



FINANCIAL FIASCO

What caused the crash?

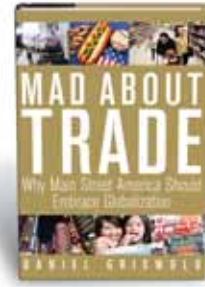
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Hard Lessons from the Auto Bailouts

BY DANIEL J. IKENSON

November 5 marked the one-year anniversary of the public unveiling of a report by the Center for Automotive Research, a Detroit-based consulting firm, warning that three million jobs were at stake in the automotive sector unless the U.S. government acted with dispatch to ensure the continued operation of all of the Big Three automakers. Detroit's media blitz was underway. It was timed to remind the president-elect, as he contemplated his victory the morning after, of the contribution to his success by certain constituencies now needing assistance themselves.

The CAR report's projection of three million lost jobs was predicated on the fantastical worst-case scenario that if one of the Big Three were to go out of business and liquidate, numerous firms in the auto supply chain would go under as well, bringing down the remaining two auto producers, then the foreign nameplate U.S. producers and, subsequently, the rest of the parts supply chain. Oddly, the report gave no consideration to the more realistic scenario that one or two of the Detroit automakers might turn to Chapter 11 reorganization.

The mainstream media obliged the script, elevated the automobile industry "crisis" to the top of the news cycle for the next month,

and helped mold the debate in the simplistic, polarizing dichotomy of "Main Street versus Wall Street." The notion that some financial institutions took risks, lost big, and were rescued by Washington became the prevailing argument for bailing out the auto companies, even as evidence of the misguided financial bailout was surfacing and despite compelling evidence that the automakers were unworthy.

Public opinion was initially sympathetic to the Main Street characterization but changed instantly when the chief executives of General Motors, Ford, and Chrysler laid waste to months of effort and resources spent trying to cultivate a winning message by arriving in Washington, tin cups in hand, aboard separate corporate jets. That fateful incident turned the media against Detroit and

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Two leaders in the fight to bring free markets to the former Soviet countries shake hands at a Cato Institute conference, "Freedom and Prosperity in Central and Eastern Europe: 20 Years after the Collapse of Communism," in September. Kakha Bendukidze (second from left), former economic reform minister of Georgia, and Vaclav Klaus, president of the Czech Republic, spoke about successful reforms in their respective countries, as well as the continuing struggle to bring capitalism to the formerly communist countries. Cato senior fellows Tom G. Palmer (left) and Richard Rahn look on.

DANIEL J. IKENSON is associate director of the Cato Institute's Center for Trade Policy Studies and coauthor of *Antidumping Exposed: The Devilish Details of Unfair Trade Law*.



BY EDWARD H. CRANE

Message from the President Afghanistan: Lost Opportunity for the GOP?

The Founders envisioned a federal government constitutionally limited to defending our rights to life, liberty, and the pursuit of happiness. For that to happen, we must have at least one political party that strongly advocates limiting the power of government. For much of the 19th century that party was the Democrats. For the early part of the 20th century and from the early 1960s through 1988, that party was the Republicans.

Today, it is difficult to find noninterventionists in either party.

The Democrats demonstrate a disdain for capitalism, free trade, and the validity of contracts. They cheer the restriction of certain types of speech on campus and in federal law, and think nation building is our moral obligation, even when there is no discernible U.S. interest involved. Lately, the Democrats have been popularly associated with opposition to waging war in far-flung corners of the globe. But evidence on the ground today tells a somewhat different tale.

As for the GOP, it has openly abandoned the limited-government principles of Barry Goldwater and Ronald Reagan. Little other evidence is needed than the Medicare prescription drug benefit—with its \$13-trillion unfunded liability—passed with a strong-arm campaign by the Bush White House and a Republican congressional majority.

What happened to the Republicans? Well, the two Bush presidencies didn't help. Neither did the supply-side movement, focused on tax cuts and economic growth, which is laudable. But supporters of those ideas didn't talk about spending cuts, much less the proper role of government. They had the effect of replacing "liberty" as the motivating force behind the GOP with "growth," a somewhat less inspiring ideal.

But perhaps most pernicious has been the role played by the neoconservatives. The late William F. Buckley used his conservative flagship publication, *National Review*, to make anti-communism the litmus test for joining the conservative movement. Dealing with the Soviets during the Cold War was clearly an important task, but it should not have opened the door to the limited government movement to the neoconservatives, who always have been advocates of big government. With the neocon foot in the policymaking door after the Cold War ended, the drumbeat for war in Iraq began in earnest a decade before 9/11.

It is important to realize that neocons are not just nation-building, American empire advocates. They like big government across the board. No Child

Left Behind, the thinly disguised effort to nationalize education in America, was principally a neocon initiative. Consider this comment from the late Irving Kristol, self-described "godfather" of the neo-conservative movement: "Neocons do not feel that kind of alarm or anxiety about the growth of the state in the past century, seeing it as natural, indeed inevitable." Indeed.

There is an insidious philosophy underlying this acceptance of the "natural" growth of statism. Neoconservative columnist David Brooks wrote in the late 1990s that we need "a vigorous One Nation Conservatism that will connect a revived sense of citizenship with the long-standing national greatness Americans hold dear." In another essay, he wrote, "Ultimately, American purpose can find its voice only in Washington. . . . Individual ambition and will power 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." A frightening worldview.

Which brings us to the war in Afghanistan. The neocons are predictably enthused about the prospect of a prolonged U.S. occupation there. A dozen or so of them recently sent a letter to President Obama urging him to up the ante. Astonishingly, the president who was elected as the anti-war protest candidate appears poised to take the neocons' advice and commit tens of thousands more troops to a conflict in which immediate U.S. interests are unclear at best.

Meanwhile, Obama's domestic agenda is in shambles. Americans are outraged at the prospect of trillion-dollar deficits, auto bailouts and the subsidies to irresponsible bankers. And they don't want socialized medicine.

The "tea parties" and town hall meetings are essentially libertarian. There is no conservative policy agenda, only a demand that the government stop trying to run our lives.

Republicans should take this opportunity to return to their traditional noninterventionist roots, and throw their neoconservative wing under the bus and forcefully oppose the war in Afghanistan. The Republicans have a chance at this moment to reclaim the mantle of the party of nonintervention—in your healthcare, in your wallet, in your lifestyle, and in the affairs of other nations.

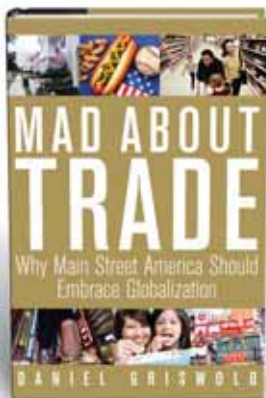
“The neocons are not just nation-building, American empire advocates. They like big government across the board.”

Daniel Griswold applauds the benefits of trade

Globalization Loves the Middle Class

If you believe Lou Dobbs and the United Steelworkers, buying products from foreigners is not only a finger in the eye of the American working class, but will precipitate economic Armageddon. Cheap goods from China are destroying American jobs and sucking our hard-earned dollars overseas.

Enter Daniel Griswold, director of Cato's Center for Trade Policy Studies, with his new book, *Mad about Trade: Why Main Street America Should Embrace Globalization*, a cool glass of sanity in the midst of all the heated rhetoric. He explains how free trade is the working family's best friend by lowering the prices of the everyday goods that consume so much of their paychecks while at the same time providing



a historically unprecedented variety of products to choose from. This creates real wealth, Griswold argues, as this "greater product variety from imports boosts our incomes by \$400 billion a year."

The benefits of trade are not limited to more and cheaper goods, however. Trade also delivers better-paying jobs for American workers and has helped American manufacturers move up the value chain. "Contrary to the common tale, expanding

levels of trade in recent decades have been accompanied by rising real hourly compensation for American workers and a higher median income for households." And this has come without a decline in manufacturing, as "the volume of U.S. manufacturing output was two-thirds higher in 2008 than when Congress passed NAFTA."

