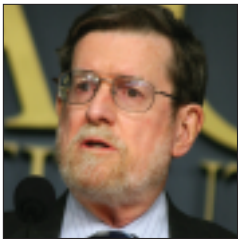

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Cato Policy Report

May/June 2008 Vol. XXX No. 3

Government, War, and Libertarianism

BY JUSTIN LOGAN

Foreign policy has been a contentious issue for libertarians since September 11, 2001. There have been countless harangues in Washington bars and policy salons over the past five years about libertarianism and the Iraq War, and the topic has been so divisive for libertarians that even Rose and Milton Friedman disagreed. She was in favor and he against, with Rose noting later: "This is the first thing to come along in our lives, of the deep things, that we don't agree on.We have disagreed on little things . . . but big issues, this is the first one!"

Why has the war—and post-9/11 foreign policy generally—been so controversial for libertarians? And now, more than six years after 9/11 and more than five years into the war in Iraq, what can libertarian insights tell us about how we got here and what to do next?

To try to answer these questions, we should begin with some libertarian starting points about government and then review the debate over the Iraq war and foreign policy more generally in the wake of 9/11.

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JUSTIN LOGAN is associate director of foreign policy studies at the Cato Institute.

Nicole Kurokawa, manager of external relations, and Joey Coon, manager of student programs, promote the Cato Institute's programs, including CatoCampus.org, at the Students for Liberty Conference held at Columbia University in February. Cato executive vice president David Boaz gave the opening keynote address. Vice President Tom Palmer and Senior Fellow Randy Barnett also spoke.

BY EDWARD H. CRANE

> "The question is not, What causes poverty? Poverty is man's natural state. The question is, How is wealth created? And here we know the answer."

Message from the President

On Trees, Wind, and *American Idol*

There was a time long ago when human beings believed that trees caused the wind. They weren't stupid, just ignorant. Today, human beings believe that money is the answer to poverty. They're still not stupid, but they're still ignorant. Recently I was reminded of this fact when the pop culture phenomenon *American Idol* held its annual "Idol Gives Back" fundraiser to help alleviate poverty around the world, particularly in Africa.

The fundraiser takes place over two nights and features dozens of Hollywood celebrities, politicians, and random wealthy folks. Each pleads with viewers to send in money, which then is divided among six charitable organizations, ranging from the Children's Defense Fund to Malaria No More. All are worthy organizations and the motives of the many celebrities and politicians are no doubt noble. Among the many notables trying to drum up cash were Billy Crystal, Robin Williams, Kiefer Sutherland, Celine Dion, Forest Whitaker, Bono, Brad Pitt, Snoop Dogg, Peyton Manning, Gloria Estefan, and, of course, Hillary Clinton, John McCain, and Barack Obama. There were many, many more, but my point is, this is a list of people who are bound to get the nation's—indeed, the world's—attention.

What a platform! Here is Whitaker talking to a boy who helps his blind father beg in Angola. There is Victoria Beckham saying, "Just one dollar can make a world of difference when you have no world." And Bono with a report from Africa on how orphan children are keeping their parents' memories alive. Fergie sums it up, "If you think about the little piece of money that people need to live in these countries and how happy it will make them . . . it's just a phenomenon." The tales of tragedy—the AIDS, the malaria, the hunger, the genocide—are endless. And that's the point. There will be no end to it until we look at the problem from a fundamentally different perspective.

"Idol Gives Back" raised more than $65 million from caring Americans. But there are some 2.5 billion people in the world living in abject poverty. *Money is not the answer.* There's not enough of it. The question is not, What causes poverty? Poverty is man's natural state. The question is, How is wealth created? And here we know the answer. It is created by entrepreneurs who live in societies that are governed by the rule of law and that protect private property. Societies that have honest court systems that respect the sanctity of contracts.

It's no secret. Every year the Fraser Institute in Vancouver, British Columbia, in conjunction with dozens of think tanks around the world, including the Cato Institute, publishes its *Economic Freedom of the World Annual Report*. The positive correlation between economic freedom and prosperity, direct investment, clean water, low infant mortality, sanitation, and low levels of corruption are there for anyone who cares about the world's poor to see.

Since 1990 no countries have eliminated more poverty than China and India. Both countries opened their economies to trade after decades of protectionism. They deregulated large portions of industry, and in China they essentially privatized agriculture. India, which had long stagnated while being the world's largest recipient of aid, is now on the cutting edge of internet technology. According to *Economic Freedom of the World*, since 1990 China has increased its economic freedom score by 31 percent; India by an impressive 35 percent. In the past 18 years an estimated 400 million people have risen out of poverty in those two nations. There is no reason the same couldn't happen in Africa. It is lack of proper institutions, not lack of money that accounts for the plight of most Africans.

Of the 141 nations studied, the top 10 in terms of economic freedom include Hong Kong, New Zealand, Switzerland, the United States, Ireland, and Estonia. The bottom 10 include nations like Rwanda, Niger, Venezuela, Democratic Republic of Congo, and Zimbabwe. As I said, it's no secret.

So next year when Ryan Seacrest introduces Brad Pitt, I want Brad to address this enormous audience with a plea that Zimbabwe stop the inflation, stop the corruption, and start protecting private property. Okay, none of us should hold our breath, but you get the idea.

Exploring common roots

Liberals and Libertarians

Liberals and libertarians have more in common than meets the eye, wrote Brink Lindsey, vice president for research, in a much-publicized 2006 *New Republic* article, "Liberaltarians." While staking out radically different policy positions, they don't differ significantly on values—they both agree, for instance, on the importance of continued cultural and economic progress. What is needed, wrote Lindsey, is a dialogue between classical liberals and welfare state liberals to discuss what a truly "progressive" politics would look like. That dialogue began in March at "In Search of a Common Liberalism," a weekend conference cosponsored by the Cato Institute and the UCLA School of Public Affairs. Andrew Sabl, associate professor of public policy and political science at UCLA, moderated, noting a shared intellectual heritage dating back to Locke, Spinoza, Montesquieu and John Stuart Mill.

Ten panelists from across the liberal-libertarian spectrum included Stephen Macedo, professor of politics at Princeton University; David Schmidtz, professor of philosophy and economics at the University of Arizona; and Chandran Kukathas, chair in political theory at London School of Economics. Panelists discussed what a serious commitment to universal opportunity and removing barriers to achievement might look like, whether corporations, families, and religious hierarchies can exert coercive power, and whether revisionist readings of Adam Smith claiming him to be a critic of capitalism and corporations have merit. Attendees included UCLA criminologist Mark Kleiman, "Dynamist" Virginia Postrel, and Brink Lindsey, who characterized the conference as "an immensely healthy recognition that liberals and libertarians speak within the broader liberal tradition." ■

Wilkinson becomes radio pundit, blogging head

Free Will

Will Wilkinson, research fellow at the Cato Institute (and participant in the "In Search of a Common Liberalism" conference), has become a biweekly contributor to Marketplace, a program heard on many public radio stations. In his first appearance on January 9, Wilkinson provocatively asked "Why not a North American Union?" calling for a common North American labor market following the example of the EU. "It's illogical and impractical to create a single North American economy that integrates markets for goods, capital, raw materials, services, and information but tries to keep labor markets divided." On February 20 he took on the notion that Americans consume too much.

Drawing on his Cato Policy Analysis, "In Pursuit of Happiness Research: Is It Reliable? What Does It Imply for Policy?" he argued that people tend to be happier, healthier, better-educated, and longer-lived in countries that consume the most. Wilkinson has also launched a new show "Free Will" on Bloggingheads.tv (www.bloggingheads.tv). Airing each Monday, "Free Will" has so far featured discussions with the authors of *New York Times* bestsellers including Daniel Ariely (*Predictably Irrational*), Jonah Goldberg (*Liberal Fascism*), and Eric Weiner (*The Geography of Bliss*). ■

NEWS NOTES

Cato adjunct scholar ROBERT CORN-REVERE was featured on the cover of *Super Lawyers*, a magazine that features attorneys at the peak of peer recognition and professional achievement. Corn-Revere is a First Amendment lawyer with the Washington, D.C., office of Davis Wright Tremaine. He made the cover by clearing the name of controversial comic Lenny Bruce, who was convicted in 1964 of violating a New York state obscenity law for giving an "indecent performance" at a Greenwich Village coffeehouse. Bruce died in 1996, but Corn-Revere petitioned then-governor George Pataki for a posthumous pardon, which Pataki granted.

JASON KUZNICKI has been named a research fellow with the Cato Institute. He has previously worked as a research assistant to Tom G. Palmer and as assistant editor of the forthcoming *Encyclopedia of Libertarianism*. His research interests include censorship, church-state issues, and civil rights in the context of libertarian political theory. He holds a PhD in history from Johns Hopkins University.

