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Cato Policy Report

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Robert Frank's Strange Case for Taxing "The Rich"

BY DAVID R. HENDERSON

In testimony before the House Financial Services Committee on May 16 of this year, Cornell University economist Robert H. Frank gave a new justification for a progressive consumption tax—that is, a tax on consumption featuring higher tax rates for those who consume more. He argued that it's good for them. His testimony is the culmination of a line of thinking that Frank has been developing for many years, starting with journal articles in the early 1980s that led to his 1985 book, *Choosing the Right Pond.* Because of his high status in the economics profession and because his views on tax policy and other government policy seem to have struck a chord, it is worth examining those views. Frank's justifications for higher tax rates on people with higher incomes rest on a very slender reed, and in making his case for them he ends up contradicting, in two ways, the very foundations of his views.

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DAVID R. HENDERSON is an economics professor at the Naval Postgraduate School and a research fellow with the Hoover Institution. His latest book, coauthored with Charles L. Hooper, is *Making Great Decisions in Business and Life* (Chicago Park Press, 2006).

Delivering the B. Kenneth Simon Lecture at the 6th annual Constitutional Day Symposium, Judge Janice Rogers Brown of the U.S. Court of Appeals for the D.C. Circuit (above with Roger Pilon) argued that the same legal principles that threaten our economic liberties have spilled over into attacks on the First Amendment. **MORE ON PAGE 3**

BY EDWARD H. CRANE

President's Message

Ayn Rand Was Right

> "It is interesting that while capitalism has clearly won the war against socialism, the battle between liberty and power remains."

October 10 marked the 50th anniversary of the publication of Ayn Rand's best-selling novel, *Atlas Shrugged.* It is an epic story that has changed the lives of millions around the globe, including mine. Today, *Atlas* still sells about 150,000 copies a year in the United States. Rand once wrote a book entitled *The Virtue of Selfishness,* which critics on both the left and the right cite to demonstrate how hopelessly rigid and inappropriate was her philosophy.

But they misunderstand what she was talking about. "Selfishness" in Rand's lexicon simply meant being true to your own values. The challenge, in her view, was to adopt rational values—ones that I believe include a concern for those who need help through circumstances that are no fault of their own. The main virtue of selfishness, however, comes from a clear-eyed pursuit of your own purpose in life, your own productive drive for achievement. That is why Rand so loved America. The concept of our inalienable rights to life, liberty, and the pursuit of happiness was the political expression of her philosophy.

As I have written many times before, the essence of America is a respect for the dignity of the individual. Ayn Rand knew that, and *Atlas Shrugged* powerfully demonstrated that. Unfortunately, the genius of this great nation is under attack, from liberals and so-called neoconservatives. Cato distinguished fellow and Nobel laureate James Buchanan presciently wrote nearly six years ago, in criticizing the emphasis by limited-government conservatives on economic growth rather than liberty, "If the liberal ideal is not there, there will be a vacuum and other ideas will supplant it."

And, indeed, they have. The leading Democratic candidate for president, Hillary Clinton, in a recent interview on MSNBC, said, "You know, when I ask people, 'What do you think the goals of America are today?' people don't have any idea. We don't know what we're trying to achieve. And I think that in a life or in a country you've got to have some goals." It is, of course, fine for individuals to have goals in life, but the world is much worse off because of nations presuming to have goals. The American Founders would have considered the idea of a national "goal" absurd, which it is.

Neoconservatives are determined not to be outdone by the left in setting grand national goals. David Brooks, a columnist for the *New York Times,* wrote some years ago in the neoconservative *Weekly Standard* that we need to pursue "national greatness," which he describes this way: "Individual ambition and willpower are channeled into the cause of national greatness. And by making the nation great, individuals are able to join their narrow concerns to a larger national project." More recently, in October, he wrote in the *New York Times,* the neoconservatives do not "see a nation composed of individuals who should be given maximum liberty to make choices. Instead, the individual is part of a social organism and thrives only within the attachments to family, community and nation that precede choice." He calls for "a political age built around authority rather than freedom." Scary stuff.

The philosophy espoused by Clinton and Brooks has been tried and found wanting in the 20th century. It is interesting that while capitalism has clearly won the war against socialism, the battle between liberty and power remains. George H. W. Bush spoke contemptuously of the "vision thing." But the vision of the right to life, liberty, and the pursuit of happiness is what America is all about. Our friend David Kelley, founder of the Atlas Society, quotes Atlas hero Hank Rearden, defending himself in court: "I work for nothing but my own profit—which I make by selling a product they need to men who are willing and able to buy it. I do not produce it for their benefit at the expense of mine, and they do not buy it for my benefit at the expense of theirs; I do not sacrifice my interests to them nor do they sacrifice theirs to me; we deal as equals by mutual consent to mutual advantage."

President George W. Bush has complained about the idea of "a politics of nothing more than leave me alone." He should be heartened by the fact that Hillary and the neocons have no intention of doing so. But "leave me alone" is what motivated tens of millions of people to come to America. We should reject the politics of "national greatness" and "national goals" and embrace the American recognition of the greatness of individual liberty. Ayn Rand was right.

Sixth Annual Constitution Day

Rewriting the Constitution?

Delivering the B. Kenneth Simon Lecture at Cato's sixth annual Constitution Day conference, Judge Janice Rogers Brown of the U.S. Court of Appeals for the Sixth Circuit argued that the same legal theories that undermined the constitutional protection of economic liberty following the New Deal Supreme Court's rewriting of the Constitution are today undermining First Amendment freedoms. Legal scholars like Cass Sunstein have proposed a "new deal" for speech whereby government could intervene against "undeserving speech." Postmodernist scholars arguing that there is no difference between speech and actions—both cause real harm—call for regulating hurtful words. Campaign finance regulations have long eroded the First Amendment's protection of political speech. And the "neomoralists" would have government suppress what they see as overrepresented views through a return of the "fairness doctrine."

The Heritage Foundation's Todd Gaziano and James Swanson discuss the D.C. gun ban case, now before the Supreme Court, with Judge Douglas H. Ginsburg and Cato vice president for legal affairs Roger Pilon.

Other speakers at this year's Constitution Day conference challenged the argument made by many left-leaning legal scholars like Ronald Dworkin that the Roberts Court is conducting a "Jacobin" revolution against settled constitutional law doctrines. When given a chance, they argued, the Court has not overturned progressive doctrines but has simply made modest shifts. As Professor Lillian BeVier of the University of Virginia argued, the Court last term might have overturned core campaign finance restrictions in the McCain-Feingold statute but instead chose to narrow their scope.

Yet, in a few cases the Court, relying on Justice Anthony Kennedy's swing vote, bowed to left-liberal orthodoxy. Andrew Morriss of the University of Illinois College of Law explained how the majority in the *Massachusetts v. EPA* case, while urging the EPA to regulate carbon dioxide emissions like standard pollution, took a ludicrously broad interpretation of standing. It dismissed the fact that the damage claimed—the possible consequences of global warming decades down the road—is far from imminent, and that the regulations in question would not make a dent in global warming. And in another disappointing decision, the Court stripped a Wyoming rancher of his right to constitutional remedies for egregious federal violations of his property rights. Drawing on an extra-ordinary essay in the new *Cato Supreme Court Review* by Harvard Law's Laurence Tribe, Roger Pilon, director of Cato's Center for Constitutional Studies, argued that the Court this term once again treated property rights like "poor relations" in the Bill of Rights.

Other panelists argued, however, that the Court elsewhere exercised the "judicial modesty" Chief Justice Roberts had said he wished to employ. Samuel Estreicher of the New York University School of Law showed how the decisions striking down efforts to ensure "racial diversity" in Seattle and Louisville public schools illustrated judicial minimalism because they followed the precedent the Court had recently set in the University of Michigan decisions.

Constitution Day marked the release of the *Cato Supreme Court Review: 2006-2007.* For more analysis of the Supreme Court's recent decisions from a Madisonian perspective, go to catostore.org to order the *Review* for $15.00 in paperback.