Griswold puts the apocalyptic posturing of anti-trade crusaders into perspective. "There is nothing wrong," he writes, "with the fact that Americans spend the equivalent of 2 percent of our national income on things put together by the one-fifth of mankind that lives in China." Are children starving because of globalization? In the last three decades, global poverty has fallen by one half, much of that thanks to free trade. Nor is the United States losing its sovereignty to a shadowy World Trade Organization. Instead, the WTO promotes national interest by opening markets for U.S. producers. These open markets then promote political stability and democracy and, most crucial for American families, peace.

Griswold returns again and again to the simple idea that we must not lose sight of, the fantastic and pro-humanity effects of trade. "Globalization and free trade," he points out, "have done more to lift people out of poverty than all the government foreign aid programs that ever existed." That is the ultimate message of *Mad about Trade*: trade is not about dollars and cents and winners and losers, it is about improving the lives of real people.

Visit www.catostore.org or dial 800-767-1241 to get your copy of *Mad about Trade* today; \$21.95 hardcover.

Cato News Notes

CATO WELCOMES RESEARCH FELLOW JULIAN SANCHEZ

Julian Sanchez has been named a research fellow at the Cato



Institute. Sanchez will focus on issues at the busy intersection of technology, privacy, civil liberties, and new media. Prior to joining Cato, he served as the Washington editor for the technology news site *Ars Technica*, as staff writer at Cato, and as an assistant editor for *Reason* magazine.

EXPERT ON BANKING AND MONETARY POLICY NAMED SENIOR FELLOW

George Selgin, expert on banking, monetary policy, and macro-



economics, and professor of economics at the University of Georgia, has been named a Cato senior fellow. Selgin is the author of *Bank Deregulation and Monetary Order*; *Good Money: Birmingham Button Makers, the Royal Mint, and the Beginnings of Modern Coinage*; *Less Than Zero: The Case*

for a Falling Price Level in a Growing Economy; and *The Theory of Free Banking: Money Supply under Competitive Note Issue*.

STEMMING THE TIDE OF NEW LAWYERS

The distinguished economist William A. Niskanen, longtime chairman of the Cato Institute, estimated back in 1989 that the employment of an additional lawyer in the United States reduced GNP by \$2.5 million. So we've always been glad to



have saved the American economy some \$22.5 million by keeping (at last count) nine lawyers out of the litigation business. Now, with the recession slowing the workload at law firms and firms deferring the start dates of new hires, we've been fortunate to acquire four young lawyers at no

cost to us—and at a putative savings of \$10 million to the American economy! Travis Cushman, Andrew Kasnevich, Matthew Aichele, and Brandon Simmons have already provided much needed help on the new *Supreme Court Review*, *Constitution Day*, and Cato's growing program of amicus curiae briefs before the Supreme Court.



Cato senior fellow JEFFREY MIRON (second from left) and adjunct scholar JOHN COCHRANE (right) testified before the House Financial Services Committee on September 24 at a hearing on systemic risk. Cochrane argued against further bailouts of the financial sector, while Miron told the committee that Congress should not grant the FDIC powers for resolving nonbank financial institutions.



Cato executive vice president DAVID BOAZ signs copies of *Libertarianism: A Primer* for Washington-area college students after his lecture, “Freedom in Crisis,” to the D.C. Forum for Freedom, a coalition of libertarian student groups. The event was hosted at Cato on September 18.



Cato senior fellow JOHAN NORBERG signs a copy of his new book, *Financial Fiasco: How America’s Infatuation with Home Ownership and Easy Money Created the Economic Crisis*, after a Cato Book Forum in September. Norberg’s book provides an accessible history of the causes of the crisis and a useful counterpoint to claims that the free market was to blame.



Cato adjunct scholar HARVEY SILVERGLATE testifies before the House Judiciary Committee on September 30 about cyberbullying legislation. A day later, Silverglate spoke at Cato during a forum for his book *Three Felonies a Day: How the Feds Target the Innocent*. The federal criminal code has become so convoluted and vague, he said at the forum, that it represents a significant threat to our liberties and the rule of law.

Cato Institute founder and president EDWARD H. CRANE discusses Cato's challenges and successes with heads of state-level free-market think tanks from around the country at a "State Think Tank Boot Camp" on September 6. More think-tank presidents arrived at Cato that evening and the next day for the State Health Policy Summit, featuring in-depth discussions with health policy scholars on reform ideas.



President VACLAV KLAUS of the Czech Republic greets Cato senior fellow ANDREI ILLARIONOV (right) during a Cato Institute Conference, "Freedom and Prosperity in Central and Eastern Europe: 20 Years after the Collapse of Communism." At the conference, Klaus spoke about the difficulties of building markets in his formerly communist country. He cautioned against the "Third Way" approach popular in Europe. Markets are either free or they do not exist, he said.

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reminded Americans that the automakers were in dire straits because of bad decisions. It helped convince the public that a shake out, not a bailout, was the proper course of action.

Although legislation to provide funding to the automakers passed in the House in December 2008, the bill did not garner enough support in the Senate, where it died. Prospects for any form of taxpayer bailout seemed remote, and Chapter 11 appeared imminent for both GM and Chrysler. The country, it seemed, had dodged an interventionist bullet.

Then just days after Secretary Paulson pointed out that he had no authority to use funds from the Troubled Assets Relief Program for an auto bailout, President Bush announced that he would authorize bridge loans from the TARP of \$9.4 billion to GM and \$4.0 billion to Chrysler.

With the companies incurring \$6 billion of operating losses per month, it was easy to see that those funds would be exhausted in a matter of months. And when Chrysler and GM returned to Washington—as stipulated in the terms of the loans—to present their revitalization plans to the new president, it was evident that central to those plans were billions more dollars in taxpayer assistance.

President Obama was probably correct to conclude that the companies had not produced viable business plans—although, really, why should that be the president's decision? At that moment he should have pointed the way toward the bankruptcy courts and walked away. Instead, he asserted a major role (and responsibility) for the administration by choosing to broker pre-bankruptcy deals for both companies with the major stakeholders.

To be sure, President Bush's extension of \$13.4 billion in "loans" to Chrysler and GM, in circumvention of the wishes of Congress and in contravention of the express purpose of the Troubled Assets Relief Program to support "financial institutions," was the original policy sin. Without those loans, neither automaker would have had an alternative to filing for bankruptcy protection before the end of 2008.

Bush's loans bought time for the companies and the United Auto Workers to convince President-elect and then President Obama

“
The lesson
that GM cannot
implement a crucial
operational decision
without running
things by its many
overlords bodes poorly
for the company's
prospects.”

of their fears about traditional bankruptcy. The public was told that consumers wouldn't buy cars from companies in bankruptcy. But fear of the concessions an independent bankruptcy judge likely would have required from the UAW, as well as the allure to the Obama administration of interceding and crafting a more pliable entity to showcase green production were the real reasons for avoiding orthodox Chapter 11 procedures. On June 1, one month after Chrysler filed its pre-packaged bankruptcy plans, President Obama announced GM's similar plans:

I'm confident that the steps I'm announcing today will mark the end of an old GM, and the beginning of a new GM; a new GM that can produce the high-quality, safe, and fuel-efficient cars of tomorrow; that can lead America towards an energy independent future; and that is once more a symbol of America's success.

In a matter of weeks, both GM and Chrysler emerged from Chapter 11, restructured mostly in accordance with the plans crafted by the Obama administration with taxpayers owning 60 percent of GM and 10 percent of Chrysler.

In mid-September, President Obama told a gathering of GM workers in Ohio, "Your survival and the success of our economy depended on making sure that we got the U.S. auto industry back on its feet." In other words, the president got the auto industry "back on its feet."

In the administration's telling of the auto industry saga, a knight in shining armor appears, rescues the national treasures, and

everyone lives happily ever after. But that version is merely a romanticized ending to the first chapter, which could be titled "Pandora Opens the Box." The real question now is how much damage will be caused by the monsters Pandora let out.