ELIZABETH KARASMEIGHAN has been named budget analyst. She will work on federal and state fiscal issues, including Cato's widely cited Fiscal Policy Report Card on America's Governors and the Downsizing the Federal Government project. Previously, Karasmeighan was a senior policy analyst with Americans for Tax Reform.

JEFF PATCH has joined the Cato Institute as a budget fellow. In that capacity he will work to identify, analyze, and expose wasteful federal earmarks. Prior to joining Cato, he was press secretary for Rep. Tom Latham (R-IA) and a staff writer at *Politico*, where he covered lobbying and advocacy.

Cato's 20th Annual Benefactor Summit in Las Vegas opened in typical Vegas fashion, as founder and president Ed Crane was escorted to the podium by a brace of showgirls. The rest of the weekend proceeded more wonkishly, with guest speeches by P. J. O' Rourke, Glenn Greenwald, and Michael Barone, and reports by more than a dozen Cato scholars. Among the more than 100 Benefactors in attendance were (above) Susan Niederhoffer, Peter Flinch, and Lana Hardy and (left) Bob and Ruth Reingold and Ron Krieger.

Ed Crane and Yuguo Wang, president of Southwestern University of Finance and Economics (SWUFE) in Chengdu, China, sign an agreement of cooperation between the Cato Institute and SWUFE to facilitate research and teaching about free markets in China.

On November 30, 2007, William Poole, president of the Federal Reserve Bank of St. Louis, spoke at a Cato Policy Forum on whether Fed rate-cutting during times of crisis can create moral hazard problems. On April 1, 2008, Poole joined the Cato Institute as a senior fellow. Poole served as president of the St. Louis Fed for 10 years. He most recently made the news for being the sole vote against the Federal Reserve's January 22 emergency 75-basis-point cut, maintaining that conditions did not merit such hasty policy action. He previously served with Cato chairman William A. Niskanen on President Ronald Reagan's Council of Economic Advisers.

Who are the real free traders in Congress? That's the question that Sen. Richard Lugar (R-IN), a consistent free trader, asked a packed house at a Capitol Hill Briefing on February 14 to unveil a new web tool offered by the Cato Institute's Center for Trade Policy Studies. Found at www.freetrade.org/congress, "Free Trade, Free Markets" is a searchable database of all members of Congress and how they voted on 160 trade bills and amendments over the past decade. The most searched records so far are those of Sen. Hillary Clinton (D-NY), Sen. Barack Obama (D-IL), and Sen. John McCain (R-AZ).

After his keynote address to the Students for Liberty Conference, DAVID BOAZ signs copies of *The Politics of Freedom* for participants. A shorter version of his remarks was broadcast by C-SPAN and can be viewed on the Cato Weekly Video page.

How did the Cato Institute get its start? These interns heard the story straight from its founder. Cato Institute cofounder and president ED CRANE traced Cato's history from its start in 1977 in San Francisco to today before the Spring class of interns on February 15. Cato interns enjoy three seminars per week featuring discussions with Cato policy staff and outside scholars.

SAID T. JAWAD visited the Cato Institute to speak on the deteriorating socioeconomic and political situation in Afghanistan. Jawad, who served as President Hamid Karzai's chief of staff in the months following September 11 and currently serves as the Afghan ambassador to the United States, spoke on the need for Afghanistan to reverse its desperately poor economic situation. He stressed, however, that economic progress was difficult given Afghanistan's fragile security situation.

FEBRUARY 4: Economic Stimulus: Facts and Fiction

FEBRUARY 6–10: 20th Annual Benefactor Summit featuring Glenn Greenwald, P. J. O'Rourke, and Michael Barone

FEBRUARY 13: *The Politics of Freedom*

FEBRUARY 14: Who Are the Real Free Traders in Congress? Featuring Sen. Richard Lugar (R-IN)

FEBRUARY 19: *Twilight at Monticello: The Final Years of Thomas Jefferson*

FEBRUARY 21: Human Organs for Sale?

FEBRUARY 26: Roundtable luncheon featuring Said T. Jawad, Afghanistan's ambassador to the United States

FEBRUARY 27: Race and the State

FEBRUARY 28: Roundtable luncheon featuring Charles Rizk, Lebanese Minister of Justice

FEBRUARY 29: What to Do about Climate Change

MARCH 4: Market Reforms and Reelection: Are They Compatible? Featuring Dick Armey

MARCH 5: Freeing Speech Now: Free Speech and Association vs. Campaign Finance Regulation

MARCH 6: *Supreme Neglect: How to Revive Constitutional Protection for Private Property* featuring Richard A. Epstein

MARCH 11: *Throes of Democracy: The American Civil War Era, 1829–1877*

MARCH 12: The Venezuelan Student Movement for Liberty

MARCH 13: *Reclaiming Conservatism: How a Great American Political Movement Got Lost—And How It Can Find Its Way Back*

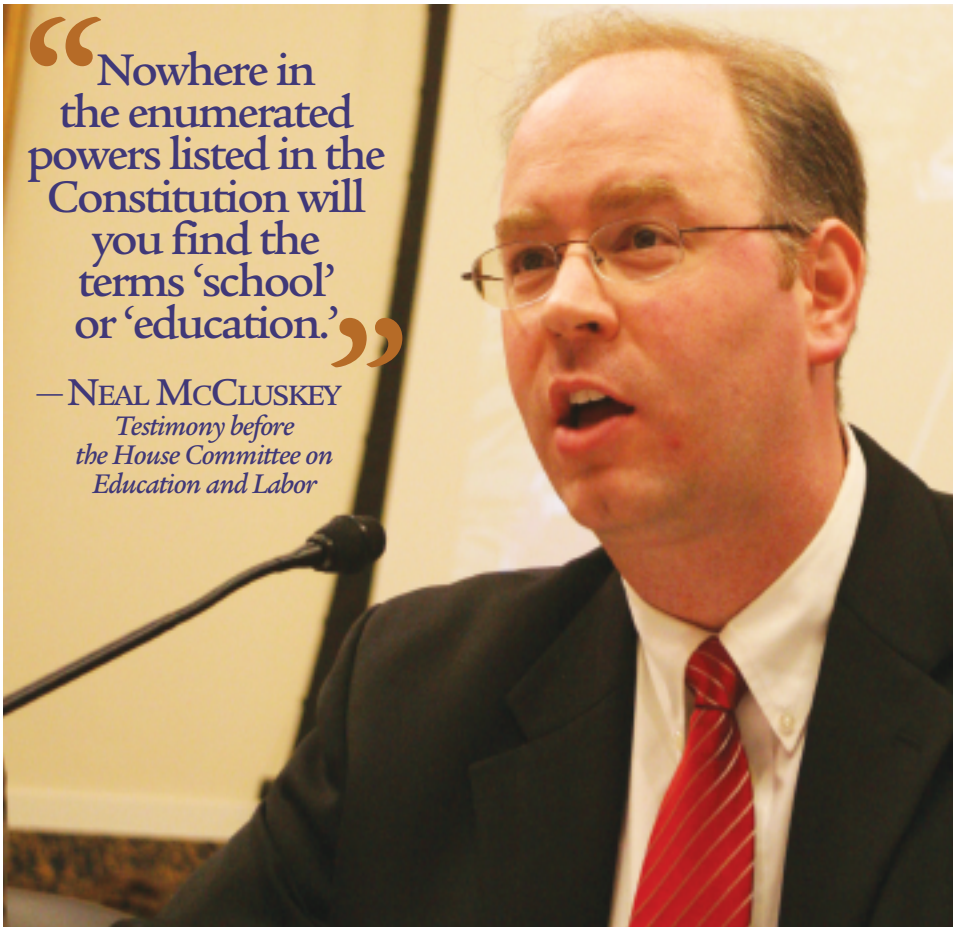
MARCH 18: *Gusher of Lies: The Dangerous Delusions of "Energy Independence"*

MARCH 18: Hayekian Insights on Economic Development

MARCH 19: Why the Supreme Court Matters in a Presidential Election Year

MARCH 24: Economic Collapse and Political Repression in Robert Mugabe's Zimbabwe

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 www.cato.org and click the Events tab at the top.



CATO CALENDAR

FREEDOM'S CAMPAIGN IN THE 21st CENTURY
CATO UNIVERSITY SUMMER SEMINAR
San Diego • Rancho Bernardo Inn
July 20–25, 2008

7TH ANNUAL CONSTITUTION DAY CONFERENCE
Washington • Cato Institute
September 17, 2008

CATO CLUB 200 RETREAT
Kiawah Island, S.C.
The Sanctuary at Kiawah Island
September 18–21, 2008

LESSONS FROM THE SUBPRIME CRISIS
26th ANNUAL MONETARY CONFERENCE
Washington • Cato Institute
November 19, 2008

POLICY PERSPECTIVES 2008
New York • Waldorf=Astoria
November 21, 2008

21ST ANNUAL BENEFACTOR SUMMIT
Riviera Maya, Mexico • Fairmont Mayakoba
March 4–8, 2009

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Then we can consider where to go from here, and what a counterterrorism policy that paid heed to libertarian insights would look like.