NEWS NOTES

ILYA SHAPIRO has been named editor of the *Cato Supreme Court Review* and senior fellow in the Center for Constitutional Studies. Before joining Cato he was a lawyer with Patton Boggs and served a brief term as a Rule of Law adviser in Iraq. After graduating from the University of Chicago Law School, he clerked for Judge E. Grady Jolly of the U.S. Court of Appeals.

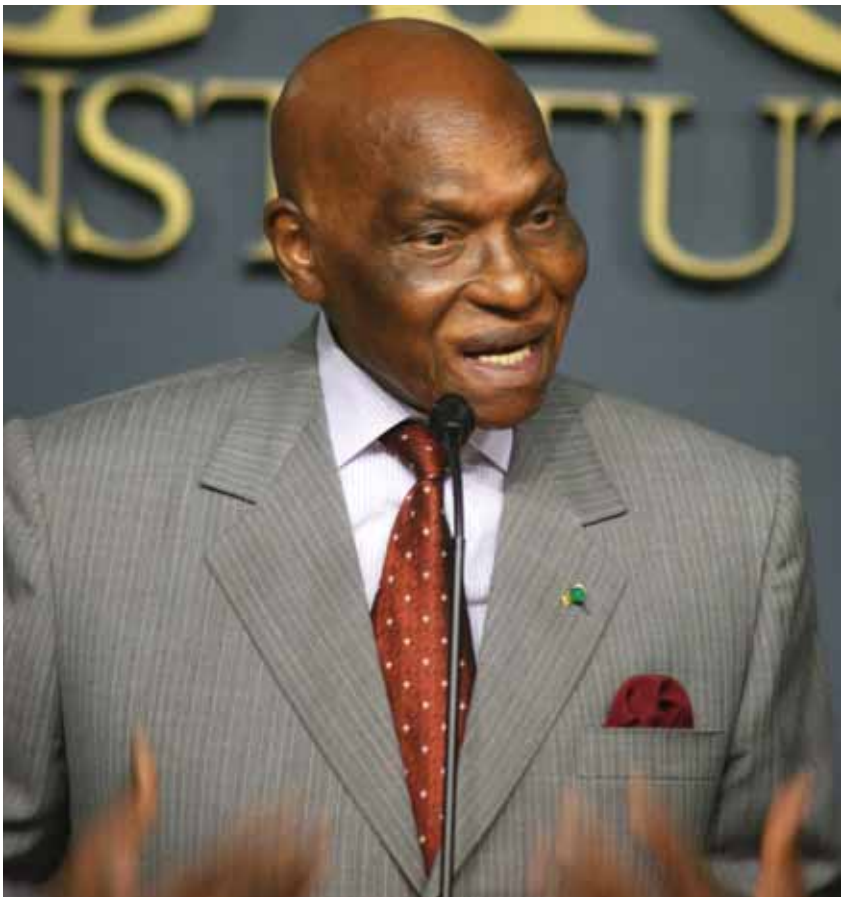
MALOU INNOCENT has been named a foreign policy analyst at the Cato Institute. Formerly a research assistant in the department of defense and foreign policy studies, she holds a BA from the University of California, Berkeley, and an MA from the University of Chicago. Foreign policy analyst JUSTIN LOGAN has been promoted to associate director of defense and foreign policy studies.

***Libertarianism: A Primer,* by DAVID BOAZ, has been published in Cambodian, the ninth language into which it has been translated.**

In Cato global news, Cato was a cosponsor of the 4th annual European Resource Bank, taking place from September 13 to 16 in Bucharest, Romania. The event is the largest gathering of free-market think tanks in Europe, with over 200 in attendance, including Cato. With "institutions for liberty" the theme of this year's event, distinguished Cato senior fellow JOSÉ PIÑERA drew on more than 30 years of experience in social security privatization to advise on strategies to reform European pension systems. Cato senior fellow DAN MITCHELL spoke on the importance of tax competition among European states.

Find more information about events in Ed Crane's bimonthly memo for Cato Sponsors. Audio and video of most Cato events can be found on the Cato Institute website. Visit

Cato Club 200 members breathed in the fresh ocean air while mingling with policy scholars at this year's annual retreat, "The Road to Surfdom," in Laguna Beach. (Top) José Piñera hobnobs with *The Shield's* Jay Karnes, and his wife Julia Campbell, who plays Muriel on *Desperate Housewives.* (Middle) Nathaniel and Leigh Branden with Cato Club 200 member John Aglialoro, executive producer of the upcoming movie *Atlas Shrugged.* (Bottom Left) Cato Club 200 member Dan Grossman chats with Cato board member Lew Randall. (Bottom Right) Guest speaker Amity Shlaes autographs her new book *The Forgotten Man: A New History of the Great Depression.*



PRESIDENT ABDOULAYE WADE of Senegal described himself as "Africa's original liberal" in a September 28th Cato Policy Forum, "I Don't Want Money. I Want Trade Agreements." Long before it became popular in Africa, Wade fiercely advocated free trade and representative democracy as an alternative to socialism and one-party dictatorship.The event drew a large crowd of African diplomats and journalists.

The Duke lacrosse rape case, which dominated cable news for months, turned out to be one of the most shameful instances of prosecutorial abuse in recent memory. During a September 11 Cato Book Forum for *Until Proven Innocent: Political Correctness and the Shameful Injustices of the Duke Lacrosse Rape Case* by Stuart Taylor and KC Johnson, former deputy assistant attorney general VICTORIA TOENSING said that the case epitomizes the reason prosecutors ought not be elected.

Some 300 Cato friends gathered for the annual SalmonFest at the home of Ed and Kristina Crane. (Left) *Free to Choose* producer Bob Chitester, Securities and Exchange Commissioner Paul Atkins, Ed Crane, Sarah Atkins, and Henry Atkins. (Below left) Chris Edwards, director of tax policy studies at Cato, with his wife Karen and their twins Anna and Sophia. (Below) *Reason* editor Kerry Howley with Cato's Brink Lindsey, Will Wilkinson, and Jonathan Blanks.

During an August 2 Capitol Hill Briefing "The End of Campaign Finance Reform?" Rep. Mike Pence (R-IN) accepts a copy of John Samples's book *The Fallacy of Campaign Finance Reform*. Pence noted that it's hard to oppose something called "campaign finance reform." Samples discussed the future of spending limits in the light of the Supreme Court case *FEC v. Wisconsin Right to Life* and the decision of most presidential candidates not to take federal matching funds.

AUGUST 2: The End of Campaign Finance Reform?

AUGUST 7: *A Tragic Legacy: How a Good vs. Evil Mentality Destroyed the Bush Presidency*

AUGUST 7, 9, 14, 16, 21, 23, 28, 30: Cato University at Capitol Hill

AUGUST 14: *Freedomnomics: Why the Free Market Works and Other Half-Baked Theories Don't*

AUGUST 17: "Stupid in America"

AUGUST 24: "John Stossel Goes to Washington"

AUGUST 31: "War on Drugs, a War on Ourselves"

SEPTEMBER 5: Should Congress Reauthorize NCLB?

