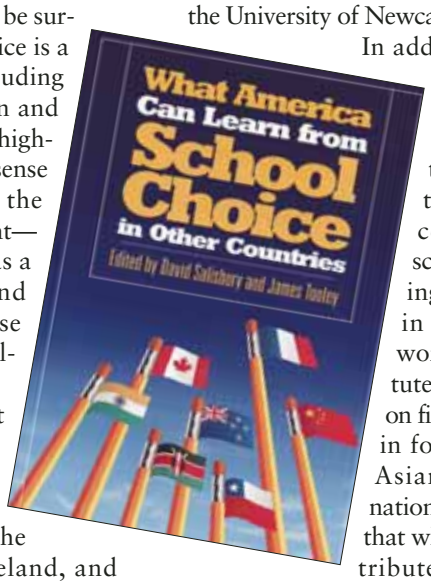
◆A Leaner, Meaner Military

The Pentagon's budgeting habits are stuck in the 20th century, charges Cato's director of defense policy studies Charles Peña in "$400 Billion Defense Budget Unnecessary to Fight War on Terrorism" (Policy Analysis no. 539). The war on terrorism and against rogue states does not require the large conventional forces and high-powered weaponry that were required against the conventional military powers that the United States faced in the past. Rather, he argues, conventional military forces should be scaled back in favor of enhanced special operations, intelligence, and unmanned-vehicle capabilities tailored to asymmetrical warfare against agile, decentralized enemies. Fortunately for the taxpayer, Peña calculates, such forces are much more affordable than conventional forces. Several high-profile Pentagon projects, such as the F-22 fighter and the Virginia-class submarine, offer few improvements over existing weapon systems but are dramatically more expensive than the weapons they replace. Those projects should be canceled, he says. Moreover, troop levels can be reduced substantially by withdrawing unneeded troops from bases in Europe, Japan, Korea, and elsewhere. Together, Peña's recommended budget cuts would reduce military costs by a quarter, from $402 billion to about $306 billion. ■

What Americans can learn from Canada, Europe, Chile

School Choice around the World

Opponents of school choice like to portray the idea as a radical and untested gamble with our children's futures. Americans might be surprised to learn that school choice is a reality in other countries, including social democracies like Sweden and Canada. Outside of America's highly polarized politics, common-sense education reformers around the world—on the left and the right—have embraced school choice as a way of raising standards and empowering parents to choose what's best for their own children.



Meanwhile, despite the best efforts of "educrats," school choice is making gains in the United States. The last decade has seen successful trials of the concept in Milwaukee, Cleveland, and Washington, D.C. As the concept moves from think tank drawing boards to our nation's classrooms, it's important that policymakers get the details right. Regulators mustn't smother a budding education market in red tape before it has time to take root. In a new Cato book, *What Americans Can Learn from School Choice in Other Countries,* contributors examine how school choice fared in trailblazing countries like New Zealand and Chile, helping American policymakers to emulate their successes and avoid their mistakes.

The book is edited by David Salisbury, director of Cato's Center for Educational Freedom, and James Tooley, a professor at the University of Newcastle-Upon-Tyne. In addition to coediting the volume, Tooley contributes a chapter that examines the surprising success of private schools in educating poor children in some of the world's most destitute cities. Drawing on first-hand research in four African and Asian developing nations, Tooley argues that when parents contribute financially to their own children's education, they monitor the education process more carefully and schools are more responsive to their concerns. Yet in spite of strong evidence that private education works, mainstream development experts insist that only a universal state-run system can improve education for poor children in the Third World.

Claudia Hepburn of Canada's Fraser Institute draws school choice lessons from the experiences of America's neighbor to the North. Several provinces provide partial state funding to private schools, she notes. Their experiences have demonstrated that state funding often comes with strings attached, making private schools more like government schools. Nevertheless, competition from private schools spurs public schools to improve their services, leading to a higher overall level of education, she concludes.