GOVERNMENT MOTORS

Normal bankruptcy proceedings should have started long before Bush's loans; long before President Obama had the chance to promise billions more and assume a large role for the federal government in Chrysler's and GM's restructuring and future operations. They should have started long before President Obama ran roughshod over established bankruptcy procedures and strong-armed Chrysler's and GM's preferred lenders into taking pennies on their loan dollars, while giving preference to claimants of lesser priority; long before Ford, Toyota, Honda, BMW, and the rest of America's automobile industry were denied the spoils of competition and implicitly taxed by the government's intervention; and long before other businesses in other industries started to get the idea that failure would be rewarded.

But it didn't happen that way. Instead, taxpayers are now majority stakeholders in a company whose success depends on good stewardship from 537 CEOs, most of whom do not consider GM's bottom line a priority. The pursuit of profits and political objectives often work at cross purposes, and many in Congress see GM as a vehicle through which to demonstrate the virtues of green production, regardless of economic viability. Others see GM as a jobs program, also without regard to the economics.

One of GM's first decisions upon emerging from bankruptcy was to announce closures of a number of dealerships to help reduce costs. Congress reacted by pressuring GM to reverse many of those decisions, and the House of Representatives passed a bill requiring companies that received federal funds to reestablish terminated dealership agreements.

Notwithstanding the possibility that the choice of dealership closings was made arbitrarily, if not politically, by the president's Auto Task Force, the fact remains that GM's extensive dealership networks are ripe for

cost cutting. According to GM's nominal CEO, Fritz Henderson, the planned dealer closings would save GM about \$100 in distribution costs per vehicle. That translates into a few hundred million dollars of savings per year when factoring in the millions of units GM expects to produce.

The lesson that GM cannot implement a crucial operational decision without running things by its many overlords bodes poorly for the company's prospects. It portends highly erratic management as the president and Congress wrestle for decisionmaking primacy at this majority taxpayer-owned entity. We may be in for a long period of uncertainty and instability, since the Constitution is silent on the matter of which branch of government furnishes the CEO of a nationalized company.

There have already been other clashes between what might be right from a business perspective and what might be imperative politically. The president's firing of Rick Wagoner, his subsequent endorsement of Fritz Henderson to fill GM's CEO slot, and his role in influencing the selection of GM's board members raise questions about the administration's motivations. Is the president interested in filling key executive positions with people who are best qualified to run a profitable enterprise—or with those who might be more amenable to the administration's plans for converting the economy from carbon-based fuels to renewables?

Returning GM to profitability will require higher revenues and lower costs, neither of which is made easier by imposing rigid CAFE standards. GM has had its greatest success in the larger vehicle market. GM's pickup trucks, sport utility vehicles, luxury cars, and muscle cars all have higher profit margins than its small vehicle offerings. But to even be eligible to sell an adequate number of those popular vehicles and reach overall profit targets, GM must sell a sufficient number of small cars to attain an average fleet efficiency of 35.5 miles per gallon by 2016. In other words, to satisfy consumer demand and realize profits on their most popular models, GM will have to sell—at low or no profit, or at a loss—a sufficient number of high mileage vehicles that are not as popular as policymakers imagine them to be.

“**Industry bailouts are certainly unfair to taxpayers—as well as to the firms not seeking handouts, who are implicitly taxed when their weaker competition is subsidized.**”

GM is at a huge disadvantage vis-à-vis the foreign nameplate producers in the United States, who already have loyal customers for their high-mileage vehicles. Toyota and others should have no problem meeting average mileage standards and competing in the market for large and luxury vehicles (where GM is most competitive), while GM is forced to divert resources to cultivate a skeptical market for its small cars. To quote my colleague Alan Reynolds, “General Motors can survive bankruptcy far more easily than it can survive President Barack Obama's ambitious fuel economy standards.”

Forcing the automaker to produce vehicles that Americans don't want is not going to help GM. But before policymakers get it in their heads that the way to increase demand for small cars is to impose a national gasoline tax, they should know that, in addition to being hugely unpopular, such a measure would expedite GM's demise. Small car purchasers prefer other brands.

We know this from the dynamic that played out this past summer under the “Cash for Clunkers” program. Auto buyers were given financial incentives to choose more fuel-efficient models and the results could not have been clearer. The top ten sellers included three Toyotas, three Hondas, two Fords, one Hyundai, and one Nissan. The best selling GM offering under the program was the Chevy Cobalt, which was not even a top ten seller, exacerbating the company's market share contraction, and rendering Cash for Clunkers the latest government brainchild to work at cross purposes with the grand objective of returning GM to health.

THE U.S. AUTO INDUSTRY IS HEALTHY

Last November, one day before the CEOs of GM, Ford, and Chrysler told the Senate Banking Committee that their industry faced imminent collapse without an emergency infusion of \$25 billion, a new automobile assembly plant opened for business in Greensburg, Indiana. Although the hearing on Capitol Hill received far more media coverage, the unveiling of Honda's latest facility in the American heartland spoke volumes about the future of the U.S. car industry. And it underscored the absurdity of the president's triumphalist claim that he “got the auto industry back on its feet.”

In 2008, the Big Three accounted for roughly 55 percent of U.S. light vehicle production and 50 percent of U.S. sales. Honda, Toyota, Nissan, Kia, Hyundai, BMW, and other foreign nameplate producers who manufacture vehicles in the United States are the other half of the domestic industry. They employ Americans, pay U.S. taxes, buy from U.S. businesses, contribute to charities, and have genuine stakes in their local communities.

Industry bailouts are certainly unfair to taxpayers—as well as to the firms not seeking handouts, who are implicitly taxed when their weaker competition is subsidized. In a properly functioning market economy, the better firms—those that are more innovative, more efficient, and more successful—gain market share or increase profits, while the lesser firms contract. This evolutionary process ensures that limited resources are used most productively and that the most eligible firms lead their industries into the future.

There are plenty of healthy auto producers in the United States. The ones that are best equipped to survive the recession will emerge stronger. But that process is undermined when Ford, Toyota, Kia, Honda, Volkswagen, and all the others cannot compete on a level playing field with GM to come up with the next generation of fuel-efficient cars, luxury vehicles, and gas-guzzling SUVs. The prospect that the government will throw more of its heft in support of GM is cause for genuine concern.

MAKING THE TAXPAYERS WHOLE

As a conservative estimate, the government has directed \$65 billion of taxpayer money

to GM and Chrysler since December 2008—a bargain by Wall Street bailout standards, but still a lot of money. Most Americans are none too pleased about having these “investments” made on their behalf, so the president has some incentive to make the taxpayers whole. But the likelihood that taxpayers will be made whole is dwarfed by the likelihood that the public outlay will grow larger.

In the case of GM, for taxpayers to get back their principal (without any interest or capital gain) the company will have to be worth \$83 billion. That figure is derived from the fact that taxpayers have “invested” roughly \$50 billion in GM, which is deemed by the bankruptcy plan to be worth 60 percent of the company. How likely is it that the value of GM will reach \$83 billion anytime soon?

At its historic high value in 2000, GM’s worth (based on market capitalization) stood at \$60 billion. Thus, the company’s value must increase by 38 percent from its historic high—achieved in the heady days of 2000, when Americans were purchasing 16 million vehicles per year—just to return principal to the taxpayers. U.S. demand projections for the

next few years come in at around 10 million vehicles, which suggests that prospects for the government divesting of GM profitably are extremely remote. A September report from an independent Congressional Oversight Panel reviewing the matter concludes that taxpayers are unlikely to be made whole.

Ultimately, the administration and Congress might succumb to the temptation to use public policy and the tax code to push consumers, subsidize particular products, or otherwise tip the scales further in favor of GM—again. What will happen to Ford and the foreign nameplate producers when policymakers have a favorite horse in the race? Ford is relatively healthy now, but continued assistance to GM could well drive it to the trough, too. The day may come when Ford’s management decides to travel down that path, figuring that its closest competitors, who made bad decisions over the years, got their debts erased and their downsides covered. That calculation, if it is ever made, presents the specter of another taxpayer bailout to the tunes of tens of billions of dollars, and another government-run auto company.