SEPTEMBER 11: *Until Proven Innocent: Political Correctness and the Shameful Injustices of the Duke Lacrosse Rape Case*

SEPTEMBER 12: *Immigrants: Your Country Needs Them*

SEPTEMBER 13: Sinking SCHIP: A First Step toward Stopping the Growth of Government Health Programs

SEPTEMBER 17: 6th Annual Constitution Day

SEPTEMBER 18: *Feds in the Classroom: How Big Government Corrupts, Cripples, and Compromises American Education*

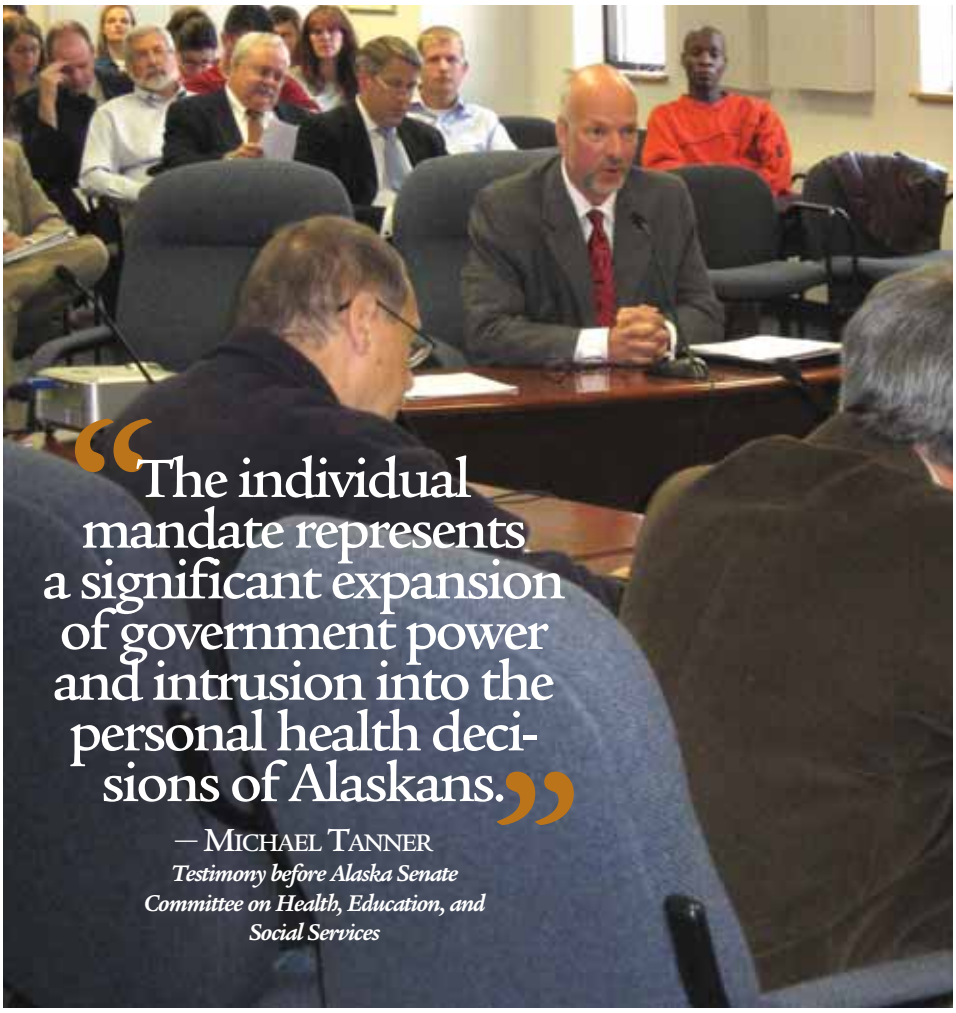
SEPTEMBER 20: Assessing the Surge

SEPTEMBER 25: Thriving or Threatened? Perspectives on the State of U.S. Manufacturing in a Global Economy

SEPTEMBER 26: Doing Business in Africa

SEPTEMBER 27-30: Cato Club 200

SEPTEMBER 28: "I Don't Want Money. I Want Trade Agreements."



CATO CALENDAR

POLICY PERSPECTIVES 2007
San Francisco • Grand Hyatt
November 27, 2007

POLICY PERSPECTIVES 2007
Chicago • The Drake
November 29, 2007

20TH ANNUAL BENEFACTOR SUMMIT
Las Vegas • Four Seasons
February 6–10, 2008

MILTON FRIEDMAN PRIZE PRESENTATION DINNER
New York • Waldorf=Astoria
May 15, 2008

CATO UNIVERSITY SUMMER SEMINAR
San Diego • Rancho Bernardo Inn
July 20–25, 2008

GO TO
www.cato.org/friedmanprize to nominate candidates for the 2008 Milton Friedman Prize for Advancing Liberty

> "Nowhere could I find Frank acknowledging this complete reversal of his 1985 argument. Was he wrong then or is he wrong now?"

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A summary of Frank's argument is in order. He claims that many of the goods we buy are "positional." In other words, their value to those who own them depends strongly on relative position rather than anything absolute. Frank gives the example of a Ferrari Scaglietti, a car that sells in the United States for about $250,000. According to Frank, purchases of such cars and of 60,000-square-foot houses "subtly change the social frame of reference that defines what kinds of houses and cars seem necessary or appropriate." The people who buy such things up the ante on their purchases, and then the people "below" them do likewise, and so on down the income scale. Frank calls this alleged phenomenon an "expenditure cascade." In buying positional goods, the highest-income people, writes Frank, impose a negative externality on the people below them, who then, through their purchases, impose a negative externality on those below them, and so on. Frank advocates the standard economist's solution to a negative externality, which is a tax on the activity that generates the externality. Frank's favored tax is a tax on consumption, with a higher rate for those who consume more.

As a bonus, argues Frank, a government can tax high-income people even more than it currently does without making them worse off. How so? For simplicity, imagine a society in which there are a million people making more than $500,000 a year. Most of us would agree, I think, that those people have high incomes. Imagine that they now pay 30 percent of their income in federal income taxes. Now imagine that the government, following Frank's suggestion, imposes a tax on consumption above some amount per year and, thus, raises tax rates on high-income people so that those million people now pay 40 percent of their income in federal income taxes. Because their relative position with respect to each other would be unchanged, and because they spend so much money on positional goods anyway, they would not care—or so the argument goes. As Frank testified, "Thus, if a consumption tax led wealthy families to buy 5,000-square-foot houses instead [of] 8,000, and Porsche Boxsters instead of Ferraris, no one would really be worse off, and several hundred thousand dollars of resources per family would be freed up for more pressing purposes." The government could then take the extra revenue generated by the higher tax rates and spend it on things that people, including many of those with high incomes, value. Because the added tax has a zero cost to those taxed and the revenues create benefits for at least some members of society, the tax creates net benefits. That is, in a nutshell, Frank's argument for higher taxes on people with high incomes.

Frank adopts Fred Hirsch's characterization of positional goods: "goods that are sought after less because of any absolute property they possess than because they compare favorably with others in their class." Frank also writes, "Positional goods are, by their nature, things in fixed supply." He gives houses, cars, and jobs as examples of positional goods and medical care and leisure as examples of nonpositional goods. And yet, his examples seem to belie his definition. While it's true that certain jobs—chairman of Microsoft, for example—are in fixed supply, houses and cars are not. And yet, in Frank's mind, they're positional. Leisure, on the other hand, if it involves courtside seats at a New York Knicks game, seems to involve fixed supply: the number of such seats is strictly limited. Given how important positional goods are to Frank's whole scheme, it's surprising how he doesn't seem to follow his own definition in classifying goods one way or the other while still seeming to be quite confident about which is which.

Ignoring the Changing Evidence

A pillar of Frank's argument is that a large percentage of people care about their relative position. In *Choosing the Right Pond,* he defends that assumption by pointing to anomalies in the pay structure of various firms, anomalies that he attributes to people caring about relative position. Most of his anomalies have to do with pay structures that, Frank argues, are "flatter" than standard economics would predict. Standard economics states that workers are paid an amount roughly equal to the value of their marginal product—that is, the increment in value that is due to their being in the firm. But, notes Frank, if this were true, one would expect to see great disparities between the salaries of workers who have great differences in productivity. He points to, among other things, the University of Michigan pay scale for economists in 1983–84, where the highest salary was only a little more than double the lowest. He never mentions the fact that the University of Michigan is a government bureaucracy, making it not the best test of the standard economics account of free-market wages. Nor does he mention that one of the main ways the stars of academic institutions are "paid" is with lower teaching loads and more research funds.

Even more interesting is how the world seems to have changed since Frank began writing about these issues and the contortions he goes through to sustain his argument for higher taxes. When he first began, he argued that relatively flat pay structures are indirect evidence for his view that people care a lot about relative position. But in his May 2007 testimony, Frank noted that the "anti-raiding norms of business have recently begun to unravel" so that, now, pay for top managers can be a huge multiple of pay for bottom managers. In other words, it would seem, many top managers are being paid an amount that approximates their marginal product. You might think that this would cause Frank to reex-

amine his earlier strongly held views. But he doesn't.