Government: Dangerous at Home, Beneficent Abroad?

Nation-states are self-interested collective organizations, both at home and abroad. As public choice economists tell us, the first interests the state looks after are the state's—not the people's. Quite often, the state's interests are served by war.

War historically has been the most effective generator of big government. As Bruce D. Porter observed in his book *War and the Rise of the State,* the nonmilitary sectors of the federal government grew at a faster pace during World War II than they did under the New Deal. War creates the perfect climate for the collectivist mentality, as well as ready-made occasions and arguments for expanding the power of the national state.

In the international arena, it is important to note that security—the first-order concern of any state—is ultimately contingent on a state's ability to defend itself. Decisions about national policies are based on how threatening a state views the international environment. Overall, security is scarce, and history tells us that states are competitive and leery of any state that grows too powerful and/or throws its weight around. The concentration of military power in the hands of one actor in the international system can cause fear, particularly if that state appears intent on overturning the existing balance. It was for that reason that Thomas Jefferson wrote in 1815 of his desire that nations "which are overgrown may not advance beyond safe measures of power, [and] that a salutary balance may be ever maintained among nations."

In recent years the United States has upset the world's balance. Countries assess threats on the basis of capabilities and intentions, and the U.S. government at present appears to have enough of both to alarm other governments. Washington spends roughly as much on its military as does the rest of the world combined, and political leaders in both parties argue that we need a military significantly bigger. At the same time, in addition to the attack on Iraq, American leaders have begun to openly discuss their intentions of unraveling the international order. During a June 2007 speech to the Economic Club of New York, Secretary of State Condoleezza Rice argued that "America has always been, and will always be, not a status quo power, but a revolutionary power." Thus we should not be surprised when we encounter fear and distrust from Berlin to Beijing.

> "War historically has been the most effective generator of big government."

What is most peculiar about this state of affairs is that the United States sits unchallenged atop the international order, with an unparalleled ability to shape it and with any potential peer competitor several decades away. This state of affairs is hugely beneficial to us; imperfect though it is, the United States should be working to *preserve*, not overturn, the existing international order. But some observers, including a few libertarians, seem to have concluded that the threat from terrorism is so great that the United States must embark on radical social engineering projects abroad to combat it.

What Changed after 9/11—and What Didn't

Despite the preeminent position of the United States in the international order, many American political leaders and thinkers—including some libertarians—embraced aggressively interventionist foreign policies after 9/11. The threat of international terrorism, primarily from al Qaeda, was broadened to include the nation-state of Iraq. President George W. Bush argued that an effective strategy for fighting terrorism must include regime change in Iraq in order to transform the social and political culture of the Middle East.

Most libertarians questioned those moves. Some embraced them.

Perhaps the most prominent libertarian to advance these ideas has been Randy Barnett, a nonresident senior fellow of the Cato Institute and professor of law at Georgetown University. Barnett published an op-ed in the *Wall Street Journal* in July 2007 criticizing noninterventionist libertarians for failing to understand that "libertarian first principles . . . tell us little about what constitutes appropriate and effective self-defense after an attack." He argued that libertarians can and should think of the attack against Iraq as appropriate self-defense in response to 9/11. Further, he argued that libertarians should favor "a strategy of fomenting democratic regimes in the Middle East."

Such radical government programs could only be endorsed by a libertarian *in extremis*. But there was never reason to believe Iraq was either responsible for 9/11 or plotting the next one. The Iraqi government was not involved in 9/11, and attacking it devoted scarce resources to the wrong target. The appropriate response to the newly prominent threat of nonstate terrorism was to concern ourselves more with nonstate terrorist groups, which do not have return addresses and frequently cannot be deterred. To lump in states—whose relations with each other were largely unchanged by 9/11—with such groups is to confuse different types of problems.

Barnett himself wrote in his 1998 book *The Structure of Liberty* that libertarian conceptions of self defense are limited to *imminent* attacks, a limitation that Barnett deemed "well-founded . . . because of the enormous knowledge problem that would be confronted if we were to permit self-defense actions prior to a threat becoming imminent." Barnett warned readers further that "every erroneous and unjust use of violence threatens to induce resentment, bitterness and the desire on the part of those against whom violence is used to rectify this injustice by responding violently, thereby setting off a cascade of violence."

One could apply those insights to the

war in Iraq. The U.S. government attacked Saddam's regime in the absence of any imminent threat, and it seems that we indeed induced a significant amount of resentment, bitterness, and desire for vengeance by starting the war. (The debate over whether the intelligence supporting the case for war resulted from governmental incompetence or malfeasance—and neither explanation should confound a libertarian—is irrelevant.)

In his *Wall Street Journal* article, Barnett admits supporting the war even though he believed that it would go poorly. He concedes that "to a libertarian, any effort at nation building seems to be just another form of central planning which, however well-motivated, is fraught with unintended consequences and the danger of blowback" and that he is "disappointed, though hardly shocked, that the war was so badly executed." A critic of the decision to go to war might then ask why one should support a war you expect to go badly. And given that the objective of the war was a massive social engineering project unprecedented in scope—the destruction and reformation of a regional order—how could libertarians have envisioned it going any other way than poorly?

Indeed, how is it simultaneously possible to oppose government involvement in education or health care on the grounds of the inherent lack of necessary knowledge, but believe that the federal government could invade Iraq and then unravel and reweave the fabric of a thousands-year-old society whose language we do not speak and whose tribal and confessional allegiances we do not understand? Following the insights of thinkers such as F. A. Hayek, libertarians are deeply skeptical that governments could collect and sort enough data to plan government health care or education effectively. Surely those difficulties are compounded when the goals are even more ambitious and the policies are conducted in foreign countries wracked by sectarian conflicts.

The Atlantic's Matthew Yglesias observed the debate among libertarians over the war and judged that "the notion that anything even remotely resembling libertarianism could underwrite an effort to conscript huge quantities of resources from the American public and deploy them in an attempt to wholly remake the social and political order in a foreign country is too absurd to merit a rebuttal. . . . It's coercion, it's planning, it's every non-libertarian thing under the sun."

> "Liberal capitalism is the best means for organizing human activity."

The policies that libertarian hawks have supported have cost more than half a trillion dollars and four thousand American lives—greater than cost of the 9/11 attacks themselves. (Libertarians also should not ignore the violations of individual rights that occurred in the form of the hundred thousand or so Iraqis who perished as a result of our political science experiment in their country.) Government power, unchecked by prudence or other constraints, can do great harm not only to foreign targets, but also to the very citizens that the government is charged with protecting. To craft an effective response to the terrorist threat, it is necessary to dispassionately assess the nature and scope of the threat.

Getting Threat Assessment and Response Right

The very real problem of terrorism can be handled without massive nation-building projects in the Middle East. In fact, the biggest successes in fighting terrorism since 9/11 have been achieved through cooperation with foreign intelligence services and police agencies. Precious few meaningful victories against terrorism, by contrast, can be ascribed to the government's tinkering with Iraq.

My colleague Benjamin Friedman observes that even in 2001, the flu killed more than 10 times as many Americans as did terrorism. Certainly past performance is no guarantee of future results, and one can conceive of improbable scenarios that would radically expand the destructive capacity of terrorists (their acquisition of a nuclear weapon, say). But to date, the government's nation-building-as-counterterrorism approach has been more destructive and wasteful than terrorism itself and has done little to diminish the problem. In fact, there is ample evidence that terrorists realize that the best way to inflict harm on America is to trick us into responding in ways that harm ourselves.

Osama bin Laden boasted in 2004 that it is "easy for us to provoke and bait this administration." Describing his desire to "bleed America to the point of bankruptcy," bin Laden remarked, "All that we have to do is to send two mujahedeen to the furthest point east to raise a piece of cloth on which is written 'al Qaeda,' in order to make generals race there to cause America to suffer human, economic and political losses."

Instead of allowing ourselves to be goaded into self-destructive responses, we should review our diagnosis, our prescription, and our prognosis. In pursuing an accurate diagnosis, we must confront a painful truth that study after study has revealed: U.S. foreign policy plays a significant role in public opinion in the Islamic world—and as a result, represents a big part of our terrorism problem. As a 2006 Government Accountability Office report noted, "U.S. foreign policy is the major root cause behind anti-American sentiments among Muslim populations and . . . this point needs to be better researched, absorbed, and acted upon by government officials."