BAD PRECEDENTS AND POSSIBLE ILLEGALITIES

The crisis atmosphere that prevailed for the better part of a year invited rationalizations from officials in all three branches of the federal government for skirting the rules, making exceptions, passing the buck, and assuming nonexistent powers. From the misuse of TARP funds by two presidents to the marginalization of “takings” claims of secured creditors resulting from President Obama’s heavy-handed bankruptcy tactics to the courts’ lip service to justice in its repeated deference to executive claims that time was of the essence, longstanding American institutions have been weakened to our collective detriment.

When bad firms are rewarded and good firms penalized, the incentives soon fail to support progress. When investors can no longer be certain that property rights underpin their claims, they will take their money elsewhere. When political expedience surpasses law and justice as a guiding virtue, productive resources will be diverted to serving political, rather than economic ends. These should be the hard lessons of the auto bailouts.

It's the season of giving.

It's that time of year again—when we think about giving, and about our end-of-the-year tax and financial situation. We hope you'll take a moment to think about the Cato Institute's mission to advance liberty and limited government in the United States and around the world.

Please make as generous a gift as possible using the business reply envelope enclosed with *Cato Policy Report*. And please note: if you are 70 1/2 or older you may make gifts of up to \$100,000 directly from your IRA. Contributions may also be made online. Just visit www.cato.org and click on the Contribute tab.

Your holiday gift strengthens Cato's efforts to uphold and advance the cause of liberty during the challenging year ahead.

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Should the United States Withdraw from Afghanistan?

After long being overshadowed by America's other war to the west, the conflict in Afghanistan is once again the focus of public attention. President Obama has committed to "winning" it with a larger troop presence, but is the better solution to end the military presence instead? At a policy forum on September 14, foreign policy experts provided their views on why—and how—the United States should withdraw from Afghanistan. The speakers included Malou Innocent, foreign policy analyst at the Cato Institute and coauthor of "Escaping the 'Graveyard of Empires': A Strategy to Exit Afghanistan"; Celeste Ward, senior defense analyst at the RAND Corporation; Robert Naiman, national coordinator for Just Foreign Policy; and Ted Galen Carpenter, vice president for defense and foreign policy studies at the Cato Institute and coauthor of "Escaping the 'Graveyard of Empires.'"

MALOU INNOCENT: Americans understand intuitively that the question about Afghanistan is not whether the war is winnable, but whether it constitutes a vital national security interest. America still does not have a clearly articulated goal. This is why the usual topic of discussion—how to build key institutions and create a legitimate political system—is not so much misguided as it is misplaced.

The issue is not whether we *can* but whether we *should*. Only recently has the debate moved to this question. *Should* we remain in Afghanistan? The answer—when stacked against our objective of disrupting, dismantling, and defeating al Qaeda—is clearly no. Going after al Qaeda does not require a large-scale, long-term military presence for several reasons.

First, we must keep in mind that the military is wonderful for killing bad guys with disproportionate firepower, destroying enemy troop formations, or bombing

command centers, but not for finding hidden killers. The scalpel of intelligence-sharing and close cooperation with foreign law enforcement agencies has done more to round up suspected terrorists than the sledgehammer of military force.

Second, whether we withdraw or whether we stay, al Qaeda can twist our choice into a victory. If we withdraw, we appear weak—even though America is responsible for almost half of the world's military spending, can project its power to the most inaccessible corners of the globe, and wields one of the planet's largest nuclear arsenals. But America also looks weak if it remains in the region too long. The military will appear bogged down, the strategy aimless, and, despite our best efforts, military operations will continue to kill Afghan civilians, eroding support for our presence among the population.

Third, our policy toward Afghanistan is undermining core U.S. interests in

Pakistan. Drone operations have successfully killed a number of high-value targets and may have seriously degraded al Qaeda's global capabilities. But our policies are also pushing the region's powerful jihadist insurgency over the border into Pakistan. As early as 2007, in response to repeated Pakistani army incursions, along with a growing number of U.S. missile strikes, an amalgamation of over two dozen tribal-based groups calling themselves "the Taliban" began to emerge in the Pakistani border region. Unfortunately, present U.S. policy is pushing militants deeper into Pakistani cities, strengthening the very jihadist forces we seek to defeat, and pressing this weak but nuclear-armed country in the direction of civil war.

Nonetheless, I think perhaps the worst thing we can do is turn our back on this region entirely. That's what we did after nearly a decade of funding the mujahedeen, and we paid for it dearly eight years ago. But there are costs to remaining in the region, not simply in manpower and resources, but in giving al Qaeda what it wants, pushing the conflict into Pakistan, and looking weak by remaining and possibly accomplishing little. America should scale down its combat presence, continue open relations and intelligence sharing with all countries in the region, deploy Special Forces for discrete operations against specific targets, and engage in intensive surveillance as it already does today.

CELESTE WARD: Over the last few years the violence in Afghanistan has come to be dubbed an "insurgency" that requires the application of a counterinsurgency strategy. This is in keeping with the general zeitgeist of "population-centric counterinsurgency"—or COIN—which has now risen to such prominence in U.S. defense and national security thinking that it borders on theology. COIN has become the overriding theme in discussions about not just

present, but future, wars; a cultural movement in military defense circles, and, indeed, a worldview. As Colonel Gian Gentile at West Point has written, it has become the new American way of war.

The problem is that counterinsurgency doctrine and theory impede our ability to accurately apprehend the nature and extent of our predicament in Afghanistan and are serving as an awkward stand-in for a rational strategy. The existence of a much ballyhooed manual—the Army’s Field Manual 3-24—and perceived success in employing its precepts in Iraq are serving to obscure the real costs of the campaign in Afghanistan and provide a dangerous illusion concerning the limits of American power.

A central problem with population-centric COIN theory is that, at heart, it is really nation building. The theory emphasizes the population—meeting its needs, establishing governmental legitimacy, developing economies and so on. Indeed some notable COIN adherents have even emphasized its potential to “change entire societies.” So for those of you who argue that there is no strategy in Afghanistan, I would submit to you that, in effect, there is. It is implicit in the logic of COIN, and it is to transform Afghan society. But because the discussion is often wrapped in the more abstruse language of defense wonkery and larded with historical analogies and assumptions, the real strategic trade-offs—the exorbitant costs of building a nation in a country with a history of no real central governance and that ranks 219th in per capita GDP—are glossed over. I would argue that if General McChrystal had released not his counterinsurgency guidance but, instead, his “nation-building guidance,” we’d be having a very different discussion.

In addition to being the functional equivalent of nation building, there are a number of problems with counterinsurgency theory and doctrine itself. As just one example, a key precept is that we must win over the population. The theory goes that most of the population is unsure whose side they should be on, and we should influence that decision so that they will choose us. But this assumes that a foreign force such as ours could truly under-

stand, never mind penetrate and manipulate the opinions and loyalties of an ancient tribal people. The conceit inherent in this notion goes mostly unremarked upon.

By saying we’re waging a counterinsurgency campaign in Afghanistan we are



Malou Innocent

The scalpel of intelligence-sharing and close cooperation with foreign law enforcement agencies has done more to round up suspected terrorists than the sledgehammer of military force.”

committing ourselves to a massive project of nation building in a country that one commentator recently described as “like walking into the Old Testament.” It has become cliché to note the administration has yet to articulate a real strategy in Afghanistan. I would submit that counterinsurgency—as an operational concept and set of tactics—has been in effect elevated to the status of a strategy. And calling it a counterinsurgency masks layers of complexity highly relevant to the outcome: tribal rivalry, ethnic conflict, the underlying struggle between tradition and modernity, and doubtless several others.