Instead, he comes up with a new argument for progressive consumption taxes. He now argues that too many people are vying for the top jobs because of the higher pay those jobs carry. They are fighting, he argues, over a fixed pie and, in a variant of the famous "tragedy of the commons," he compares the competition for the top jobs to gold prospecting. He testified that "the gold found by a newcomer to a crowded gold field is largely gold that would otherwise have been found by others." Similarly, he argues, "an increase in the number of aspiring hedge fund managers produces much less than a proportional increase in the amount of commissions on managed investments."

But he can't hold on to this argument for even a page. Just four paragraphs later, he testified: "A slightly more talented CEO or hedge fund manager can boost a large organization's annual bottom line by hundreds of millions of dollars or more." Exactly. It does make sense, therefore, for companies to look for small differences in talent because those differences can cause huge increases in profits. The problem with Frank's tragedy of the commons analogy is that there is no commons. The tragedy of the commons occurs when no one owns the resource: thus the word "commons." But those who hire hedge-fund managers own their resources, so one would not expect overinvestment in being the manager. Frank implicitly admits this, writing, "To be sure, even those who fail to win the biggest prizes often go on to earn comfortable incomes." But in the very next sentence, he retreats to his old position, saying, "But career choices must be measured not in terms of absolute pay but relative to what might have been" (emphasis added). This is astounding. More than 20 years ago, Frank argued, as an empirical matter, that people care about relative income. Now in the face of evidence that absolute income matters a lot to them—otherwise, why would anti-raiding norms have unraveled—he argues that it shouldn't—thus his use of the word "must." If the people don't conform to his assumptions, it seems, we should tell them to.

> "Does Frank really think tax policy ought to encourage would-be novelists to go to medical school?"

I may have interpreted Frank's use of the word "must" incorrectly because he goes on to write, "Contestants for the top prizes in finance are highly talented people who could have held interesting jobs at high pay in other fields. Those who end up as account managers in small banks may not starve, but neither do they realize their full potential." Frank's argument here, presumably, is that people overestimate their expected return from competing for superstar jobs and so they overinvest in competing for them. "Overinvest" is determined relative to a baseline of efficient allocation of people to jobs. This is what we "must" compare the actual outcome to. But this is incredibly presumptuous on his part. Does Frank really think tax policy ought to encourage would-be novelists to go to medical school? He writes as if the world is a place of certainty and he heavily discounts the extent to which competition is a discovery process.

Taxes, Work, and GDP

Interesting also is how Frank deals with the supply-side economists' argument that higher marginal tax rates reduce effort, and how his argument has evolved. In *Choosing the Right Pond,* Frank accepted the view that higher marginal tax rates do, indeed, reduce work effort—and applauded that result. Frank wrote:

The real problem is not at all that the current tax system induces people to work too little, take too few risks, and so on. On the contrary, it is a lack of taxation that would cause individually rational citizens to work too many hours, take too many risks, and spend too little time with family and friends (emphasis in original).

By the time his 1999 book, *Luxury Fever,* was published and in his 2007 testimony, though, Frank had changed his argument. Interestingly, while he correctly used the term "supply-sider" in his 1985 book, by 1999 he no longer used that term; instead he used the disparaging term "trickle-down theory" to label the supply-side theory that changes in marginal tax rates affect economic behavior. (No supply-sider calls himself a trickle-down theorist: this is the term used exclusively by critics of supply-side economists. Frank's use of the term "trickle-down" suggests bad faith on his part.) Interestingly, Frank now argues that marginal tax rates do not clearly reduce work effort and briefly dismisses the substantial evidence that supply-side economists such as Harvard's Martin Feldstein have presented. Nowhere could I find Frank acknowledging this complete reversal of his 1985 argument. Was he wrong then or is he wrong now?

Furthermore, in arguing for a progressive consumption tax, Frank contradicts another big part of his earlier work without ever acknowledging it: he argues that a progressive consumption tax will increase GDP. That is doubtful, but let's accept it for a minute. Why is this good? I know why I think it's good: GDP is a rough measure of human welfare. Of course, there are huge problems with GDP as a measure of welfare, two of the most important being GDP's failure to value leisure time and its valuing of government expenditures at cost. But we can put those aside because they do not relate to Frank's argument. Why does Frank think GDP is a good measure of welfare? After all, he has spent a large part of the quarter century arguing that it is not a good measure. In *Luxury Fever,* he recalls his time in the Peace Corps in Nepal:

My one-room house had no electricity, no heat, no indoor toilet, no

> "Frank should propose a referendum on whether to raise tax rates with only high-income people able to vote. If he is right, such a referendum would pass overwhelmingly."

> running water. The local diet offered little variety and virtually no meat. Yet, although my living conditions in Nepal were a bit startling at first, the most salient feature of my experience there was how quickly they came to seem normal. Within a matter of weeks, I lost all sense of impoverishment. Indeed, my $40 monthly stipend was more than most others had in my village, and with it I experienced a feeling of prosperity that I have recaptured only in recent years.

I don't doubt any of this. Indeed, my guess is that this experience heavily influenced his view that what matters is relative income because that's what mattered to Frank: notice how, even in Nepal, Frank felt the need to compare himself with those around him. But this raises two questions. First, why didn't he move back to Nepal? Why did he spend those intervening decades between the late 1960s and the late 1990s, when he finally recaptured the feeling of prosperity, in the United States? Second, if huge components of GDP—meat, indoor plumbing, electricity—don't matter much, how can he justify his policies by arguing that they increase U.S. GDP? Shouldn't he want to take, not just a huge slice of the highest-income people's income, but also a substantial slice out of every American's income and, say, give it to people in poor countries? His failure to advocate this is certainly not because Frank has qualms about forcibly taking money from people. In fact, he even labels (in *Econ Journal Watch*) as "crybabies" those who object that taxation is coercive. To his credit, Frank has argued that real GDP does matter because it allows us to help more poor people and to extend our lives with medical technology. But it's hard to know why he draws the line on government wealth distribution policies at the U.S. border.

Frank argues that consumption taxes on higher-income people make them no worse off because, as noted, they care about relative income, not absolute income. And, presumably, these people put at least a tiny positive value on the things government would spend the additional revenues on. Is Frank open to testing his assumption? Here's a test. If he's right, a majority of those high-income people, indeed a supermajority, would vote in favor of higher taxes on themselves. Frank should propose a referendum on whether to raise tax rates on high-income people, with only high-income people able to vote. If he is right, such a referendum would pass overwhelmingly. I predict that such a referendum would go down in flaming defeat. If I'm right, then the whole empirical basis of his argument is wrong.

Why We Want Things

It is true that we often want something when we see that someone else has it. But what doesn't ring true is Frank's view about why we want things. One of my earliest instances of an intense want was in 1955, when the coonskin cap came along after Walt Disney had made Davy Crockett famous. I saw some of my friends wearing them and I badly wanted one. My father, though, would not buy one for my brother or me. I remember the intense pain I had about not having it. But did I want that coonskin cap because I was competing with my friends for status and position? Not at all. I wanted it because it was so neat. Now, you might doubt the memory of a 56-year-old about his introspection 52 years earlier. Fine. Then consider this case. I also remember when the Ford Mustang and the Mercury Park Lane came along in 1965, when I was 14. I wanted either one of those cars badly. I tore out the full-page magazine ads picturing those cars, taped them on my wall, and pined for them every day. But the reason I wanted them was not that I saw people around me with them. I lived in a small town in rural Canada where you didn't see new cars as soon as they came out. I had seen the ads for these cars and started yearning for them long before anyone in my town owned one. So, why did I want one of these cars? Because they were just so beautiful. I've asked other friends why they want the new expensive gadgets when they come out and invariably the answer is that they're such neat toys. Few mention that they want them because they want to be higher up on the positional scale.