The Pentagon's Defense Science Board was less diplomatic, writing in 2004 that "Muslims do not hate our freedom, but rather, they hate our policies." Bin Laden himself argued in 2004 that "contrary to what Bush says and claims—that we hate freedom—let him tell us then, why did we not attack Sweden?"

Of course, not every terrorist is motivated by rage at U.S. foreign policy. There are clearly a small number of terrorists who carry out murders for other reasons. It should go without saying that the only

viable policy approach toward committed terrorists—no matter their motivation—is to pursue them and capture or kill them in cooperation with foreign intelligence services and, in some cases, with the limited use of American military power. But our strategy should not be solely reactive. There are a vast number of people who may be receptive to bin Ladenism but aren't yet convinced they should join him. And by far the most effective recruiting tool in al Qaeda's arsenal is the notion—alarmingly widely accepted in the Muslim world—that America's actions prove we are out to destroy Islam.

Accordingly, to treat the problem we need to focus more on the question of how we can better affect the marginal terrorist recruit. What makes him or her more or less likely to join the cause? Wouldn't removing bin Laden's best recruiting tool be helpful? The other side of the coin is that al Qaeda's remarkable barbarity has been a public relations disaster in the Islamic world. Very few people—far fewer than support relatively liberal governance—express any desire to be governed by people like al Qaeda. Shibley Telhami, one of the leading pollsters of the Islamic world, testified to Congress in 2005 that al Qaeda's support in the Arab world stems disproportionately from its opposition to U.S. foreign policy. Of the Arabs in Telhami's poll expressing support for any of al Qaeda's aims, only 6 percent supported the group's objective of creating a Taliban-style state.

Al Qaeda can't sell an affirmative agenda; what it can sell is opposition to U.S. foreign policy. A smart approach to counterterrorism would recognize that fact and avoid providing bin Laden and his comrades with opportunities to pose as the defenders of Islam against a hostile, colossal, anti-Islam United States.

Now for the prognosis. It is time to take a deep breath and recognize the strength of our system. Liberal capitalism is the best means for organizing human activity. It provides for the most flourishing, it provides for the most technological innovation, and it has the strength to endure through time. During the Cold War, alarmists warned constantly about the durability of the Soviet system, insisting that it was, in many ways, stronger than our own. They were proved fantastically wrong when the sclerotic Soviet state collapsed in a shambles in 1991. To respond to the band of fanatics we face today with hysteria does not befit a great nation of our size and vitality.

> "How is it simultaneously possible to oppose government involvement in education or health care on the grounds of inherent lack of necessary knowledge, but believe that the federal government could invade Iraq and then unravel and reweave the fabric of a thousands-year-old society whose language we do not speak and whose tribal and confessional allegiances we do not understand?"

Hollow though it was, Soviet communism was a far more dangerous force than Islamic terrorism. The system that withstood the challenge of communism can similarly survive the threat from Islamic terrorists. As mentioned above, the style of governance that al Qaeda and its affiliates can offer to Muslims around the world is exceedingly unpopular. Earlier in the Bush administration, citizens of Arab countries held surprisingly favorable views of American freedom and the American people, although those figures have declined substantially. What becomes clear from the data, however, is the overwhelmingly negative view of U.S. foreign policy in the Islamic world. Putting our best face forward and emphasizing the positive features of the United States will go a long way to repairing our poor position in the world. As George F. Kennan wrote in his 1993 memoir, the United States must "never lose sight of the principle that the greatest service this country could render to the rest of the world would be to put its own house in order and to make of American civilization an example of decency, humanity and societal success from which others could derive whatever they might find useful to their own purposes."

We have lost sight of this principle. But in the months and years to come, we should refocus and take solace in the fact that certain important and basic truths remain unchanged. Our system is strong; bin Laden's is weak. We are wealthy; al Qaeda is poor. We have greatly influenced the structure of the world order; they can only affect it by provoking reaction. The best thing to do now is to jealously guard our strength, not squander it; to keep and hold our quiet confidence, not panic; and to pursue this new breed of enemy with the prudence and wisdom of a mature nation.

The political scientist Hans Morgenthau wrote in *Politics among Nations* that "throughout the nation's history, the national destiny of the United States has been understood in antimilitaristic, libertarian terms." This fact is linked to the rugged individualism of the American founding and the kernel of libertarianism that lies at the heart of the nation even today. Those who would jettison the antimilitarism would also jettison the libertarianism, compounding the tragedy.

Before his death in 2006, Milton Friedman lamented that his life's project of limiting government power was "being greatly threatened, unfortunately, by this notion that the U.S. has a mission to promote democracy around the world," pointing out: "War is a friend of the state. . . . In time of war, government will take powers and do things that it would not ordinarily do." It is for precisely that reason that libertarians, more than anyone, should not be friends of war. ■

Hayekian Insights on Development

The world has never been richer—and yet a billion people still live on less than a dollar a day. How to rescue the world's poorest citizens from extreme poverty is perhaps the most vital question facing the field of economics. At a March 18 Cato Policy Forum, William Easterly, professor of economics at New York University and codirector of NYUs Development Research Institute, and Arvind Subramanian, senior fellow at the Peterson Institute for International Economics and the Center for Global Development and senior research professor at Johns Hopkins University, looked for new answers from an unexpected source: the insights of F. A. Hayek.

WILLIAM EASTERLY: In 2001, when I was employed by the World Bank, I wrote an article for the *Financial Times* called "The Failure of Development." The World Bank, for its part, was so swayed by my arguments that they promoted me to a position outside the World Bank. But an emerging consensus of economists agrees that we don't know how to achieve development. At the Barcelona Development Agenda in 2004, a veritable Who's Who of leading economists concluded that "there is no single set of policies that can be guaranteed to ignite sustained growth." In 2007, Nobel Laureate Robert Solow, the most famous development economist of them all, said that even when countries emerge from poverty, the "source [of that growth] can be a bit mysterious even after the fact." Meanwhile, my old employer the World Bank is currently wrapping up a multimillion-dollar Commission on Growth and Development whose conclusion is, "The forces behind sustained growth are not fully understood."

The state we are in today is one in which we really don't know how to achieve development. Indeed, we've had some traumatic experiences as development economists. There used to be this mainstream economic consensus called the "Washington Consensus." It was supposed to generate strong growth in Africa, Latin America, and the Middle East in the 1980s and 1990s. It didn't happen; today we term this period the "lost decades." There was the failure of shock therapy in the former Soviet Union, where the attempt to introduce top-down free market reforms overnight resulted in one of the worst economic depressions in history. Then there is the fact that while we've achieved rapid growth episodes in some countries, they are always brief in duration. Miracles don't last.

There's also the embarrassing fact that economists have been unable to predict the success or failure of developing nations. In 1962 World Bank economists could barely contain themselves at the unveiling of an ambitious development plan by the Republic of Korea. "There can be no doubt that this development program far exceeds the potential of the . . . economy. . . . It is inconceivable that exports will rise as much as projected," they wrote of the soon-to-be Asian Miracle. Meanwhile, population growth was among some "potentially explosive problems" in Singapore that would lead to "a mounting unemployment burden" according to Nobel Laureate Gunnar Myrdal in 1968. Needless to say, Singapore managed to handle population growth.

By the laws of probability alone, economists were bound to get one right. In 1958, the World Bank wrote about a country that had "made remarkable economic progress. . . . [its] long-run potential compares favorably with those of other countries in Southeast Asia." But this quotation comes from a 1958 World Bank forecast of the prospects of Burma.

Development economists have been just as surprised by success. The stars of the 1960s and 1970s were not China and India but Brazil and Côte d'Ivoire, which have done poorly since. Why did successfully developing nations all of a sudden veer off course? If economists knew the answer, Brazil would still be booming. Meanwhile, countless attempts by development economists have been made to replicate the success of the eight Asian Miracles elsewhere in the developing world, to little avail. What's more, the Asian Miracles themselves have been unable to replicate even their own success. Ironically, since 1993, when the World Bank issued a report on the success of the Asian Miracles, their growth has regressed back to the world average.

Why is it so hard to predict growth? One reason is that unpredictability happens at every level.

Who would have predicted that the big success story in India, which has a great scarcity of skilled labor, would be the skill-intensive IT sector? Or that integrated circuits exported by the Philippines would capture 71 percent of the world market? Or that cut flowers from Kenya would capture 40 percent of the European cut flower market? Or that 30 percent of Egypt's manufacturing export revenues would come from one product being exported to one country, specifically bathroom ceramics shipped to Italy?

The "big hits" phenomenon is a general one. The top 3 manufacturing goods (out of 3,000) account for a third of all manufacturing exports in the developing world.