By stripping away the jargon and slogans of counterinsurgency and instead exploring the problem of Afghanistan as it is, includ-

ing a hard look at our real ends, ways, and means, we would not be “abandoning” Afghanistan as some have suggested. But were we to commit further American blood and treasure before such an analysis, all we would risk abandoning is our reason.

ROBERT NAIMAN: The United States should withdraw its military forces from Afghanistan through a public timetable. Specifics should be negotiated with the Afghan government and other partners.

The U.S. public does not support the war in Afghanistan. Since the majority of Americans don’t support the war, the U.S. prosecution of the war should not continue.

Some say such important decisions can’t be made according to the vagaries of public opinion polls. But the most important decisions should be decided democratically, and U.S. public opinion is not volatile on questions of war and peace. Once the public turned against the Iraq war, it never turned back.

Some say the war is making Americans safer. But the American public is the highest judge on this question. Since the American people oppose the war, they must believe it is not making them safer, or that whatever contribution the war is making to their safety is too small to justify the human and financial costs.

Some argue against a “precipitous” withdrawal. In practice, this is a straw argument. The probability of a “precipitous” U.S. withdrawal is minuscule. The overwhelming likelihood is that as the U.S. moves towards withdrawing its troops, it will do so gradually, as it is doing in Iraq.

The Afghan government cannot be perceived as legitimate when it doesn’t have effective input into key decisions affecting the country’s welfare. Whether and how the war should continue, whether and with whom there should be negotiations, isn’t being decided in Kabul. President Karzai asked for an agreement governing the conduct of foreign forces and said there should be negotiations with top insurgent leaders. The U.S. government has ignored these demands.

President Karzai has said he would invite the Taliban to a *loya jirga*, or grand tribal council, to restart stalled peace talks. The

idea of a broad national reconciliation process in Afghanistan that includes tribes backing the Taliban and other insurgents has long been advocated by the top U.N. official for Afghanistan, Kai Eide. A new *loya jirga* could establish a new national unity government including leaders representative of Afghanistan's various insurgencies.

The proposition that there will eventually be negotiations with insurgents in Afghanistan has been accepted by U.S. leaders. Admiral Mullen says we can't do so now because we'd be bargaining from a position of weakness. But more war is not likely to significantly affect the fundamental outlines of an eventual agreement. We should start negotiations now. The sooner negotiations begin, the sooner they can be concluded.

U.S. officials have said Mullah Omar is "irreconcilable." But the United States has one overriding legitimate national security interest in Afghanistan: that it not be a base for organizing attacks against the United States. Reports in the British press of past peace talks have indicated that Taliban leaders accept the legitimacy of that U.S. interest. If Mullah Omar will sign and enforce an agreement that Afghanistan will not be a base for organizing attacks on the United States, then he is "reconcilable" to the interests of the majority of Americans.

If the United States signals willingness to negotiate a withdrawal timetable with a national unity government, that will be a strong incentive for the formation of such a government: whoever participates will be at the table for negotiations.

TED GALEN CARPENTER: The United States, as of next month, will have been in Afghanistan for eight years. It is not only time to ask some hard questions, it's well past time to ask those questions.

Among the questions we ought to be asking: specifically what are America's objectives in Afghanistan? It's not enough to say we want to win. *Specifically*, what are our objectives? Second question: specifically, what is the strategy to achieve those objectives? Third question: what is the probability that the chosen strategy *can* achieve the stated objectives? And then, finally, what is the probability that the objectives can be

achieved with *any* feasible strategy? We waited seven long years for the Bush Administration to address those questions and it never really did so. We've now waited nearly eight months for the Obama administration to do so and it really has not pro-



Ted Galen Carpenter

“No matter how long we stay, how much money we spend, and how many lives we squander, Afghanistan is never going to become a central Asian version of Arizona.”

vided adequate answers for any of those questions, much less all of them.

What has happened is we seem to have drifted into an amorphous, open-ended, nation-building mission, one of unlimited scope and unlimited duration. That is a very bad business indeed. Our objective should be to prevent al Qaeda from again using Afghanistan as a reliable sanctuary to plan and execute large-scale attacks against the United States, as it did on 9/11. Now that's a fairly specific, fairly narrow objective. But that's really the core American interest in Afghanistan.

There are numerous missions that have been suggested, and this country seems to be pursuing, that we don't need to pursue to achieve that narrow objective. For example,

we don't need to try to transform Afghanistan into a stable, modern, democratic society with a strong central government in Kabul. I would argue that can't be done in any case. At least, it can't be done at a reasonable cost in blood and treasure and in a reasonable amount of time. Afghanistan is largely a pre-industrial, clan- and tribal-based society. It is almost a misnomer to refer to it as a nation-state in the Western sense of the term. In addition, nation building has a lousy track record, even in arenas that are far more promising than Afghanistan.

Secondly, we don't need to win a war on drugs in Afghanistan to accomplish our core security objective. This is another mission into which we have seemingly drifted. An August report to the Senate Foreign Relations Committee made a startling admission; namely, that there is no credible evidence that al Qaeda derives significant revenues from narcotics trafficking. (That startled even me.) The Taliban does. As a matter of fact, just about everybody else in Afghanistan does. Illegal drugs, whether we like it or not, are a pervasive part of Afghanistan's economy, roughly a third of the country's total GDP. And lest we think that it's just the insurgents who benefit from narcotics revenues, pro-government factions are in the trade up to their eyeballs. Indeed, it would be much easier to draw up a list of prominent Afghan political figures who are not involved in the drug trade than it would to draw up a list of the ones who are. And it would be a much shorter list to cite the ones who are not.

Finally, we do not need to crush the Taliban to achieve our legitimate objectives regarding al Qaeda. It has been a big mistake of U.S. policymakers to conflate al Qaeda and the Taliban. The former is a foreign terrorist organization with the United States in its crosshairs. The latter is an admittedly repulsive political faction, but it represents a parochial insurgency and, in some ways, Pashtun solidarity, which is something to which we'd better pay attention. It is not a direct security threat to the United States. What has happened over the years is that we have drifted into a war against the Taliban, not primarily against al

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Celebrating Constitution Day with a new Cato Supreme Court Review

How Libertarian Is the Constitution?

The 2008–2009 Supreme Court term may have slipped past without great controversy, but that was not the case at Cato’s eighth annual Constitution Day seminar on September 17. It was an event bookended by extraordinarily different views of the role of the Constitution in protecting individual rights, beginning with the lead article in the simultaneously released *Cato Supreme Court Review* and ending with Judge Michael McConnell’s delivery of the annual B. Kenneth Simon lecture.

Professor Randy E. Barnett of Georgetown University opens the *Review* with “Is the Constitution Libertarian?” Although his answer—it “may be the most explicitly libertarian governing document ever actually enacted into law”—is likely no surprise at a Cato Institute event, how he gets to that answer provides a fascinating trip through constitutional history and interpretation. The article, delivered as the B. Kenneth Simon lecture at last year’s Constitution Day and revised for the *Review*, distinguishes the libertarian Constitution, as written and conceived by the framers, from the anti-libertarian Constitution of today, as interpreted by the past 70 years of Supreme Court decisions. Barnett traces this decline in freedom to the switch from a presumption of liberty—the Court errs on the side of upholding freedom and limiting government authority—to a presumption of constitutionality—the Court errs on the side of upholding government authority and limiting freedom. The Constitution itself has not changed, however, and, Barnett says, retains its original, libertarian meaning. In practice, we can return to a libertarian Constitution by electing “a president who will appoint faithful originalist justices who believe in the power of courts to nullify unconstitutional laws and senators who will confirm them.”

Judge Michael McConnell, formerly of the U.S. Court of Appeals for the Tenth Circuit and now professor of law and director of the Constitutional Law Center at Stanford Law School, closed Constitution Day by delivering this year’s annual B. Kenneth Simon lecture. McConnell’s speech, titled



Judge Michael McConnell (top left) delivered the B. Kenneth Simon lecture at Cato’s 2009 Constitution Day conference. McConnell dismissed the libertarian reading of the Constitution presented at last year’s conference by Professor Randy Barnett (top right), who challenged him during the question period, as did other members of the audience, such as Judge Douglas H. Ginsburg (bottom right) and Georgetown University Professor Nicholas Quinn Rosenkranz (bottom center).