The closest Frank came in his testimony to giving direct evidence for his positional goods hypothesis was his evidence on housing. He noted that between 1980 and 2001, the median size of a new house increased from 1,600 square feet to more than 2,100 square feet, while the median family's real income increased by less than 15 percent. This small increase in real income, he asserts, is "not nearly enough to comfortably finance so much larger a house." Oh, really? Has Frank checked mortgage interest rates in 1980 versus 2001? In 1980, they averaged 12.7 percent; by 2001, they had fallen to 7 percent. This 45-percent drop in interest rates certainly did help people buy houses that were 31-percent bigger.

It's true that the majority of things we want in our lives are things we want because we see other people with them. But Occam's Razor applies here. The most straightforward reason is that when we see others with them, we see how those things might improve our lives. Think about some of the innovations that have come along just in my lifetime. I remember when Milton Friedman had open-heart surgery in December 1972. That was a fairly new surgery. But when that surgery worked for him and hundreds of other people, thousands of people could see how open-heart surgery would improve their lives—and they got such surgery, too. I would never have wanted a cell phone if I hadn't seen others using them, because I wouldn't have known they existed. But now

Continued on page 15

School's Out: The Failure of No Child Left Behind

The No Child Left Behind Act of 2001 promised to combat the "soft bigotry of low expectations" in public education through a set of nationwide standards and federally enforced accountability. In a September 5, 2007, Capitol Hill Briefing, Neal McCluskey and Andrew Coulson of the Cato Institute's Center for Educational Freedom were joined by Rep. Scott Garrett (R-NJ) to examine how NCLB has fared.

NEAL McCLUSKEY: Let me be very clear from the outset. The Constitution gives the federal government no authority whatsoever to be involved in education (except through the Fourteenth Amendment, ensuring that states do not discriminate in how they provide public education). If you look at Article 1, Section 8, of the Constitution, where the powers of the federal government are laid out, you won't see education or schooling mentioned.

What about the "promoting the general welfare" clause? That clause does not empower the federal government to do anything outside of the specific enumerated powers that follow it. All it does is help explain why those specific powers are there.

But don't take my word for it. James Madison wrote in Federalist 41, and I quote: "For what purpose could the enumeration of particular powers be inserted if these and all others were meant to be included in the preceding general power? Nothing is more natural nor common than first to use a general phrase and then to explain and qualify it by recital of particulars."

So the phrase "promote the general welfare" confers no authority to the federal government. But suppose that is not enough. Suppose the actual delegation of powers is not enough. Well, if you go to the Tenth Amendment in the Bill of Rights, it says: "The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively or to the people."


Neal McCluskey

> "Perhaps this federal intervention can be thought of as the inevitable consequence of constant centralization."

So there is actually a double protection in the Constitution that says the federal government can't do anything it doesn't have specific enumerated powers to do. And education is one of those things it has no power to be involved in.

So why doesn't the Constitution give the federal government power over education? This isn't just an oversight by the Founding Fathers, as some people have suggested. No, most of the Founding Fathers would never have considered education the proper domain of even state governments, much less the Federal government. Education has traditionally been a family and local concern, because all children are different, as are individual communities. They have different problems, different values, and different goals.

So what happened? What happened over the past century in education? Slowly but surely education became more centralized. First, there were larger local districts. Then there was a call for more state involvement when people were unhappy with the local districts. And then finally there was federal intervention. Perhaps this federal intervention can be thought of as the inevitable consequence of constant centralization. But the question then remains: *When* was the Constitution gutted? When did we suddenly forget the fact that the federal government has no authority, according to the Constitution, in education?

The turning point was of course, as you can imagine, FDR's court-packing scheme. To avoid being packed, the Court fundamentally changed its stand on what government power would be permitted, shifting from a presumption of liberty, which restricted federal authority to only those things that are specifically permitted under the Constitution, to what they call a presumption of constitutionality, in which everything is constitutional unless, and this is from footnote 4 of *United States v. Carolene Products* (1938), it "appears on its face to be within a specific prohibition of the Constitution, such as those of the first ten amendments."

From prohibiting the federal govern-

ment from doing anything it is not specifically permitted, today we let it do everything as long as it's not specifically restricted from doing it. And that power was fully cemented in the creation of the Department of Education in 1979.

The Founders would never have allowed Washington to interfere in education. And indeed, most would have kept state and even local governments largely out of education. Why? Because they knew that government was a big danger. The more centralized, the more dangerous. Because basically, power corrupts. And the people often will use political power if they have it for their own advantage. And NCLB makes this abundantly clear.

ANDREW COULSON: Let's turn our attention from the past to the present. No Child Left Behind is big government's latest and one of its most far-reaching encroachments on American education. Let's take a detailed look at NCLB's effect on actual achievement.

A lot of studies have been done on NCLB, the most recent of which was by the Center on Educational Policy, a generally favorable assessment released just a few months ago. Unfortunately, that study has some serious limitations. The data were not nationally representative, examining only 13 states. Furthermore, for the most part it looked at data from just a couple of years before NCLB passed. Lastly, as the authors of the study themselves acknowledge, these are high-stakes state tests, and there is a great incentive for teachers to teach to the test in order to artificially inflate test scores, without really guaranteeing that the students have learned anything. I reviewed the literature four or five years ago, and it's astonishing how much of a problem teaching to the test is.

Fortunately, there are a number of other studies that are better designed and can tell us a lot more about NCLB's effects. The best one was done by Jaekyung Lee, at Harvard, in September 2006. Lee had nationally representative data from the National Assessment of Educational Progress, also known as the Nation's Report Card, dating as far back as 1990. He was able to establish a really good pattern of achievement before NCLB was passed and compare that to the results after it was passed.

What Lee found was that NLCB doesn't appear to have helped achievement overall, and it doesn't appear to have narrowed the achievement gaps. Now, this isn't just Lee's finding. There have been other reports that have looked at the NAEP scores and NCLB's effect on them, including one by Bruce Fuller and his colleagues that just came out earlier this year. And once again, they find that NCLB did not improve on preexisting trends in student achievement. There are some continuing gains in math, according to Fuller and his colleagues, but they are slower gains, the rate of improvement in these test scores, is slower than it was before the law was passed. So not encouraging for NCLB supporters.


Andrew Coulson

> "We expect progress in every aspect of life except education, because we've been accustomed to this flat, stagnant achievement, despite rising costs."

There are a couple of other studies that I would mention. Neither of these are nationally representative, but they are both interesting for their own reasons. One of them, which has gotten very little press, was an interesting study by the Northwest Evaluation Association. This is a private organization that provides testing services to school districts; they have a lot of nitty gritty data from 23 states on student achievement before and after NCLB.

Rather than just looking at test scores at one point in time, they looked at how much students gained in learning over a particular year, the years 2001–2002 and 2003–2004. And what they found is that students learned more in that earlier year, before NCLB passed, than they did in 2003–2004, after it had passed. Now, again, this isn't nationally representative, but the NWEA did have data for almost twice as many states as the CEP study. So it certainly gives us a better idea than the CEP study about what NCLB's effects are.

So is this a surprise? Should we have expected NCLB to have had a greater impact on achievement? And a related question: Should we imagine that if we give Congress another 5 years, or another 10, or another 15 years, that they will get the hang of this whole federal involvement in education thing and turn achievement around?

Well, we don't have to speculate about it. We can actually look at the data. We can look at the rise in federal per-pupil spending since 1965. It's gone from about $50 per student to nearly $900 per student over that period of time. And that is in constant, inflation-adjusted dollars. So that is a real increase of about a factor of 17. This increase in spending has not been accompanied by real achievement improvement, however.

We have doubled per pupil spending and yet we have flat achievement. We have had a precipitous, fantastic, staggering drop in the productivity of American education. To get a feel for how bad this period has been, you have to imagine buying something that you would have bought in 1969 but paying twice as much for it as people did then. Imagine buying a 1969 car today—no seatbelts, no airbags, no traction control, no antilock brakes—but having to pay twice what you would have paid if you bought it in 1969.

We expect progress in every aspect of life

except education, because we've been accustomed to this flat, stagnant achievement, despite rising costs. It's a terrible result, and it's a result that you only see in education.