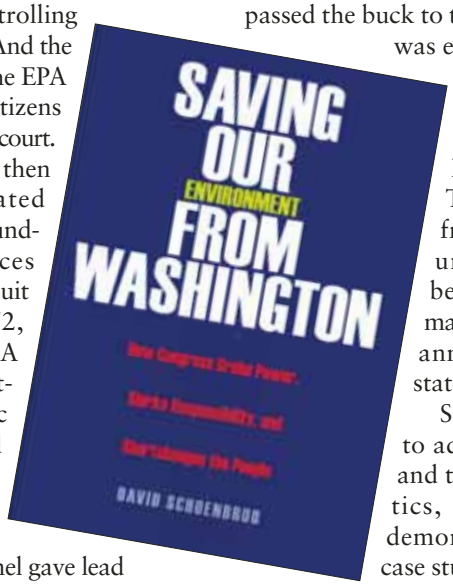
Unfortunately, argues a chapter by Andrew Coulson, senior fellow at the Mackinac Center for Public Policy, critics of school choice cling tenaciously to the belief that private schools are exclusionary and divisive. International evidence indicates just the opposite. The Dutch voucher system, for example, was enacted in part to defuse tensions between Catholic, Protestant, socialist, and liberal groups, who had fought for decades over the curriculum in public schools. Coulson also disputes the common belief that private schools could serve only a minority of students. Private schools would grow to accommodate the increased demand, he says; that has occurred in Chile, where enrollment in private schools has increased from 22 percent to 46 percent in the last two decades. Other contributors examine in detail the record of school choice in Sweden, New Zealand, Chile, and elsewhere.

What Americans Can Learn from School Choice in Other Countries is available in hardcover for $24.95 in bookstores, at www.cato store.org, or by calling 800-767-1241. ■

Message to Congress: devolve, don't delegate

An Environmentalist Gets Older and Wiser

In 1970 Congress acted on a tidal wave of popular support for stronger environmental protections by passing the Clean Air Act. It established the Environmental Protection Agency and ordered it to set standards controlling air pollution by 1976. And the act had teeth: should the EPA drag its feet, private citizens could take the agency to court.



David Schoenbrod, then a young Yale-educated lawyer at the newly founded Natural Resources Defense Council, filed suit under the law in 1972, charging that the EPA had failed to sufficiently reduce atmospheric lead levels. The EPA had appointed a scientific panel stacked with lead industry scientists to study the issue; that panel gave lead a clean bill of health. The NRDC won the lawsuit, but EPA foot-dragging continued for years. The first mandated cuts of lead in gasoline did not occur until 1978. Despite mounting evidence that atmospheric lead was killing thousands of children every year, it was not eliminated from gasoline until 1985, almost a decade after the congressionally mandated deadline.

Today, Schoenbrod is a professor at New York Law School and a Cato Institute adjunct scholar. In *Saving Our Environment from Washington: How Congress Grabs Power, Shirks Responsibility, and Shortchanges the People* (Yale University Press), he writes that the delays killed tens of thousands of children. But although the lead industry bears some blame for that tragedy, Schoenbrod argues that the ultimate responsibility lies with Congress. In passing the Clean Air Act, Congress claimed credit for improving air quality without making any of the hard choices necessary to actually clean the air. Instead, Congress passed the buck to the EPA, which in turn was empowered to pass the buck on to the individual states by forcing them to enact pollution-reduction plans. That insulated Congress from any backlash for unpopular decisions, because they would be mandated by the EPA and announced to voters on state letterhead.

Shifting responsibility to administrative agencies and the states is good politics, but as Schoenbrod demonstrates in numerous case studies, it's a bad way to make environmental policy. As an unelected bureaucracy, the EPA lacks the authority and political legitimacy necessary to achieve the impossibly broad range of environmental goals it has been ordered to achieve. With more objectives (each a potential political minefield) on the EPA's plate than it can possibly accomplish, the agency is often paralyzed by indecision, acting only when lawsuits by environmentalist groups force it to do so. Too often, the EPA makes the least controversial decision possible and then dresses that decision up in the garb of science in the hope of surviving judicial scrutiny.

One of the first casualties of that highly political decisionmaking process is local input into environmental decisions. In the legal clashes between industry and national environmental groups, the concerns of the people actually affected by a given decision are often ignored. Schoenbrod points to the controversy over dredging PCBs from the Hudson River as an example. The EPA's own scientists found no health impact from swimming in or drinking the water. Local residents, for whom the dredging would be highly disruptive, are overwhelmingly opposed. Nevertheless, the Bush administration, fearing bad press from national environmental groups, chose to go forward with the project—a decision that will benefit no one.

Schoenbrod urges us to rediscover two important constitutional principles when it comes to environmental policy. First, the Constitution grants exclusive legislative power to Congress. Congress shirked lawmaking responsibility when it delegated the crafting of environmental regulations to the EPA. The result has been less accountable and less effective environmental regulations. Second, Schoenbrod argues, Congress should respect the principle of federalism by returning local environmental decisions to the states. State governments, he notes, are more likely to heed the concerns of local residents and are more likely to craft policies well suited to local needs. Federal intervention should be contemplated only to deal with interstate environmental problems, when a state imposes significant environmental costs on its neighbors. Those changes, Schoenbrod writes, would lead to environmental policies that are more effective at protecting the environment at a reasonable cost and more responsive to local concerns.