“Natural Rights and the Effect of Partial Enumeration,” and proved both thought provoking and controversial. McConnell argued against Barnett’s libertarian reading of the Constitution’s unenumerated rights and advanced the potentially troubling thesis that those rights not explicitly listed in the text can claim only the common law protection they may have had prior to the signing of the Bill of Rights. In other words, any rights “retained by the people,” in the words of the Ninth Amendment, can be abridged by Congress, provided the abridgement is conducted with precise language not open to less invasive interpretation. Thus McConnell argued not for a “presumption of liberty” but a presumption of congressional power. Barnett, who was in attendance, argued at length with McConnell during the question-and-answer session following the lecture. The speech and the question session are online at Cato’s website.

One case that did grab headlines during the last Supreme Court term was *Ricci v. Destefano*, not just because the lower court decision it overturned was joined by then nominee Sonia Sotomayor, but also because it dealt with the always blockbuster topic of racial discrimination. In an article, “The War between Disparate Impact and Equal Protection,” Kenneth L. Marcus finds in the case important indicators about the Court’s thinking on the Equal Protection Clause. “Equal protection is consistent with disparate impact,” Marcus writes, “only when the latter provision is narrowly construed.”

Cato’s vice president for legal affairs and director of the Center for Constitutional Studies Roger Pilon predicts that the obscure regulatory case of *Wyeth v. Levine* will lead to “yet more conflicting regulations at the state and local level” and will only exacerbate the existing preemption problem.

Chris Edwards stirs up controversy

Federal Employees Grow Fat While Private Workers Tighten Their Belts

In a series of three posts on the Cato@Liberty blog this August, Cato Institute director of tax policy studies Chris Edwards exposed what ought to be obvious to anyone: federal employees are quite well paid. In fact, in total compensation as workers in the private sector, federal employees, on average, earn twice as much. What's more, the gap between government and private workers is growing. In 2000 the average federal civilian compensation was \$76,187, while private sector employees earned \$45,772. In 2008, while those not embraced by the comfortable, recession-proof arms of the federal government have seen their average compensation grow to only \$59,909, federal workers now take home a whopping average of \$119,982.

Edwards's analysis quickly gained much attention in the media, including two editorials in the *Investors Business Daily*, an excerpt in the *Wall Street Journal*, an excerpt in *Forbes*, and a *USA Today* quote. It was the topic of a CNN Lou Dobbs segment and a commentary by talk show host Mark Levin. The blo-



This cartoon appeared in *USA Today* a week after Chris Edwards's blog post created a flap over federal pay.

gosphere jumped on the story, too, with discussions on *The Economist* (twice), Glenn Reynolds's Instapundit, the *National Review Online* (twice), the *Atlantic*, govexec.com, federaltimes.com, fedsmith.com, and many others. And Edwards's inbox nearly burst with often irate feedback, including one fed-

eral employee who, after attacking Cato's "ivory pedestal," lamented that "capitalism is founded on abuses of labor, and on quasi criminal activity."

All this for simply pointing out that federal employees make more than they'd like you to think.

Continued from page 11

Qaeda. Indeed, on September 11 General McChrystal made an admission that I found almost as startling as the admission about drug revenues in the report to the Senate Foreign Relations Committee. He said that there really is no evidence of a significant al Qaeda presence in Afghanistan. My response to that was: well, if al Qaeda isn't in Afghanistan, why on Earth are we in Afghanistan? We went there to defeat al Qaeda. If this isn't the arena for al Qaeda anymore, then our mission seems to have no rational purpose whatsoever.

I believe we can develop a strategy for success but have to dial back the concept of victory to something that protects America's core security interests and has a reasonable prospect of success. That means focusing on disrupting and weakening al Qaeda. And note the terms I use. I don't talk about a definitive victory. That's not possible against a shadowy, nonstate terrorist adversary. We're not going to get some kind of surrender ceremony, or a signed document.

Instead, we have to treat the threat posed by al Qaeda as a chronic security problem, but one that can be managed. I tend to get very impatient with people in Washington and in the opinion-shaping sector in America generally, who seem to act as though Islamic terrorists are all 15 feet tall and about to take over the planet. They aren't, and they aren't. The sooner we realize that, the far better strategy we will have.

We need to abandon the counter-narcotics campaign in its entirety. And we need to abandon any notion of a nation-building campaign in Afghanistan. Now what should we be doing? Well, we should be cutting deals with any relevant player, not just acting as though the government in Kabul is the only relevant actor. Not just focusing on trying to create something that has never really existed in Afghanistan: a very powerful central government in control of the whole country backed by a strong national army. We need to be cutting deals with every relevant player who's willing to work with us. That means regional warlords. That means

tribal leaders. That means clan leaders. And yes, it includes trying to work out arrangements with elements of the Taliban that might be willing to try to work with us against al Qaeda. I don't think it is inevitable at all that, even if the Taliban were able to establish control over most of Afghanistan, it would necessarily give shelter again to al Qaeda. Taliban leaders have learned that there is a price to pay for that kind of decision.

We don't need a large military footprint to achieve such modest military goals. Small numbers of CIA and Special Forces personnel, to work with cooperative players, should be sufficient. That means that virtually all U.S. forces can and should be withdrawn over the next 18 months. Escalation, which is the course we're on now, is precisely the wrong strategy. No matter how long we stay, how much money we spend, and how many lives we squander, Afghanistan is never going to become a central Asian version of Arizona. We should stop operating under the delusion that it will.



Longtime libertarian environmentalist R. J. SMITH (left) talks with KATHY and BILL NISKANEN at Cato's Salmon Fiesta, held September 12 at the home of Ed and Kristina Crane. More than 350 Sponsors and friends of Cato enjoyed fresh Alaska salmon and wide-ranging policy discussions at the annual event.



The proposed climate change bill's anti-trade provisions are not only ineffective and ill-targeted, but also illegal under WTO rules, said Cato trade policy analyst Sallie James at a Capitol Hill Briefing. "A Harsh Climate for Trade: How Climate Change Proposals Threaten Global Commerce," in September.



Cato senior fellow Peter Van Doren uses basic tools to teach basic concepts of economics and public choice to congressional staffers during a lecture in August. Van Doren's talk was part of a series, Cato University on the Hill, designed to educate Capitol Hill staff on free markets, limited government, and personal liberty.



Television cameras and a packed house turned out for the Cato Capitol Hill Briefing “Restriction or Legalization? Measuring the Economic Benefits of Immigration Reform.” The briefing presented the findings of a study, commissioned by Cato and authored by Peter B. Dixon and Maureen T. Rimmer, calculating the economic benefits to ordinary Americans of increased immigration.

AUGUST 5-6: State Think Tank Boot Camp

AUGUST 7: State Health Policy Summit

AUGUST 8: *Create Your Own Economy: The Path to Prosperity in a Disordered World*

AUGUST 14: Restriction or Legalization? Measuring the Economic Benefits of Immigration Reform

AUGUST 27: *The Age of Reagan: The Conservative Counterrevolution 1980–1989*

SEPTEMBER 1: *Financial Fiasco: How America’s Infatuation with Home Ownership and Easy Money Created the Economic Crisis*

SEPTEMBER 2: Diagnosing and Treating the Roots of the Financial Crisis

SEPTEMBER 8: *Citizens United Redux: The First Amendment Vindicated?*

SEPTEMBER 9: Understanding Health Care Co-ops

SEPTEMBER 10: A Harsh Climate

for Trade: How Climate Change Proposals Threaten Global Commerce

SEPTEMBER 14: Should the United States Withdraw from Afghanistan?