But fortunately, NCLB, federal involvement in education, more central planning, more spending from the central government—that is not the only policy option open to us. And after two full generations of that approach, and its complete ineffectiveness and wastefulness, it is about time we looked at some of the alternatives.

REP. SCOTT GARRETT: The goal of No Child Left Behind was to raise achievement by setting standards. Instead, what we've accomplished is a proverbial race to the bottom. The states understand all too well how to game the system—not just in this area but in health care and all the other areas as well—and they realize that if they simply lower their standards, then they could say, "Hey, we met our goal and we get our funding, and we don't have any of the additional restrictions." So NCLB provided an incentive for states who once had a good standard to lower that down much lower.

Furthermore, NCLB changed the focus from the education of our kids to bureaucracy and accountability issues. Because of that, money had to be spent elsewhere. According to the GAO, 41 percent of the financial support and staffing at state education agencies was needed to satisfy federal regulation. In other words, the federal government was the cause of 41 percent of the administrative burden at the state level, despite, on average, providing just 7 percent of the funding.

NCLB will cost states about $1.9 billion between 2002 and 2008. It takes more than 6 million hours of teachers' and administrators' time to deal with all the testing requirements.

As I said, I have drafted some legislation to try to address the many problems inherent in NCLB. As I did that I sat down with the folks from Cato and tried to figure out what the history of education was here on the national level and across the country as well. It really was quite illuminating. In essence, what I found out was that two things happen whenever the federal government becomes involved. First of all, they always find a new problem to address. And second, when they find that new problem, they find a new reason for greater federal involvement or control.

Let me present an alternative. We have submitted a bill, about a week or so ago, called the LEARN Act. It stands for Local Education Authority Returns Now. And


Rep. Scott Garrett

> "Keep my money in my state and keep control of my children in my hands. I believe that is a true principle of the Founding Fathers."

that is my goal, to return education authority back to where it belongs, where the Founding Fathers always intended it, in the local community and at the state level. It returns it back to the parents, the school boards, the local administrators, and so on and so forth.

You could have that occur today if a state was willing to step up and say, "We don't want any part of NCLB." Because under the law right now, a state could, to a large extent, step away from all the requirements of NCLB if it wanted to. My bill will certainly allow this, but it will also allow your state to opt out of NCLB and hold onto its funds. How fair is it that a state like New Jersey would have to continue to fund the Department of Education should it choose to opt out of NCLB?

My bill works to sever the relationship between the federal government and local, New Jersey education. And it will do so through a refundable tax credit. So, should New Jersey decide to opt out, its funds would stay in New Jersey. Not only that, its funds would never go to Washington in the first place.

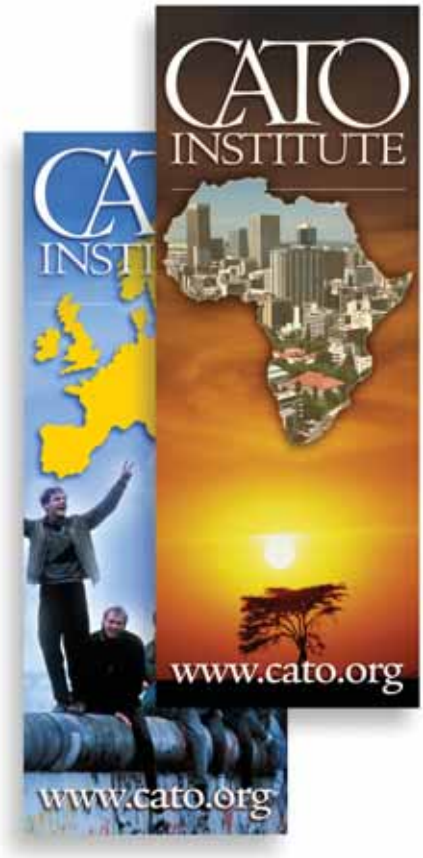
So if you're a taxpayer from whatever state you're from and your state opts out, you would basically receive when you adjust your W-2 or your W-4 for deductions—a tax credit. You as a taxpayer would never send money to Washington anymore with regard to education. So the several hundreds of millions of dollars that New Jersey sends to Washington each year on education, money that eventually at the end of the year comes back to us with strings attached, would now stay in your own pocket. You opt out; you keep the funds.

That's our plan. The basic principle is this: keep my money in my state and keep control of my children in my hands. I believe that is a true principle of the Founding Fathers.

Cato's Global Freedom Initiative

Let Freedom Ring—in China, Ghana, and the Crimea

This summer saw Cato's Global Freedom Initiative bring the ideas of individual liberty, rule of law, and freedom of trade and travel to areas that have so far had little experience of them. Spanning Asia, Africa, and post-Soviet regions, the seminars brought together local scholars and eager students to discuss the timeless ideas of liberty and prospects for its local application.



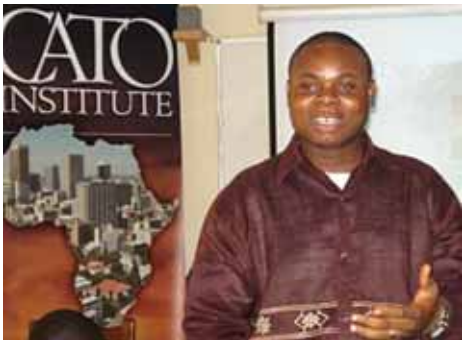
In the heart of Ghana's historic capital of Accra lies Ashesi University, which this August played host to the seminar "Inspiring African Transformation," cosponsored by Cato's Center for Promotion of Human Rights and the Imani Center for Policy and Education. Sixty-three students learned from local voices of liberty including Kenyan documentary filmmaker June Arunga, producer of "Africa's Ultimate Resource" (2005), who spoke on how her medium can be used to spotlight government corruption. The students were also treated to lectures of regional importance, such as "The Mystery of Property: How Property Rights Conquered Poverty in Rich Countries" and "Why Africa Should Forget Foreign Aid."

The China leg of the Global Freedom Initiative, "Summer School on Property Rights, Public Policy, and Constitutionalism," held in Beijing August 14 to 16, was appropriately titled. Hayek scholar Liu Junning gave a wide-ranging lecture stressing the importance of property rights, the rule of law, and constitutionalism. Junning further stressed that if China's ascent is to continue, these drivers of economic growth must continue to be fostered. Other speakers included Beijing University's resident expert on institutional economics, Xia Yeliang, as well as Mao Shoulong, a professor of public policy at Renmin University. More than 50 students from all across China took part in the seminar.

Cato's Global Freedom Initiative summer tour ended by taking the ideas of freedom to the former Soviet city of Alushta, Crimea. From September 2–8, a sparkling cast of libertarian luminaries spoke to students drawn from throughout the Russian-speaking world. Speakers included Andrei Illarionov, former economic adviser to Vladmir Putin and now a senior fellow at the Cato Institute; Johan Norberg, Swedish author of the Cato-published *In Defense of Global Capitalism,* recently issued in Russian by Cato.ru; Tom Palmer, director of Cato's Center for Promotion of Human Rights; and Georgian state minister Kakha Bendukidze. The seminar included breakout sessions on styles of leadership, how to influence mainstream media, how to build a blog presence, and the use of new media strategies generally. Mikhail Dubov, author of the popular Russian economics blog Ruconomics, said he was floored by the presence of Andrei Illarionov and similarly impressed by the caliber of his fellow participants: "All of my classmates demonstrated the ability to think for themselves—to make their own conclusions. This is rare in present-day Russia."

Thinking clearly on policy issues will be promoted in 2008 as a result of the work of Cato's Center for Promotion of Human Rights, as a part of Cato's Global Freedom Initiative. The Center's fruitful partnership with the Imani center will continue with additional African seminars for English-speakers to be held in 2008. A seminar for French-speakers is planned for North Africa. In partnership with the Institute for Economic Studies-Europe, Cato will sponsor several seminars across Europe. A Winter School is being held in Shanghai and more programs are being planned for China. Lastly, Cato's first book has been published in Brazil, under the Ordemlivre.org brand, and many more programs for Portuguese speakers are planned for 2008. Stay tuned!

Says Tom Palmer, "We're laying the plans for a very, very busy 2008."