Saving Our Environment from Washington is available in hardcover for $28.00 in bookstores, at www.catostore.org, or by calling 800-767-1241. ■

POLICY FORUM *Continued from page 10*

private sector could have used for investment in private ventures. But this addition to the government's explicit debt is different. It is not going to mop up private resources because, at the same time, the diversion of payroll taxes into personal accounts invested in private markets adds to private resources. So on the one hand, you are putting money into the private economy. On the other hand, you are borrowing money. So this is not necessarily a cost. It might be a neutral transaction. It might even be better than neutral, because the government might cut other wasteful spending programs to finance the transition. In any event, the government is not necessarily draining resources from the economy.

The other way to look at it: although the government's short-term debt is going up, it is doing so in exchange for reducing future obligations. Either way you look at it, it is a mistake to label the transition financing for Social Security reform a "cost." A better label would be "transition investment." ■

Governors graded on taxes, spending

Cato Takes on Bush's Bloated Budget

Cato's fiscal policy scholars have been familiar names in the press in recent months. Two recent events—the release of the president's budget in February and the release of Cato's latest "Fiscal Policy Report Card on America's Governors" in March—have given Cato scholars numerous opportunities to comment on the fiscal records of state and federal officials.

The White House billed its 2006 budget, released on Monday, February 7, as an austerity budget to rein in a ballooning federal budget deficit. But as Cato chairman William Niskanen pointed out the next day in comments in the *Los Angeles Times*, the *Wall Street Journal, USA Today,* and elsewhere, the president's "cuts" were mostly gimmicks, and most of the genuine cuts were unlikely to survive the appropriations process. He noted that the president has long promised to reduce the deficit and cut government programs but has so far failed to deliver on those promises.

An op-ed, titled "A Little Less Is Still a Lot," by Cato scholars Chris Edwards and Alan Reynolds in the same issue of the *Wall Street Journal* pointed out that the president's modest spending-cut proposals come on the heels of four years of reckless spending increases. In a *Wall Street Journal* news story that day, Cato's Steve Slivinski warned that the proposed cuts would not stick unless the president made credible threats to use his veto pen. In the *New York Times* that same Tuesday, Edwards pointed out that Bush had proposed cutting almost as many programs in last year's budget. However, Edwards said, "basically nothing happened."

Major newspapers continued to feature the budget analysis of Cato scholars throughout the week. A Wednesday *Washington Post* story quoted Edwards criticizing the president's continuing disdain for federalism. Cato executive vice president David Boaz commented on the budget in the *Los Angeles Times* on Thursday, and the *Boston Globe* quoted Edwards on Friday.

The next month, Cato scholars made a splash in state budget debates as well. On March 1, Cato scholars Stephen Moore and Stephen Slivinski released their biennial fiscal report card on the nation's governors, which rates each state governor on his or her fiscal record. The report gave grades to 42 of the nation's 50 governors, ranging from A grades for California's Arnold Schwarzenegger, Colorado's Bill Owens, and others to Fs for governors such as Bob Taft of Ohio and Ed Rendell of Pennsylvania. The findings were summarized in a March 1 *Wall Street Journal* editorial.

Two of the best-performing governors were Democrat Bill Richardson of New Mexico and Republican Mark Sanford of South Carolina, both of whom appeared at a press conference with Cato scholars to personally receive their grades. Richardson, the best-performing Democrat in the report and an oft-mentioned presidential prospect for 2008, touted his record of tax and spending cuts in New Mexico and urged his fellow Democrats to take fiscal responsibility more seriously.

The most discussed results in the report card were the F grades. The report flunked Pennsylvania Democrat Ed Rendell for his large tax and spending hikes, sparking a heated debate in the state. Rendell's grade was covered by the Associated Press, the *Philadelphia Inquirer,* the *Pittsburgh Tribune-Review,* and other Pennsylvania papers. The *Inquirer* and the *Tribune-Review* each ran two opinion pieces on the grade; the *Inquirer* also ran a letter from Rendell. In Ohio, the report's F grade for big-spending Republican Bob Taft generated more than a dozen stories. In Georgia, when told of Republican governor Sonny Perdue's D grade, spokesman Dan McLagan retorted, "I think the folks at Cato have been hitting the bottle."