SEPTEMBER 15: The Right Road for America: Top-Down Transportation Planning vs. Customer-Driven Mobility

SEPTEMBER 17: 8th Annual Constitution Day

SEPTEMBER 17: Toward a Customer-Driven Transportation Reauthorization

SEPTEMBER 21: Freedom and Prosperity in Central and Eastern Europe: 20 Years after the Collapse of Communism

SEPTEMBER 25: The Case for Withdrawal from Afghanistan

SEPTEMBER 30: The China Factor: Persuading Beijing to Get Tough with North Korea

Audio and video for all Cato events dating back to 1999, and many events before that, can be found on the Cato Institute website at www.cato.org/events. You can also find write-ups of Cato events in Ed Crane’s bimonthly memo for Cato Sponsors.

Cato Calendar

RESTORING GLOBAL FINANCIAL STABILITY

27th Annual Monetary Conference
Washington • Cato Institute
November 19, 2009

Speakers include Richard Fisher, Allan Meltzer, Judy Shelton, Luigi Zingales, and James Grant.

22nd ANNUAL BENEFACTOR SUMMIT

Palm Beach • Four Seasons Resort
February 25–28, 2010

Speakers include P.J. O'Rourke.



THE
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FRIEDMAN
PRIZE FOR
ADVANCING LIBERTY

MILTON FRIEDMAN PRIZE PRESENTATION DINNER

Washington • Hilton Washington
May 13, 2010

CATO UNIVERSITY SUMMER SEMINAR

San Diego • Rancho Bernardo Inn
July 25–30, 2010

Regulation

In the Fall edition of *Regulation*:

■ **Gio Batta Gori** leads with an examination of the United States' recent move to become the first nation to regulate cigarettes based on their relative risk to health in "Pursuing Less Risky Smokes—At Last."

■ In "America's New Fuel Economy Cartel," **Bruce Yandle** of Clemson University calls the signing of new fuel efficiency standards—and the "bootleggers and Baptists" who attended the ceremony—as the replacement of industrial capitalism with centralized political management of the auto market.

■ **Ian W. H. Parry** calls for an increase in alcohol taxes, thus answering the question raised in his article's title, "Should Alcohol Taxes Be Raised?" His conclusion draws a strong critique from **Jeffrey Miron**.

■ Plus "Obama's Antitrust Agenda," "London as Delaware?" "Regulate OTC Derivatives by Deregulating Them," reviews of *Applied Economics* and *The Invisible Hook*, and more.



the CATO JOURNAL

In the Spring/Summer edition of *Cato Journal*:

■ The relationship between the economies of the United States and China is both complex and of great significance to global financial stability. In "Effects of the Financial Crisis on the U.S.-China Economic Relationship," **Eswar S. Prasad** sets out the key facets of this relationship, discusses how it is likely to evolve, and provides a prescription for establishing common ground between the two nations' economies.

■ The question, "Can Latin America Prosper by Reducing the Size of Government?" is answered by **Radhames Lizardo** and **André V. Mollick** of the University of Texas—Pan American, who show that Latin American governments spend too much—and that their spending has a clear negative impact on economic growth.

■ Politicians often justify their policies by citing market failure, the idea that the free market has failed to accomplish a worthy goal, leaving government as the only way to attain crucial social goods. **Peter Z. Grossman** of Butler University examines the application of market failure to U.S. energy policy in "U.S. Energy Policy and the Presumption of Market Failure" and finds that the government's solutions are often worse than any failure they were intended to address.



CATO@LIBERTY

Cato's blog, updated daily with analysis from our experts, is now in the top 50 political blogs in the country, and the only think tank blog in the top 100.

Cato@Liberty, in other words, is the biggest blog of its kind.

Here's a sample of some of the summer's most popular posts:

■ Cato experts live-blogged

Obama's health care address to Congress in September—and **Michael Cannon** followed up with "Obama's Health Care Speech in Plain English."

■ **David Boaz** took on the charges of racism leveled by Obama supporters against those who protest the growth of government, saying "it is not good for democracy to try to counter every opposing argument with such a blood libel."

■ **Chris Edwards** bashed Cash for Clunkers, which he called "the dumbest government program ever." He examined its dubious accomplishments, including destroying a few billion dollars of wealth, pushing up the price of used cars, and ripping off taxpayers for \$3 billion. "The government took my money," he wrote, "to give to people who will buy new cars that are much nicer than mine!"



CATO UNBOUND

Cato Unbound has been abuzz with provocative topics lately:

■ In the October issue, **Will Wilkinson** tackled the shibboleth of income inequality, arguing that it is a poor measure of anything significant and that we should instead focus on the underlying causes of poverty. He was challenged and defended by **Lane Kenworthy** of the University of Arizona, **John V. C. Nye** of George Mason University, and **Elizabeth Anderson** of the University of Michigan.

■ Bentley University monetary economist **Scott Sumner** argued in the September issue that nearly everybody is getting "The Monetary Lessons of the Not-So-Great-Depression" entirely wrong. **James Hamilton** of the University of California, San Diego; **George Selgin** of the University of Georgia; and **Jeffrey Hummel** of San Jose State University responded.

■ August saw a discussion of the drug war in Mexico. Former Mexican foreign minister **Jorge Castañeda** said the country's drug interdiction policies are politically unpopular, expensive, and ineffective. Responding to his argument were **Stephanie Hanson** of the Council on Foreign Relations, **Jim Roberts** of the Heritage Foundation, and **Ted Galen Carpenter** of Cato.



Subscribe to *Regulation* (quarterly; \$20.00 per year) or *Cato Journal* (three times per year; \$24.00) at www.catostore.org, or by dialing 800-767-1231. **Cato@Liberty** is hosted at www.cato-at-liberty.org and *Cato Unbound* (monthly) can be found at www.catounbound.org.

New papers on preschool, high-speed rail, and Afghanistan

Congress's Health Care Trojan Horse

Compulsory health insurance through mandates may be worse than the “public option,” writes Cato director of health policy studies Michael F. Cannon in **“All the President’s Mandates: Compulsory Health Insurance Is a Government Takeover”** (Briefing Paper no. 114). Mandates would force nearly 100 million Americans into more expensive plans and eliminate health savings accounts. Whether mandates would include abortion coverage promises to spark an unnecessary fight. And mandates would lead to government-imposed rationing. All of these can be witnessed in Massachusetts, where mandates have created no more available and less expensive care but rocketing costs and a special-interest feeding frenzy. Instead of making it compulsory, Congress should make health care more affordable by giving individuals direct control over their health care dollars—and decisions.

Reading the Tea Leaves of Health Care Reform

Congress has considered several health care options that, taken together, offer a picture of what a final bill might look like. Cato senior fellow Michael Tanner examines these in **“Halfway to Where? Answering the Key Questions of Health Care Reform”** (Policy Analysis no. 643). Many proposals would force nearly 90 million Americans out of the coverage they already have and greatly increase costs, with premiums rising as much as 95 percent. Even with the increase passed on to consumers, the bills wouldn’t be budget neutral but would grow the deficit by at least \$239 billion over the next decade—with the prospect of rationing a strong likelihood. All of these bills make Americans pay far more and get far less.

Socialism Hiding behind a Pretty Name

We’re assured that a public plan is not single-payer health care but a way to introduce more competition—assertions debunked by Michael Cannon, Cato’s direc-

tor of health policy studies, in **“Fannie Med? Why a ‘Public Option’ Is Hazardous to Your Health”** (Policy Analysis no. 642). Cannon asks whether government is more efficient than the private sector at providing health services. Although many people see the lack of a profit motive as a sign of efficiency, less than 3 percent of private insurance premiums is profit. And a government plan would not have smaller administrative expenditures. A public plan won’t compete fairly, as government subsidies and regulation will provide it with advantages. A public plan is just what its proponents deny: a front for single-payer health care.

The Littlest Victims of America’s Failing Schools

The state has a firm grip on K-12 education, and the effects aren’t encouraging—and now they’re trying to extend it to preschool. Cato policy analyst Adam B. Schaeffer questions the effectiveness of preschooling in **“The Poverty of Preschool Promises:**



Saving Children and Money with the Early Education Tax Credit” (Policy Analysis no. 641). He examines the studies and finds them either inapplicable to the kinds of programs being considered or indicative of those programs’ lack of value. If we must have universal preschool, Schaeffer cautions against a public-school funding model. The program would be more effective if paid for with a tax credit, preserving market forces.