(Previous page and upper left) Chinese students gather for the "Summer School on Property Rights, Public Policy, and Constitutionalism." (Upper right) At the Crimean conference, Cato senior fellow Andrei Illarionov holds aloft a 100% cotton, 100% better alternative to communism. (Lower right) Russian-speaking students of liberty raise their hands in response to Johan Norberg's question: "Who here has enjoyed a foreign-made product?" (Lower left) Franklin Cudjoe, executive director of the Imani Center for Policy and Education, explains that while international aid will not lift Africa out of poverty, removing barriers to entrepreneurship will. (Lower middle) Kenyan documentary filmmaker June Arunga strategizes with African students at the Ghana seminar to discuss how to use narrative to propagate political messages.

Continued from page 10

that I do know, I see their value in making my life better, such as the time I landed at an unfamiliar airport and rendezvoused with a friend who was picking me up.

Interestingly, for someone who gets credit for thinking broadly about socioeconomic issues, Frank actually thinks quite narrowly about them. First, he tends to think that everyone is like him in having a strong comparative impulse. But this is false. (Abraham Buunk et al., the *Journal of Social and Personal Relationships,* found this in some people but not others.) And although Frank sometimes admits that one's concern with relative social standing will rear its ugly head in matters not just of relative consumption—how about the following: "I spent my leisure time better than you did"—he always jumps back to assuming, without much evidence, that the dominant form of status-seeking is narrowly economic.

And beyond all that, what if Frank were completely correct in his assertion that many or most people care about relative income and position? I don't doubt that some people are that way. My own solution is not to have such people as friends. But how would that justify forcibly taking their money? Wouldn't the proper thing be to persuade people not to care about others' income and even to work on one's own psyche rather than to force one's views on others? Frank's advocacy of higher taxes reminds me of a scene from the TV show *Scrubs.* Carla, a nurse on the show, suggests to the janitor that they collect money from other employees to do a good deed.

JANITOR: I'll check their lockers.
CARLA: I meant *ask* them.
JANITOR (with a quizzical look on his face): That seems kind of roundabout, but OK.

At one time, critics of economic freedom justified high taxes on high-income people on the grounds of ability to pay. They at least admitted that those taxes hurt those people. But the growing availability to even the poor of goods that were only recently thought of as luxury goods has weakened that argument. Now, Robert Frank argues for higher taxes on high-income people on the grounds that it is good for them. If that is the best the proponents of higher taxes come up with, maybe we should see this as intellectual progress.

Jack Wenders's Legacy of Liberty

Jack Wenders was a scholar, an activist, and a patriot. And when he died last November—just a week after another great libertarian economist, Milton Friedman—he made sure his contributions to the cause of freedom would live on long after his own death. He made the Cato Institute the beneficiary of his Individual Retirement Account, in which he had accumulated $1.9 million.

In a letter to Cato Institute president Ed Crane just two weeks before his death, he had noted that he had just turned 70-1/2 and thus was required by law to begin making withdrawals from his IRA. "In order to avoid having to pay taxes on these funds, which I am loath to do," he wrote, he was passing along his annual withdrawal to Cato. In addition to the annual withdrawal, he also named Cato as the beneficiary of any balance remaining at death.

John T. Wenders received his PhD in economics in 1967 at Northwestern University, and taught at Middlebury College and the University of Arizona before settling at the University of Idaho in 1981. He became a noted expert on regulation and published books, such as *The Economics of Telecommunications.* He also took a great interest in the quality of education, in particular the shortcomings of bureaucratic, monopolistic school systems, and how those shortcomings could be overcome through parental choice and market incentives. Among his many publications were articles in both *Regulation* and the *Cato Journal.*

> "Politicians are people who have what it takes to take what you have. Politics may not be the world's oldest profession, but the results are the same."

After his retirement from active teaching in 1998, his interests shifted toward local activism. When the government of Moscow, Idaho, planned to build a public pool, Wenders took the unorthodox approach of suing the city officials for taking his (and the public's) money to pay for, as he wrote in a letter to the local newspaper, "their own children's summer recreation."

But few issues raised his ire more than the government monopoly over education. Wenders served as a member of the board of Idahoans for Excellence in Education, and he was often busy making presentations about the wasteful nature of public schools in Idaho as well nationwide. In an article in *Cato Journal* in 2005, Wenders demonstrated that 36 percent of the expenditures of public schools is wasted.

Tom Luna, the superintendent of public instruction for the state of Idaho, remembered Wenders as "one of the most influential conservatives in Idaho's history.... He took on tough fights and cut through rhetoric with precision." (Of course, Jack would have corrected Luna: He was a libertarian, not a conservative.)

His precise debating style—especially when it came to irrational economic arguments—was with him up to his death. An AP report in 2006 claimed that, "the U.S. must borrow more than $2 billion per day from foreigners to finance its huge trade deficits." Wenders's response on an Idaho website was succinct: "Maybe a better way of putting this would be to say: 'Foreigners must sell the U. S. more than $2 billion per day in goods and services to finance their huge purchases of U.S. assets.'"

Wenders's philosophy on the role of government in society was perhaps best summed up by a line in one of his essays: "Politicians are people who have what it takes to take what you have. Politics may not be the world's oldest profession, but the results are the same." Indeed, "I voted for Lyndon Johnson in 1964 because I thought he would keep us out of Viet Nam. I haven't voted since."

Because of his generous bequest to the Cato Institute, Jack Wenders's commitment to sound economics and individual liberty will live on for many years, not just in his scholarly books and articles but in the activities of the Cato Institute. For information on planned giving opportunities at Cato, contact Gayllis Ward at gward@cato.org.

Is Economic Freedom Contagious?

As Cato executive vice president David Boaz wrote in a recent *Cato Policy Report* column, libertarians have a tendency to view the state of freedom as constantly deteriorating—despite evidence to the contrary. *The Economic Freedom of the World: 2007 Annual Report* provides more evidence to suggest that the state of freedom is not as bad as it may seem.

Economists James Gwartney of Florida State University and Robert Lawson of Capital University measure the four key ingredients of economic freedom—personal choice, voluntary exchange coordinated by markets, freedom to enter and compete in markets, and protection of persons and their property from aggression by others. They use a number of variables including marginal tax rates, judicial independence, and level of licensing restrictions.

The results show that economic freedom is on the rise. The average economic freedom score rose from 5.1 (out of 10) in 1980 to 6.6 in the most recent year for which data are available. Of the 102 nations with scores in 1980 and in the most recent index, 90 recorded improvements in their economic freedom score, and just 9 saw a decline. In this year's index, Hong Kong retains the highest rating for economic freedom, 8.9 out of 10; followed by Singapore, New Zealand, and Switzerland; and with Canada, the United Kingdom, and the United States tied for fifth.

The report's results suggest that the more economic freedom a country has, the more people will enjoy a higher quality of life according to a whole range of measures. For example, citizens of countries in the

top quintile of economic freedom have a life expectancy almost 20 years higher than citizens of countries in the bottom quintile. Africa—the most depressed region of the world—is also the region with the least economic freedom.

But how do countries achieve economic freedom? Is capitalism contagious? If so, to what extent; and how does it spread? In a separate chapter of this year's report, Russell S. Sobel of West Virginia University and Peter T. Leeson of George Mason University examine these questions empirically. They find that economic freedom does in fact spread, although not as strongly as might be suggested by the emphasis this idea has been given in U.S. foreign policy. Sobel and Leeson discuss the implications of these results for foreign policy and offer some predictions about the future path, and the spread, of global economic freedom. They argue that freedom does not spread quickly like falling dominoes, but rather as a slow product of regional trade liberalization.

The first *Economic Freedom of the World* report, published in 1996, was the result of a decade of research by a team that included several Nobel Laureates and more than 60 other leading scholars in a broad range of fields, from economics to political science, and from law to philosophy. This is the 11th edition of *Economic Freedom of the World* and this year's publication ranks 141 nations for 2005, the most recent year for which data are available.