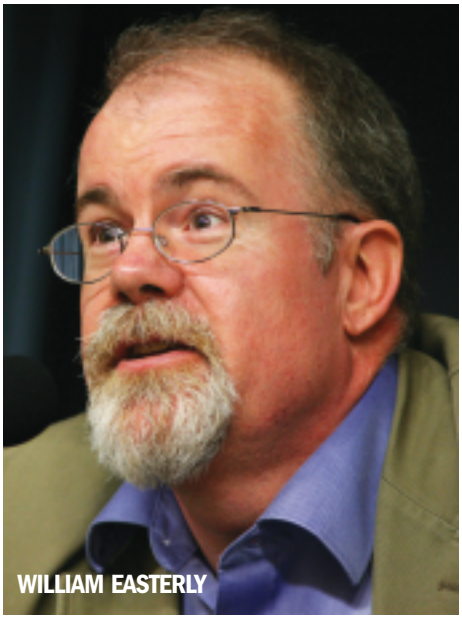
The top-ranked export on average produces 17 times more value than the 10th ranked export. Nobody can predict these "big hits"—certainly not governments or World Bank economists.

One economist who understood the unpredictable nature of growth was F. A. Hayek. Hayek, a favorite of mine since my days studying for a PhD at MIT, offered powerful insights on the role of information, the discovery process, subjective preferences, and dispersed knowledge—all making the case against planning and in favor of individual liberty and a great deal of humility. Hayek understood that the system best equipped to cope with the enormous unpredictability of growth is free market competition. "Competition is important primarily as a discovery procedure whereby entrepreneurs constantly search for unexploited opportunities that can also be taken advantage of by others," wrote Hayek. This is the system that leads to the decentralized search for "big hits" that lead to huge returns.

Despite our lack of knowledge about how to achieve development, development is happening anyway. Over the past 50 years, far from there being a poverty trap, there was parallel growth of rich and poor countries of about 2 percent per year. Now 2 percent is not the most impressive growth rate, but that the whole world for 50 years would be growing at that rate is unprecedented. That growth has been enough to fuel the greatest mass escape form poverty in human history. Fully 500 million people have been delivered from dollar-a-day poverty thanks to the economic ascent of China and India since 1970. That's one half-billion. And more are on their way.

The truth is there is no magic bullet to development. "To plan or organize progress is a contradiction in terms," as Hayek put it. Hayek's great insight was that freedom emerges from the bottom up. Some freedom leads to more freedom. Economic and political freedoms feed on one another. The success of individual business and technological entrepreneurs generate demand for more individual freedom to accommodate and exploit that success. And individual political and social entrepreneurs come up with novel incremental solutions to achieving still greater freedom. That is the path out of poverty that the developing world is taking. And that is the path they will continue to take—if only we do not get in their way.

ARVIND SUBRAMANIAN: F. A. Hayek had two major central insights. One was the "fatal conceit." The fatal conceit is the tendency among policymakers to think they can organize the complex inner workings of a modern-day economy. According to Hayek, the central planners, operating without the vast amount of knowledge dispersed among market actors, are steering blind.


WILLIAM EASTERLY

"To plan or organize progress is a contradiction in terms."

The second idea is the more general notion that liberalization and decentralization lead to prosperity. I agree with much of what Hayek said, but I have reservations about both of Hayek's central insights.

First, while the fatal conceit is an extremely important idea, we must remember that policymaking in the developing world doesn't come from Washington, D.C., and the World Bank. It often happens at the local level. Inside countries, inside capitals, policymakers must make decisions. The teachers in India are on strike—what should they do? In the real world, policymakers must address these questions. They can't throw their hands up and say "let the market decide."

In other words, I'm not so sure that the fatal conceit criticism applies to *insiders*. Domestic policymakers know a great deal about what's happening on the ground in their nations. On a more concrete level than abstract notions of individual liberty, those policymakers must make vital decisions about infrastructure and investment and things like policing.

Now I am in total agreement with Easterly on the fatal conceit of *outsiders*. Like Easterly, I've written on the failure of aid, most recently in "Aid and Growth: What Does the Cross-Section Evidence Really Show?" (2008). Aid has enormous problems, not the least of which is its tendency to prop up regimes and make them unresponsive to their citizens. As Robert Solow said, the job of economists is to consign bad ideas to the dustbin. Easterly has done tremendous work in helping to consign the idea of foreign aid as a savior of developing nations to the dustbin.

Now what about the other central insight of Hayek? That is, the importance of economic and political decentralization. Is decentralization the path to prosperity? That's certainly been the point of Easterly's presentation today.

I'm not so sure. I'm going to argue that the notion that decentralization leads to growth is only half right, or at least, still has questions surrounding it.

I think the notion that decentralization leads to better economic outcomes is broadly right because over the past 25 or 30 years we have indeed seen huge increases in economic growth and huge reductions in poverty worldwide. Surely a lot of that has to do with a global move toward economic decentralization. But there is a really deep puzzle lurking in the back of this development experience.

The slow reforming and least reformed nations, such as China, Vietnam, and India, have done better than the faster reforming and more reformed nations of Latin America and Africa. And all the while, we see a nation like India, with little privatiza-

tion, a public-sector-dominated banking system, an overregulated labor market, and a regime mostly closed to foreign trade and capital, soar economically. Over the past 25 years it has been one of the best performers in the world. And yet India is still very much a socialist system.

Were it the case that China, India, and Vietnam were doing worse than they are now, that would be a home run for the Hayekian view that more decentralization means more growth. But that's not what the data say.

Let me add that although I've been speaking about decentralization generally, if anything, this critique is truer of political decentralization. Now I believe democracy has intrinsic value, and certainly there is more to choosing a political regime than growth, poverty reductions, and the sorts of economic indicators I look at in my field. Nonetheless, you will find a very mixed picture when you look at the data on the connection between political decentralization and economic growth. When it comes to growth, democracy just doesn't help.

Here are two striking facts: the only two countries in Africa that have grown sustainably over the past 40 years are Botswana and Mauritius. What is common to them? They are the only two countries in Africa that have seen sustained and uninterrupted regimes for the past 40 years.

The overall trend in East Asia and elsewhere is that you see long periods of rapid economic growth followed by political decentralization playing "catch up." Of course, sometimes, as in the case of Singapore and China, that "catch up" never occurs.

How then do we understand this puzzle? Why do countries that have decentralized the least see the greatest growth? The way I think of it is that there is a black box out there that we don't fully understand. It's the interaction between that black box and opportunities created by markets and economic decentralization that delivers on economic development.

What is this black box? Here I am in complete agreement with Easterly and Hayek: We really don't know. Our experience has been very heterogeneous over the past 25 years. In the case of India the skills-based IT boom that everyone celebrates now was historically created by government. It is essentially a matter of luck that Indians turned out to have the skills to exploit the opportunities created by the IT revolution. In the case of China, many of its capabilities to create growth were the result of communism. I'm not saying that communism provides the recipe for economic growth—far from it. I'm simply making the point that decentralization alone does not deliver all the goodies we want from an economic system.


ARVIND SUBRAMANIAN

"I'm not so sure that the fatal conceit criticism applies to *insiders*."

Where does that leave us? I think it's clear that we have a robust understanding of the negative agenda. That is to say, as development economists, we know what *not* to do. Don't repeat the mistakes of a Zimbabwe or North Korea: Don't debase the currency, don't create hyperinflation, and don't expropriate wealth. But beyond some basic don'ts, I'm not sure we have a good sense of what to do.

We're not talking about planners from Washington, D.C., here—we're talking about the ministers and elected officials and policymakers within developing nations' governments, people who need to make choices. Do businesspeople emerge spontaneously from the fabric of those societies without the input of these officials? Or, does government create conditions for entrepreneurship? Can government do so? Should it? These questions represent an agenda for further research and reflection.

EASTERLY: Let me start with an allegory: A man quits his career as a successful, high-earning professional. Then he gives up everything he has. He becomes a homeless person, living on the streets. The next year, he returns to his job as a white collar professional. He returns to his old salary and standard of living.

Now this person has seen rapid, unparalleled year-over-year growth in his earnings. But does the return to his old income really represent a success?

This story is pretty close to the "China story" of growth. Put a megalomaniacal dictator in charge of a country. Have him bring the economy to a standstill through land "reform" and forced, failed attempts at industrialization. Have him kill tens of millions of people in the process and terrorize the remainder of the populace. Call him Mao, for purposes of illustration.

When Mao dies and a relatively less authoritarian ruler steps in, watch as business goes back to usual. Watch people go back to cultivating their private farms, return to work, invest in capital to create new businesses now that the regime is stable. China, of course, is a terrific success story. Its growth has lifted about 300 million people out of dollar-a-day, abject poverty since 1970. Still, I wouldn't recommend repeating its formula for rapid growth. Going from a disastrous situation to a less disastrous one is not the path to prosperity. And it certainly doesn't lend insights into what will work and what won't for other developing nations.