More Immigrants = More Wealth

Because the immigration debate ought to be informed by the economic effects of immigration, Cato commissioned a study by Peter B. Dixon and Maureen T. Rimmer, of Monash University in Australia, called **“Restriction or Legalization? Measuring the Economic Benefits of Immigration**

Reform” (Trade Policy Analysis no. 40). Using a standard economic model, the authors examined seven policies and measured their impact on the economy. Greater restriction on immigration will have a negative impact on the income of U.S. households. Taxpayers save very little by preventing illegal immigrants from using public services, and any savings are dwarfed by lost opportunities for American workers. Reducing the inflow of illegal immigrants by 28.6 percent, for example, will cost American households \$80 billion. Legalization of low-skilled immigrants would increase productivity, push Americans up the economic ladder, and grow GDP by \$180 billion.

It’s Time to Stop Driving in Circles

With the completion of the Interstate Highway System, the Department of Transportation is adrift without a clear mission, writes Cato senior fellow Randal O’Toole in **“Getting What You Paid For—Paying For What You Get: Proposals for the Next Transportation Reauthorization”** (Policy Analysis no. 644). DOT now follows the murky goals of reducing congestion, encouraging people to drive less, cleaning the air, and improving community and livability. While abolition is the best solution, O’Toole offers eight politically feasible proposals for the 2009 reauthorization, including appropriating funds to states on the basis of population, land area, and user fees; creating a citizen-enforcement processes to ensure efficiency; unlimited use of road tolls; eliminating clean-air mandates; and removing employee protective arrangements.

On the Fast Track to Nowhere

Congress has allocated \$8 billion for what President Obama calls “high-speed rail” and a former official with the Federal Railroad Administration called “Interstate 2.0.” But, as Cato senior fellow Randal O’Toole writes in **“High-Speed Rail Is Not ‘Interstate 2.0’”** (Briefing Papers no. 113), there are crucial differences between rail

and the highway systems. When Congress created the highways, it had an idea how much they would cost. High-speed rail will cost far more than the \$8 billion allotted. And, while users paid for the highways, rail is almost entirely subsidized by taxpayers who will rarely, if ever, ride. It will not have anywhere near the reach of the highway system, either, as the plan calls for six unconnected networks covering less than two-thirds of the 100 largest urban areas. And high-speed rail advocates estimate we will only travel an average of 60 miles by train each year. High-speed rail is nothing but a boondoggle from start to finish.

Environmental Clean-up through Trade War?

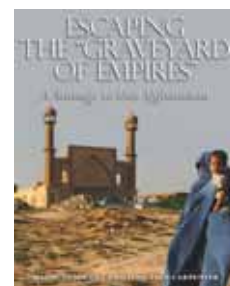
Most of the debate on cap-and-trade legislation focuses on its impact on environmental quality and costs to domestic producers and consumers. Cato trade policy analyst Sallie James, in **“A Harsh Climate for Trade: How Climate Change Proposals Threaten Global Commerce”**

(Trade Policy Analysis no. 41), urges us not to lose sight of the negative influence on international commerce. She argues that the primary victims of the proposed import quotas are minor players in the inflow of energy intensive goods. Targeting them will be antagonistic and unproductive. And the barriers may be illegal under WTO rules. A trade dispute would not be in the United States’ interest. James closes with a call for global action. Solutions to global warming, should they be needed, must come through worldwide effort, not trade barriers erected by the United States. By freeing the world economy, new clean technologies are more readily spread, with environmental—and economic—benefits for all.

Talking Sense about Afghanistan

President Obama has expanded troop presence in Afghanistan and replaced the commander of the security force. But, as Cato Institute foreign policy analyst Malou Innocent and Cato vice president for

defense and foreign policy studies Ted Galen Carpenter argue in **“Escaping the ‘Graveyard of Empires’: A Strategy to Exit Afghanistan”** (White Paper), there is little chance of the current strategy proving successful. That strategy is driven by myths, which cloud thinking about the region and U.S. interests. Military presence is not needed to defeat al Qaeda.



“Technological advances,” they write, “allow us to keep an eye on places without having tens of thousands of boots on the ground.” Nor is it reasonable to think that America can build a modern, stable Afghanistan. U.S. troops should withdraw from the country within the next 12 to 18 months and, in the interim, we must provide better training for Afghanistan’s security forces, sustain intelligence operations, and abandon the opium eradication policy.

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“To Be Governed...”

BETTER THEY SHOULD CRASH SEQUENTIALLY?

“I’ve got a lot on my plate, and it’s very important for us to sequence these big initiatives in a way where they don’t all just crash at the same time.”

—President Obama in the *New York Times*, August 10, 2009

NANNY STATE DOESN’T LIKE COMPETITION

A Michigan woman who lives in front of a school bus stop says the state is threatening her with fines and possibly jail time for babysitting her neighbors’ kids until the bus comes.

—*USA Today*, September 25, 2009

LEAST SURPRISING HEADLINE OF THE DAY

Stimulus sparks growth in government

—*USA Today*, September 24, 2009

NOT EVERYTHING. JUST HEALTH CARE, ENERGY, EDUCATION, BANKS, INSURANCE COMPANIES, AUTOMOBILE COMPANIES...

My critics say that I’m taking over every sector of the economy.

—President Obama on ABC’s *This Week*, September 20, 2009

THE WAY WE LIVE NOW

J.P. Morgan Chase for the first time convened its board in Washington this summer, calling the directors to a meeting at the downtown Hay-Adams hotel, then dispatching them to Capitol Hill for meet-and-greets. . . .

And the world’s largest bond fund, Pimco, which has traditionally assessed the risk of any new investment according to five financial criteria, recently added one more: the impact of any change in federal policy.

As financial firms navigate a life more closely connected to government aid and oversight than ever before, they increasingly turn to Washington, closing a chasm that was previously far greater than the 228 miles separating the nation’s political and financial capitals. . . .

“In the old days, Washington was refereeing from the sideline,” said Mohamed A. el-Erian, chief executive officer of Pimco. “In the new world we’re going toward, not only is Washington refereeing from the field, but it is also in some respects a player as well. . . . And that changes the dynamics significantly.”

Washington has become a dominant player. . . .

“This crisis has and will fundamentally change the relationship between Wall Street and Washington for decades to come,” said Richard H. Clarida, an assistant Treasury secretary under President George W. Bush who is now an economics professor at Columbia University. “It’s often said that Wall Street is no longer the financial capital, that it’s Washington, D.C., and that’s certainly true. I don’t think this is destined to change. I think this is going to be a fact of life.”

—*Washington Post*, September 13, 2009

IT’S LATE ON FRIDAY. WHAT BAD NEWS IS BEING RELEASED?

The nation would be forced to borrow more than \$9 trillion over the next decade under President Obama’s policies, the White House acknowledged late Friday.

—*Washington Post*, August 22, 2009

White House environmental adviser Van Jones resigned late Saturday after weeks of pressure from the right over his past activism. “On the eve of historic fights for health care and clean energy, opponents of reform have mounted a vicious smear campaign against me,” Jones, special adviser for green jobs at the White House Council on Environmental Quality, said in a statement announcing his resignation just after midnight Saturday.

—*Washington Post*, September 6, 2009

The White House late Friday announced it would impose high tariffs on imports of Chinese tires in a case seen as the first test of trade policy under President Barack Obama. . . . The announcement was made in a release sent out by the White House press office at about 9:30 p.m. Friday night, a time when news is sometimes “dumped” in the hope it will attract less attention.

—*TheHill.com*, September 11, 2009

THE PRESCIENT MISES

They promise the blessings of the Garden of Eden, but they plan to transform the world into a gigantic post office.

—Ludwig von Mises, *Bureaucracy*, 1944