The *Economic Freedom of the World* report makes a comprehensive argument that economic liberties and the reduction of government are proven to benefit everyone. Order the report for $29.95 from catostore.org, or view it online at www.freetheworld.com.

Cato Journal: "We are all Friedmanians now"

Cato's Monetary Policy Conference last year fell, unfortunately, on the same day as the death of Milton Friedman. The current issue of *Cato Journal* provides in-depth analysis of Friedman's impact on monetary policy in several articles by participants in the conference, as well as other articles addressing the role of the Federal Reserve at a time of particular uncertainty.

One especially touching tribute to Friedman comes from Anna J. Schwartz, coauthor with Friedman of *A Monetary History of the United States.* In *Cato Journal's* lead essay she describes many aspects of Friedman's persona: "an iconoclast . . . an ardent defender of freedom . . . a small man with a giant intellect."

Robert J. Barro of Harvard University

weighs in on Friedman's intellectual contributions at greater length, concluding that "we are all Friedmanians now." The spread of economic globalization is just one way that we are all Friedmanians. Eswar Prasad of Cornell University explores financial globalization and puts to the test the neoclassical assumption that increases in international capital flows should make both rich and poor countries better off.

Other articles address how the Fed should respond to a falling dollar, whether the Greenspan Fed erred in providing liquidity in the face of crises and then withdrawing that liquidity, and how the growing unfunded liabilities of Social Security and Medicare affect monetary policy. To subscribe to *Cato Journal*, go to www.cato.org and click on "Publications."

Lou Dobbs Is Wrong: U.S. Manufacturing Is Robust

If you repeat a myth enough times, people will believe that it's the truth. That's Dan Ikenson's take on the oft-repeated argument that U.S. manufacturing is in dire straits in **"Thriving in a Global Economy: The Truth about U.S. Manufacturing and Trade"** (Trade Policy Analysis no. 35). Ikenson, associate director of Cato's Center for Trade Policy Studies, argues that since the depth of the manufacturing recession in 2002, the sector as a whole has experienced robust and sustained output, revenue, and profit growth. He breaks down data that demonstrate that 2006 in particular has been a highly successful year for the revenues, profit rates, and returns on investment for the manufacturing sector.

Supply and Demand Apply to Gas Too

Everyone loves to hate oil. Liberals hate it for fueling big SUVs, and conservatives hate it because they think it subsidizes terrorism. So it shouldn't be surprising that a gas tax increase is getting support from both ends of the spectrum. In **"Don't Increase Federal Gasoline Taxes—Abolish Them"** (Policy Analysis no. 598) Jerry Taylor and Peter Van Doren, senior fellows at Cato, explain why all the premises for raising the tax are wrong. There is no market failure associated with the depletion of oil supplies—as supply decreases, prices will rise and create incentives to find alternative fuels, they explain. The externalities created by gasoline use, such as traffic and pollution, can be much better dealt with by pollution taxes, congestion fees, and automobile insurance premiums than gas taxes. Also, gas taxes do not discourage people from driving—they push people to buy more fuel-efficient vehicles instead of driving less.

Beware of Far East Entanglements

Taiwan spends far too little on its own defense, in large part because the Taiwanese consider the United States their ultimate protector. That's one of many problems with the U.S.-Taiwan relationship identified in **"Taiwan's Defense Budget: How Taipei's Free Riding Risks War"** (Policy Analysis no. 600). In the study, Cato foreign policy analyst Justin Logan and vice president for defense and foreign policy studies Ted Galen Carpenter argue it would be dubious enough for the United States to risk war with an emerging great power like China to defend a small client state even if that state were making a serious effort to provide for its own defense. It would be even worse to incur that risk on behalf of a client state that is not willing to make a robust defense effort. To minimize the risk of a disastrous conflict, the authors argue, America should promptly terminate any implied defense commitment to Taiwan.

Leave Federal Intrusion Behind

No Child Left Behind's looming expiration has been greeted with a flood of policy studies and punditry—virtually all of it assuming the law will and should be reauthorized. Disagreeing only over how it should be revised, both Republicans and Democrats assume that government-imposed standards and bureaucratic "accountability" are effective mechanisms for improving American education. In **"End it, Don't Mend It: What to Do with No Child Left Behind"** (Policy Analysis no. 599), the Center for Educational Freedom's Andrew J. Coulson and Neal McCluskey put those premises under the microscope. They find that NCLB has failed to achieve its intended goals, has had myriad negative unintended consequences, is incompatible with policies that do work, and is at the mercy of a political process that can only worsen its prospects. Coulson and McCluskey recommend NCLB not be reauthorized and that the federal government return to its constitutional bounds by ending its involvement in elementary and secondary education.

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"To Be Governed..."

TAKE THAT, THOMAS JEFFERSON

In a speech at a hospital in Des Moines, [Sen. Hillary] Clinton said she would require that all families purchase health insurance....“We can talk all we want about freedom and opportunity, about life, liberty, and the pursuit of happiness, but what does all that mean to a mother or father who can't take a sick child to the doctor?” she asked.

—***Boston Globe,*** Sept. 18, 2007

SURPRISE! SUBSIDIZED PROJECTS NOT VIABLE

Several projects subsidized by Maryland's economic development agency are in financial trouble, legislative auditors reported yesterday, citing, in particular, a resort in Western Maryland and a golf course in Calvert County.

Rocky Gap Lodge & Golf Resort, the state-subsidized retreat built for $45 million a decade ago to revive an economically depressed area, has operated in the red for years and is $27 million in debt, the auditors said.

Chesapeake Hills, a golf course that the Maryland Economic Development Corp. took over from Calvert County five years ago, is running a $1.3 million deficit and cannot pay its operating costs without help from the county, the auditors said.

—***Washington Post,*** Sept. 7, 2007

BILLIONAIRE GIVES MILLIONS TO POLITICAL CANDIDATE—AND IT'S ALL LEGAL

Oprah Winfrey, the nation's wealthiest African American and host of an afternoon television program, endorsed Sen. Barack Obama (D-Ill.) in May. Now, she is in discussions with his advisers about playing a broader role in the campaign—possibly as a surrogate on the stump or an outspoken advocate—or simply bringing her branding magic to benefit his White House bid....

Among the weapons in Winfrey's arsenal: the television program that reaches 8.4 million viewers each weekday afternoon, according to the most recent Nielsen numbers. Her Web site reaches 2.3 unique viewers each month, *"O, the Oprah Magazine,"* has a circulation of 2 million, she circulates a weekly newsletter to 420,000 fans and 360,000 people have subscribed to her Web site for daily "Oprah Alerts" by e-mail.

More than that, though, the Nielsen tracking data show that her most loyal viewers are women between 25 and 55—a group that also votes in large numbers in Democratic primaries.

—***Washington Post,*** Sept. 5, 2007

JOHN EDWARDS'S NURSE RATCHED PLAN

Democratic presidential hopeful John Edwards said on Sunday that his universal health care proposal would require that Americans go to the doctor for preventive care.

"It requires that everybody be covered. It requires that everybody get preventive care," he told a crowd sitting in lawn chairs in front of the Cedar County Courthouse. "If you are going to be in the system, you can't choose not to go to the doctor for 20 years. You have to go in and be checked and make sure that you are OK."

He noted, for example, that women would be required to have regular mammograms in an effort to find and treat "the first trace of problem."

—**Associated Press,** Sept. 2, 2007

DON'T WE ALL?

Midshipmen Face Tougher Rules and Less Liberty

—**headline in the *Washington Post,*** Aug. 18, 2007

GOOD NEWS FOR D.C. SCHOOLS

D.C. Schools Chancellor Michelle A. Rhee said yesterday that most of the District's public schools will start the academic year this month stocked with required textbooks, although more than half of the schools lack the requisite number.

—***Washington Post,*** Aug. 9, 2007

WHY POOR KIDS GET SUCH A GOOD EDUCATION

We offer free education, and don't worry about middle-class families getting benefits they don't need, because that's the only way to ensure that every child gets an education—and giving every child a fair chance is the American way. And we should guarantee health care to every child, for the same reason.

—**Paul Krugman, *New York Times,*** Aug. 27, 2007

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