So when Subramanian and other "mainstream" development economists look at short-run GDP growth rates, they need to remember the larger, long-run perspective. Rapid GDP growth rates over short spans of time are welcome, but they do not necessarily represent real change. I think that's the

Continued on page 17

Crane asks, Is Hillary a neocon?

Cato Analysts Take a Skeptical Look at the Candidates

"Under her plan, she actually wants to put more people into Medicare. That's a program already facing a $50 trillion deficit. That's like cramming a few more passengers onto the *Titanic*."

— Michael D. Tanner
slams Clinton's healthcare plan,
Glenn Beck, September 17, 2007

"If you can make a profit in this economy by putting something on the market, the government doesn't need to put a gun to your head."

— Jerry Taylor
takes the candidates to task
for advocating subsidies to ethanol,
20/20, May 4, 2007

"Mitt Romney wants to cut the corporate tax rate down to 20 percent, which would be a fabulous cut for American business. That would expand production here in the United States. That's good for everyone."

— Chris Edwards
Glenn Beck, January 23, 2008

When P. J. O'Rourke, H. L. Mencken research fellow at the Cato Institute, spoke at the 20th Annual Benefactor Summit on February 9, it didn't take him long to settle into his comic groove. It being only a few days after Super Tuesday, he had plenty of source material.

"Rudy Giuliani's lofty campaign promise is that there will be a tragedy every week." "Everyone respects John McCain. He's tough. He's consistent. He's wrong." As for Mitt Romney, he "should go back into business."

Characterizing Barack Obama as having the "Disney factor," he said America seems to have forgotten he's still only a politician. "Politicians are like the Seven Dwarves. They're short—short on ethics, short on experience, and short on common sense," he said to roars from Cato Sponsors. "But we keep thinking one of these dwarves is going to save our snow white butt." Lamenting that Bill Richardson, Joe Biden, and Chris Dodd—"the three Democrats actually qualified to be president"—had exited the race, he expressed the hope that John Edwards (and his hair) and Hillary Clinton (and her husband) do the same.

P. J. O'Rourke is not alone among Cato scholars in having no horse in this race. Ed Crane, founder and president of the Cato Institute, doesn't much care for John McCain's saber-rattling, and reserves special scorn for his free-speech-restricting campaign finance regulations, as he pointed out most recently in a January *Examiner* interview. But the alternatives may be worse. In a *Financial Times* op-ed "Is Hillary Clinton a Neocon?" Crane asserted that Hillary Clinton fundamentally rejects the American liberal tradition. Instead of protecting life, liberty, and the pursuit of happiness, Clinton would give Americans "national goals"—and socialized healthcare.

Meanwhile Barack Obama, despite his billing, does not represent "change" either, says David Boaz, executive vice president at the Cato Institute. "When you strip away all the verbiage, what is left is a shorter version of Hillary Clinton's speeches," he said at a February 13 book launch party for *The Politics of Freedom*. Obama would provide a subsidy, a handout, a program, or a transfer to every identifiable interest group in society, said Boaz. For all the talk about rising above partisanship and transcending polarization, what Obama is really saying is that as president he—and not Hillary—would be able to "overcome America's resistance to big government." Meanwhile, Will Wilkinson, research fellow at the Cato Institute, had Obama

"There's nothing wrong with populism, if you're popularly promoting less government. And I so have some sympathy for [Huckabee's] national sales tax proposal to get rid of the entire Internal Revenue code. It'd be a difficult thing to do."

— DAN MITCHELL
The Big Story with John Gibson, Fox News, January 15, 2008

"[McCain] really doesn't seem to like the First Amendment. Hillary Clinton calls herself a government junkie and I think that pretty well tells you all you need to know. Barack Obama talks about wanting to end business as usual but when he lists what he's actually going to do, it's exactly the same thing Hillary Clinton wants."

— DAVID BOAZ
Tucker, February 19, 2008

"The idea was to pit power against power so that no one locus of power would become overbearing. Unfortunately, in the years since the Constitution was written, more and more power has moved to Washington."

— ROGER PILON
saying Republican candidates are only paying lip service to federalism, *Special Report with Brit Hume*, Fox News, August 13, 2007

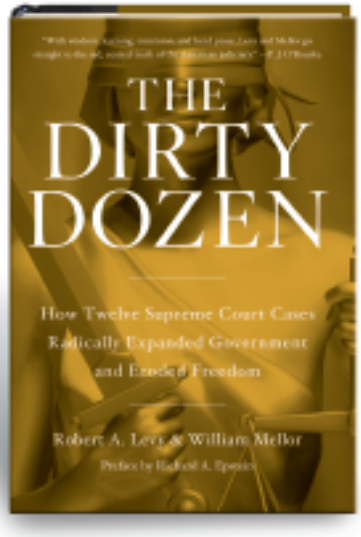
pegged as far back as 2005. Writing in the *American Spectator* on a June 4, 2005, Obama commencement address at Knox College, Wilkinson praised Obama's oratory, but said, when it comes to substance, he and his supporters must face the fact that "the New Deal . . . has not been new for 70 years now."

Cato scholars are always looking for new ways to publicize their research, and campaign commentary represents a great opportunity to do just that. In a February 29 appearance on the Fox News Channel, Daniel T. Griswold, director of the Center for Trade Policy Studies, defended NAFTA in the face of calls from Obama and Clinton to amend it. The decline in manufacturing long predated NAFTA, he asserted, and was caused by the American economy's transition from heavy industry to an information-based service economy. "It's a cruel illusion to say that if we go in and tinker with NAFTA that there will be some kind of industrial renaissance." Over the past 12 months, Cato senior fellow Michael D. Tanner has appeared on the *CBS Evening News*, ABC News Now, CNN's *Glenn Beck*, Reuters TV, and scores of radio programs to talk about the problems with government-imposed health insurance mandates and to remind viewers that, no matter who becomes president, Social Security's pending insolvency must be addressed.

Gene Healy, senior editor at the Cato Institute, is not content to critique any one candidate or policy platform. In *The Cult of the Presidency*, he takes on the entire office. Though American political culture is often deemed "cynical," Healy says that by contrast the public is immersed in a romance with the imperial presidency—it is "pining for Camelot," as he puts it. This love affair is not harmless, for when the public expects the president to solve national-scale problems, the president will usurp additional powers to meet that demand. The result is grand, unconstitutional, failed policies like No Child Left Behind—not to mention our entitlement legacy of Social Security and Medicare. A major part of Healy's April-May book tour is to remind Americans that it wasn't always this way. The Framers saw the president as a constitutionally constrained chief executive with an important, but limited job: to defend the country when attacked, check Congress when it violates the Constitution, enforce the law, and little else. Healy points out that the presidential office stood much the way the Founders envisioned as late as the last years of the 19th century. ■

Expanding government, eroding freedom

The Supreme Court's Worst Decisions



The Dirty Dozen: How Twelve Supreme Court Cases Radically Expanded Government and Eroded Freedom shows how the Supreme Court, tasked with applying the Constitution, played a central role in upending it. By misinterpreting cases that have raised key constitutional questions, the Court has expanded government and curbed individual rights in a manner never intended by the Framers.

The Dirty Dozen is written by Robert A. Levy, senior fellow and member of the Board of Directors at the Cato Institute, and William H. Mellor, president and general counsel for the Institute for Justice. Both have participated in key Supreme Court cases.

The first case Levy and Mellor examine is *Helvering v. Davis* (1937), the landmark case that upheld the Social Security system on the grounds that it aided the general welfare. Not only was the massive, fiscally unsound, then-newly minted entitlement that is Social Security sanctioned in *Helvering*, the opinion effectively transformed the Constitutions General Welfare Clause from a limitation on government power to a source of additional power. The same could be said for the second case among the dozen, *Wickard v. Filburn* (1942), which saw the interstate commerce clause turned into a conduit for Congress to regulate virtually any private activity. At the time the decision sanctioned an ill-conceived New Deal crop quota that kept the price of wheat at three times the world rate. Today under the guise of the interstate commerce clause, Congress can criminalize the use of medical marijuana by critically ill patients—even when it is grown and distributed in a single state, free of charge, under a doctor's prescription, in accordance with state law.

Levy lends special expertise to *U.S. v. Miller* (1939), which for almost 70 years until *D.C. v. Heller* has been interpreted by appellate courts to mean that individuals do not have an individual right to possess firearms. Levy, as chronicled in the March-April *Cato Policy Report*, is currently co-counsel in *D.C. v. Heller*, the waves-making Second Amendment challenge currently before the Supreme Court. Levy provides vivid detail as to the strange circumstances surrounding the muddled decision in *Miller*: The defendants were a pair of bootleggers caught sneaking a sawed-off shotgun across state lines. Their court-appointed lawyer never appeared before the Supreme Court to argue his clients' case, nor did he provide a legal brief. In fact, the only brief the Court had to guide its decisionmaking was the governments brief. No wonder it issued a decision that still puzzles lawyers, legal scholars, students, and policymakers.