The media seem not to agree with McLagan. Thanks to Cato's record of sober, nonpartisan advocacy of fiscal responsibility, Cato scholars continue to be among the most quoted experts in state and national budget debates. They will continue reminding Republicans everywhere that they were not elected to spend taxpayer money, as Boaz told the *Los Angeles Times,* "like drunken sailors." Cato's studies on spending, Medicare, and other topics could help the nation to avoid a nasty fiscal hangover. ■

SOCIAL SECURITY *Continued from page 3*

of South Carolina's Republican senators spoke. Sen. Lindsey Graham stressed the importance of bipartisanship and blasted opponents of reform for choosing to demogogue the issue rather than work toward a constructive solution. Sen. Jim DeMint stressed the importance of personal accounts to those at the bottom of the economic ladder. And he highlighted his reform proposal, which has a progressive formula for individual account participation. In the second day's luncheon address, Santorum blasted Democratic obstructionism and accused the Democratic party of using Social Security as a political football.

Two weeks later, Mike Tanner, director of Cato's Project on Social Security Choice, brought Cato's message of worker empowerment to Capitol Hill with a four-day series of lunchtime lectures dubbed "Cato University." Tanner explained to a packed room of Hill staffers how the Social Security system works, why it's facing major challenges in the future, and how personal accounts can solve the problems.

The 2004 Nobel Prize winner in economics, Edward W. Prescott, talks with Cato chairman William Niskanen before his keynote address to Cato's conference on Social Security reform.

The first lecture, on Tuesday, February 22, provided a crash course in the Social Security status quo, including the structure of the program and the nature of its impending fiscal crisis. Wednesday's lecture addressed two of the most common objections to private investment: risk and transition costs. The real risk is in settling for the paltry returns of a pay-as-you-go system, he said. As for "transition costs," he argued that the term is misleading. Prefunding the Social Security system would merely make explicit the large implicit debts of the present system; it would not create new government liabilities in an economic sense. On Thursday, Tanner surveyed the various reform pro-

Powell Named R. C. Hoiles Fellow

Cato Institute senior fellow **Jim Powell** has been named the R. C. Hoiles Senior Fellow. The new position is supported by a grant from Freedom Communications, Inc., the company founded by the pioneering libertarian publisher R. C. Hoiles (1878–1970). Freedom Communications, Inc., headquartered in Irvine, California, is a privately owned diverse media company of newspapers, broadcast television stations, and interactive media businesses. The company publishes 28 daily and 37 weekly newspapers, with a combined daily circulation of more than 1.2 million subscribers. The broadcast division includes eight stations including five CBS and three ABC network affiliates.

The company is best known as the publisher of the *Orange County Register,* the largest newspaper in Orange County, California. It has always had a strongly libertarian editorial policy. Under the leadership of R. C. Hoiles, it was one of the few newspapers to oppose the internment of Japanese Americans in World War II. Hoiles wrote that his philosophy was based on the Ten Commandments, the Golden Rule, and the Declaration of Independence.

Jim Powell

Jim Powell is the author of several books, including *The Triumph of Liberty: A 2,000 Year History Told through the Lives of Freedom's Greatest Champions* and *FDR's Folly: How Roosevelt and His New Deal Prolonged the Great Depression*. He has just published *Wilson's War: How Woodrow Wilson's Great Blunder Led to Hitler, Lenin, Stalin and World War II* and is working on a critical book about Theodore Roosevelt.

Cato Institute president Edward H. Crane commented: "Jim Powell is doing great work in challenging the conventional wisdom about 20th-century history. We're proud to work with him and delighted that the heirs of a great American, R. C. Hoiles, are supporting his important project."

Cato policy analyst **Radley Balko** spoke about libertarianism and civil liberties to some 200 first-year cadets at the U.S. Military Academy at West Point. Balko stressed the need to be vigilant about protecting civil liberties during wartime and offered a broad outline of libertarian philosophy. A lively question-and-answer session with the cadets also touched on the drug war, foreign policy, and the "nanny state." Balko found that both cadets and professors had a wide range of opinions on those topics.

A *Regulation* magazine article was cited by the majority opinion of the Supreme Court in *Granholm v. Heald,* which overturned state laws banning the interstate shipment of wine. The Court cited "Regulating Wine by Mail," by Gina M. Reikhof and Michael E. Sykuta, in the Fall 2004 issue of *Regulation* for evidence on the economics of the wholesale wine market and on the nature and purpose of the state laws in question.