> "With wisdom, learning, concision, and lucid prose, Levy and Mellor go straight to the sad, central truth of the American judiciary."
> – P. J. O'ROURKE

> "Levy and Mellor offer fascinating insights on twelve of the most important and controversial cases of our time."
> – NADINE STROSSEN
> President of the American Civil Liberties Union

Meanwhile, Mellor lends his special insight to *Kelo v. New London* (2005), a case spearheaded by the Institute for Justice that saw the Supreme Court uphold the ability of cities to take property from private citizens and give it to developers—as long as it promoted "economic development." Mellor documents in heartrending detail the circumstances surrounding the case: "The day before Thanksgiving in 2000, Susette Kelo was living in her lovingly restored Victorian home in New London, Connecticut, when a notice was tacked on her front door." And he blasts the decision: "If private property can be condemned and given to another private entity for private profit," Mellor reasons, "and if the determination of which properties are to be condemned can be delegated to a private group unaccountable to the electorate, then are there any limits on the exercise of this government power?"

Other Dirty Dozen cases of more recent vintage include the racial preferences case *Grutter v. Bollinger* (2003), the campaign finance regulations challenge *McConnell v. Federal Election Commission* (2003), and *Whitman v. American Trucking Associations* (2001), in which lawmaking by administrative agencies like the EPA was fully embraced by the Court.

The Constitution handed down to us is a remarkable framework, a bulwark against overweening, rights-usurping government. Yet it cannot function if it is interpreted exactly opposite the way it was intended. Levy and Mellor recommend that the Supreme Court revive its commitment to the text and original meaning of the Constitution and that future changes in the law be constitutionally sanctioned through the Article V constitutional amendment process. ■

Call 800-767-1241 or visit www.catostore.org to purchase your copy of *The Dirty Dozen* for $25.95 (hardcover).

Plus Wal-Mart's impact and Epstein on IP

Regulation Goes Tabloid: Sex Chats, Naked Shorting, and Bush at Midnight

Why would the operators of websites like hotlivesexchat.com and freecalls2theworld.com route phone calls to their services through rural towns like Riceville, Iowa? To take advantage of complicated telecommunications regulations and make a bundle of money from American consumers of long-distance telephone calls. Says Christopher Hixon in the Spring issue of *Regulation*, blame the FCC—it requires long-distance carriers such as Verizon to pay rural telephone carriers at inflated rates for calls originating from their network. Enter the phone sex chat lines, which reroute Verizon callers through the rural carriers, which in turn extract huge payments from Verizon thanks to the FCC rate at which they are billing. The ill-gotten earnings are then split between the sex chat line operators and the rural operators. The mechanism is a little tricky, but the bottom line is simple: carriers—and ultimately, consumers—are being fleeced because of an outmoded government regulation.

No one likes short sellers, who borrow a stock only to sell it, hoping that the price of the stock will go down and they can repurchase later at a lower price. By betting on and benefitting from instances where the stocks decrease, short sellers earn the enmity of the rest of the market, which is rooting for the prices of equities to rise. But if people don't like short sellers, they really don't like naked short sellers. Naked short sellers don't even bother to borrow stock before they sell it, leading to concerns, examined by John W. Welborn, economist with the Haverford Group (and former Cato research assistant), that these participants are artificially increasing the supply of stock. Small firms in particular can see their stock prices swing wildly as a result of the creation of what Welborn terms "phantom shares." Moreover, uncertainty is introduced as to who is a true shareholder and who isn't, leading to confusion in the corporate voting system. Welborn argues that naked shorting ought to be regulated, an opinion that finds many a sympathetic ear among investment firms, the public, and policymakers. By contrast, Christopher L. Culp, adjunct professor of finance at the University of Chicago, and consultant J. B. Heaton argue that naked short selling is financially equivalent to conventional short selling.

Other articles cover the phenomenon of "midnight regulation," whereby an outgoing presidential administration is said to

issue an unusually large number of regulations in its final year or two in office—whether the entrance of Wal-Mart into local markets really does lead to a decline in mom-and-pop shops, whether auctions in takeoff- and-landing slots could aid airport congestion, and whether developed nations owe the world for their comparatively greater contribution of carbon to the environment. Also in this issue of *Regulation* Richard A. Epstein gets the *final* final word on intellectual property. ■

Subscriptions to the quarterly magazine Regulation are $20.00 per year and may be purchased from the Cato Institute at 800-767-1241 or at the Cato online bookstore at www.catostore.org. The direct web address is www.cato.org/regulation.

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case when Subramanian cites the fact—which I agree with, and have also written about—that some of the most reformed countries in terms of economic and political liberalization have seen some of the least impressive growth rates of late, and vice versa.

It's extremely difficult to determine what works and what doesn't in development. But one way to ensure misunderstanding is to look at short-run GDP growth rates and draw hasty conclusions. Even over 10 or 20 years, the relationship between policy changes and economic growth is not always clear.

The meaningful evidence is not in growth rates but in levels. The white collar professional is rich because he can afford a nice apartment and nice restaurants. He is not rich because he was penniless last year. Please note that, according to newly revised data, China's per capita income is $1,800 per year. That's about 1/20th of U.S. per capita income. Yes, China has seen impressive growth rates, but in terms of overall level of wealth, it has a way to go. The same applies to India. India's per capita income is about 1/20th that of the United States.

So we don't know whether or not China and India represent successes. Their stories are certainly promising so far. But we must be tempered by the examples of fast-growing nations before them that have fallen back in development—or regressed to the mean, at the least. Obsession with short-run GDP growth rates can make development economists lose sight of the big picture.

I also think Subramanian, like many development economists, is too quick to credit policymakers with creating economic growth. Just because a nation sees economic growth does not necessarily mean the policymaker at the helm is responsible. Economic growth is just as likely to come from the bottom up. Sometimes there is a technological breakthrough that the political process merely accommodates. Sometimes there is a "big hit" industry that takes the lead. You can have a winning team with a bad coach. And indeed, we have no very little direct empirical evidence that policymakers can spur growth within their tenures in office. We do, however, have direct empirical evidence that they can wreck growth. And, of course, we need only read Hayek to know that. ■

Dealing with the New Russia

At a time when the United States and Russia are increasingly at odds on major world issues such as Kosovo, Iran, and energy security, Washington must shed old illusions about post-Soviet Russia and develop a more realistic policy towards Moscow, says Nikolas Gvosdev in **"Parting with Illusions: Developing a Realistic Approach to Relations with Russia"** (Policy Analysis no. 611). Gvosdev, editor in chief of *The National Interest*, writes that the United States must acknowledge that, contrary to Western perceptions, within Russia there is in fact broad-based support for Vladmir Putin's regime. It must similarly acknowledge that Russia has undergone a genuine—if limited—recovery from the economic collapse of the 1990s. With these facts in mind, U.S. policymakers should know that they lack sufficient leverage to compel Russia to acquiesce to their policy preferences. But rather than forgo Russian assistance in achieving its key foreign policy priorities, the United States should prioritize its objectives and negotiate a series of quid pro quos with Russia. Seeking an accommodation with Russia is more likely to guarantee American success in promoting its core national interest while minimizing costs—but will require U.S. policy makers to accept limits on what can be demanded of Russia.

Lessons from Iraq

Foreign policy experts and policy analysts are misreading the lessons of Iraq. The emerging conventional wisdom holds that success could have been achieved in Iraq with more troops, more cooperation among U.S. government agencies, and better counterinsurgency doctrine. To analysts who share these views, Iraq is not an example of what not to do but of how not to do it. Their policy proposals aim to reform the national security bureaucracy so that we will get it right the next time. But this near-consensus view is wrong and dangerous, says Christopher A. Preble, director of foreign policy studies at the Cato Institute; Benjamin H. Friedman, research fellow at the Cato Institute; and Harvey M. Sapolsky, professor of public policy and organization at MIT. In **"Learning the Right Lessons from Iraq"** (Policy Analysis no. 610), they stress that what Iraq demonstrates is a need for is a new national security strategy, not better tactics and tools to serve the current one. By insisting that Iraq was ours to remake were it not for the Bush administrations mismanagement, we ignore the limits on American power that the war exposes and, in the process, risk repeating the mistake.

Climate Change Policy Needed

Climate change will not be the century's most urgent environmental problem argues Indur M. Goklany, author of *The Improving State of the World*, in **"What to Do about Climate Change"** (Policy Analysis no. 609). Other, nonclimate-related factors will have a much greater impact on human wellbeing. Halting climate change would reduce cumulative mortality from various climate-sensitive threats, namely, hunger, malaria, and coastal flooding, by 4–10 percent in 2085, while increasing populations at risk from water stress and possibly worsening matters for biodiversity. But according to cost information from the United Nations Millennium Program and the Intergovernmental Panel on Climate Change, measures focused specifically on reducing vulnerability to these threats would reduce cumulative mortality from these risks by 50–75 percent at a fraction of the cost of reducing greenhouse gases. Simultaneously, such preventative measures would reduce major hurdles to the

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developing world's economic growth, the lack of which is why it is most vulnerable to climate change.

EEV Us Alone

In last summer's debate over immigration reform, Congress treated a national electronic employment eligibility verification (EEV) system as a matter of near consensus. Intended to strengthen internal enforcement of the immigration laws, electronic EEV is an Internet-based employee-vetting system that the federal government would require every employer to use. Broad immigration reform failed before Congress thoroughly considered EEV, but the lines of debate have been drawn. Advocates in Congress will try to attach a nationwide worker registration system to any immigration bill Congress considers, and the Bush administration recently announced steps to promote such a system. But in **"Electronic Employment Eligibility Verification: Franz Kafka's Solution to Illegal Immigration"** (Policy Analysis no. 612), Jim Harper, director of information policy studies at the Cato Institute, warns policymakers to think long and hard about the implications of an EEV system. To begin, EEV comes with a $20 billion price tag, and will cost hundreds of millions more per year to operate. But even if it were free, an accurate EEV system would require the creation of a national identification system, which would cause law-abiding American citizens to lose even more of their privacy. Meanwhile, "mission creep" would mean the federal government would use an EEV system to extend federal regulatory control over Americans lives even further.

A Decade of Suffering

Since 1994, the average life expectancy in Zimbabwe has fallen from 57 years to 34 years for women and from 54 years to 37 years for men. There is no freedom of speech or assembly in Zimbabwe, and the state has used violence to intimidate and murder its opponents. Robert Mugabe, the president of Zimbabwe, bears the brunt of responsibility for an economic meltdown that has turned one of Africa's most prosperous countries into a country with one of the lowest life expectancies in the world. David Coltart, shadow justice minister and member of Parliament in Zimbabwe, writes in **"A Decade of Suffering in Zimbabwe: Economic Collapse and Political Repression under Robert Mugabe"** (Development Policy Analysis no. 5), that at the root of Zimbabwe's problems is a corrupt political elite that has, with considerable international support, behaved with utter impunity for some two decades. This elite is determined to hang on to power no matter what the consequences, lest it be held to account for the genocide in Matabeleland in the early 1980s and the wholesale looting of Zimbabwe that followed the mismanaged land reform in 2000. Coltart suggests a number of solutions to rectify the current situation, including restructuring Zimbabwe's political institutions, limiting government's interference in the economy, protecting property rights and redressing past injustices.

Going for Gold

Critics have raised a number of theoretical and historical objections to the gold standard, with many calling it a "crazy" idea. And while the gold standard is not a flawless monetary system, neither is the fiat money alternative. In light of historical evidence about the comparative magnitude of these flaws, the gold standard is a policy option that deserves serious consideration, argues Lawrence H. White in **"Is the Gold Standard Still the Gold Standard among Monetary Systems?"** (Briefing Paper no. 100). White, professor of economic history at the University of Missouri-St. Louis, notes that Federal Reserve Bank economists found that "money growth and inflation are higher" under fiat standards than under gold and silver standards historically. Nor is the gold standard a source of harmful deflation. Alan Greenspan has testified before Congress that "a central bank properly functioning will endeavor to, in many cases, replicate what a gold standard would itself generate." The study addresses the leading criticisms of the gold standard, relating the costs of gold, the costs of transition, the dangers of speculation, and the need for a lender of last resort. From the perspective of limiting money growth appropriately, the gold standard is far from a crazy idea.

New Challenges to Free Trade

Three new Free Trade Bulletins from Cato's Center for Trade Policy Studies address the importance of inking a U.S. Columbia Free Trade Agreement, why the United States should not fear being in debt to foreign governments, and why free trade does not cause recessions. In **"A U.S.-Colombia Free Trade Agreement: Strengthening Democracy and Progress in Latin America"** (Free Trade Bulletin no. 32), Daniel T. Griswold and Juan Carlos Hidalgo argue that, in addition to its economic benefits, a free trade agreement with Colombia would reward and institutionalize the dramatic progress made in the past five and half years by Colombian president Álvaro Uribe. During Uribe's two terms as president, violence has significantly decreased in a nation that was on the verge of "failed state" status, and the economy has grown at a brisk average of 5 percent. In **"Nothing to Fear but Fearmongers Themselves: A Look at the Sovereign Wealth Fund Debate"** (Free Trade Bulletin no. 33), Daniel J. Ikenson says changes in foreign investment policy are unnecessary. Current U.S. rules governing banking and investment strike the right balance: they generally welcome foreign investment while being designed to ensure that such transactions do not compromise the integrity of our financial markets or our national security. And in **"Worried about a Recession? Don't Blame Free Trade"** (Free Trade Bulletin no. 34), Daniel T. Griswold says those who would blame free trade for America's next recession are looking in the wrong place. In fact, being plugged into the global economy is a major reason for this moderation of the business cycle. Countries that increase trade as a share of their gross domestic product by 10 percentage points are actually about one-third less likely to suffer sudden economic downturns than countries less open to trade. ■

"To Be Governed..."

HILLARY'S PLANS FOR YOU

[Hillary Clinton's] campaign entourage headed by motorcade to Zanesville [Ohio] for what was billed as an economic "summit."...

Then, with the bonhomie of a high-school health teacher, she turned the conversation back toward government programs to help people "quit smoking, to get more exercise, to eat right, to take their vitamins."

—*New Yorker,* March 17, 2008

AND OBAMA'S

Barack Obama will require you to work. He is going to demand that you shed your cynicism. . . . That you push yourselves to be better. And that you engage. Barack will never allow you to go back to your lives as usual, uninvolved, uninformed.

—**Michelle Obama speech at UCLA,** Feb. 3, 2008

KISS YOUR PRIVACY GOOD-BYE

Several State Department workers and contractors stirred national controversy by snooping through the confidential passport records of Hillary Clinton, John McCain and Barack Obama. But beyond those high-profile intrusions is a much larger government push to make everyone's passport data more readily accessible to a host of federal agencies. The same database that the prying workers peered into is being opened up to the Department of Homeland Security, the FBI, the U.S. Marshals Service and other federal bureaucracies. The stated aim: To tap into the records "for counterterrorism and other purposes such as border security and fraud prevention."

—*Time,* March 27, 2008

FUN WITH NATION BUILDING

Are you a road engineer who speaks Urdu? A city planner fluent in Arabic? Maybe a former judge who happens to know Pashto and seeks foreign adventure?

There's a job for you at the Civilian Response Corps, the State Department unit designed to deploy with or shortly after U.S. troops in world hot spots. The corps is designed to be a kind of international Federal Emergency Management Agency, U.S. officials said, an agency that would take charge of entities including local police, courts, the banking system and airports after states collapse or governments are defeated.

—*Washington Post,* Feb. 15, 2008

WHERE ARE THE TAXPAYERS' GOLD MEDALS?

[Rep. Tom] Davis [R-VA] is a champion of a federally funded initiative that has sent thousands of D.C. residents to college. He and other supporters of the D.C. Tuition Assistance Grant Program were honored at the reception this month in the Senate.

The program, launched in 2000 and recently renewed, provides tuition subsidies of up to $10,000 per year to D.C. residents to attend public colleges elsewhere in the country. . . .

"Were going on 11,500 kids that have been sent to college because of your work," Argelia Rodriguez, an official involved with the program, said as she draped a gold medal around Davis's neck.

—*Washington Post,* March 27, 2008

CONSERVATIVES WANT FOUR MORE YEARS OF TRILLION-DOLLAR SPENDING INCREASES, ENTITLEMENT EXPANSION, IMPERIAL PRESIDENCY, AND A FLOUNDERING WAR?

President Bush's approval rating has sunk to such depths—a new Associated Press poll found it at a record-low 30 percent—that he could just about fit all of his supporters into one room.

That's pretty much what he did yesterday.

Attendees of the annual Conservative Political Action Conference—the hardest of the hard-core believers—started lining up at 3 a.m. outside the Omni Shoreham Hotel ballroom for a chance to be in his presence. At a time when Bush is often dismissed as a lame duck, the CPAC crowd, in open defiance of the 22nd Amendment, greeted him with a thunderous cheer of "Four more years." They jumped up to applaud him so many times that they risked repetitive-stress injuries.

—**Dana Milbank in the *Washington Post,*** Feb. 9, 2008

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