Michael Tanner, director of Cato's Project on Social Security Choice, testified on Social Security reform before three congressional committees in April and May. His testimony before Chairman Bill Thomas's House Ways and Means Committee lasted six hours (there were several people on the panel) and was televised on C-SPAN. **Chris Edwards**, director of tax policy studies, testified before the President's Advisory Panel on Tax Reform. Both Tanner's testimony and Edwards's Powerpoint presentation can be found at www.cato.org. ■

Speakers at Cato's two-day conference, "Social Security: The Opportunity for Real Reform," included Sen. Jim DeMint, Social Security chief actuary Stephen Goss, Sen. Lindsey Graham, and Rep. Jim Kolbe.

posals and demonstrated that only those featuring personal accounts could hope to achieve solvency without drastic benefit cuts. Social Security University concluded on Friday, February 25, with an overview of the politics of Social Security reform. Tanner highlighted a recent Cato-commissioned Zogby poll that found strong support for personal accounts among the younger workers who would be most affected by the proposal.

Video and audio versions of these and other Cato events are available at the Cato website, www.cato.org. To access them, click the "Events" tab and then "Watch or Listen to Archived Events Online." ■

"To Be Governed..."

◆What unites Republicans is *talking* about smaller government

"Republicans are tied together by a relatively coherent vision: They talk about small government, less taxes, small taxes," said Mr. [David] Keene of the American Conservative Union. "That's not going to change."

—*New York Times,* April 3, 2005

◆Cut tax-and-spend Republicans

House Republican leaders [in Virginia] are preparing a statewide election-year campaign strategy centering on abolishing the car tax, raising money to pay for road projects and cleaning up the Chesapeake Bay.

—*Washington Post*, Mar. 13, 2005

◆Understanding regulation

Just a year ago, Pfizer Inc. was leading the charge against state lawmakers who want to restrict sales of over-the-counter cold medications that contain pseudoephedrine (PSE), which can be used to manufacture the illegal stimulant methamphetamine. Pfizer's Sudafed contains PSE and is one of the products that some states want kept behind pharmacists' counters and subject to sales limitations.

Now the drug maker has changed sides, a move that has helped boost the chances of bills pending in more than two dozen states and a proposed law in Congress, which is expected to hold hearings on the issue this month.

What caused Pfizer's change of heart? In January, the company rolled out a reformulated product, Sudafed PE, that contains no pseudoephedrine and thus can't be used to make meth. That makes it immune from existing or pending laws, and would give Sudafed PE valuable shelf space to itself.

—*Wall Street Journal*, April 13, 2005

◆Nanny state rolled back?

Montgomery County schools require a doctor's note for children to use sunscreen. Howard County requires a note from parents, and the lotion must be stored in the nurse's office. Anne Arundel students, by contrast, may carry and apply sunscreen with impunity.

A bill pending in the Maryland legislature, however, would require school health officers to make sure students are allowed to wear sunscreen when they go outdoors on sunny days, a right that is not universally recognized in schools, according to cancer prevention advocates.

—*Washington Post*, Mar. 29, 2005

◆Oops! Our program to reduce gas consumption worked. What do we do now?

To fund repairs, Oregon relies on the state gas tax, which costs drivers 24 cents for every gallon purchased.

This used to be a sufficient revenue stream for road maintenance, but the proliferation of fuel-efficient vehicles combined with the increasing popularity of hybrid-electric vehicles has created a gas-tax crunch that is not improving. This vehicular conundrum, though great for the environment, has become the bane of not only Oregon's road budget, but also of road budgets across the nation.

—*Government Technology,* Dec. 16, 2004

◆Did they just discover this problem?

Democrats called on Bush to pay back all of the money owed to the Social Security Trust Fund, which has been used for other government spending, to ensure solvency in the system through 2052.

A letter to Bush from Senate Democratic leader Harry Reid and House Democratic leader Nancy Pelosi said he is "misleading" the public and scaring foreign governments and investors that are financing a large part of the national debt. Reid and Pelosi said Bush's plan for investment accounts would add $5 trillion to the national debt.

"We urge you to commit to paying back every Social Security dollar that has been used for other purposes and hope that you will then agree to work with us on a bipartisan basis to address the challenges that Social Security faces many decades in the future," the letter said.

—*USA Today,* April 6, 2005

◆The cure for Social Security: hyperinflation

Bush offered the filing cabinet as proof that "there is no trust fund—just IOUs."

. . .

Sen. Jon Corzine, D-N.J., a former investment banker, accused Bush of misleading the public. "U.S. Treasury securities have the ability to be paid under any circumstances based on the ability of the government to print money," he said.

—*USA Today,* April 6, 2005

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