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# Cato Policy Report

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## The Sad State of Cyber-Politics

BY ADAM THIERER

I don't know if it would make him smile or grimace, but someone should give T. J. Rodgers a prize for his predictive powers. Back in 2000, Rodgers, the president and CEO of Cypress Semiconductor, penned a prescient manifesto for the Cato Institute with a provocative title: [“Why Silicon Valley Should Not Normalize Relations with Washington, D.C.”](#)

“The political scene in Washington is antithetical to the core values that drive our success in the international marketplace and risks converting entrepreneurs into statist businessmen,” he warned. “The collectivist notion that drives policymaking in Washington is the irrevocable enemy of high-technology capitalism and the wealth creation process.”

Alas, no one listened. Indeed, Rodgers's dystopian vision of a highly politicized digital future has taken just a decade to become reality. The high-tech policy scene within the Beltway has become a cesspool of backstabbing politics, hypocritical policy positions, shameful PR tactics, and bloated lobbying budgets.

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**ADAM THIERER**, formerly president of the Progress and Freedom Foundation and director of telecommunications studies at the Cato Institute, blogs at [techliberation.com](#).

“We will go through our federal budget—page by page, line by line—eliminating those programs we don't need.”

— PRESIDENT-ELECT BARACK OBAMA, NOVEMBER 2008

With all due respect  
Mr. President, we're still waiting.

It's been nearly two years since you made that pledge, Mr. President. Since then, you've signed into law an \$800 billion “stimulus” package and a massive new health care entitlement—adding trillions of dollars in unfunded liabilities to our grandchildren's tab.

Our looming debt crisis threatens to destroy the American dream for future generations. Yet your administration continues piling up deficits of over a trillion dollars a year. By 2012, our national debt will be larger than the entire U.S. economy. Isn't it past time you identified the programs you'd cut?

In all fairness, both parties got us into this mess. “Deficits don't matter,” Vice President Dick Cheney scoffed as the Bush administration and a Republican Congress led one of the biggest spending sprees in American history, nearly doubling federal outlays over eight years. Our bipartisan flight from responsibility is a national disgrace—and it's fast becoming a national disaster. Vague promises to eliminate “waste, fraud, and abuse” won't cut it any more. Both parties need to step up with specific and substantial cuts.

As a start, they can consult [DownsizingGovernment.org](#), where the Cato Institute has begun posting the results of our page by page, line by line review of the federal budget. With the Constitution as our guide, we've identified scores of agencies to eliminate and programs to zero out, putting America on the path toward fiscal sanity:

#### Education Subsidies

Education is a state, local, and private matter—and that's where the Constitution left it. Federal K-12 education programs have cost American taxpayers \$1.85 trillion since 1965 without noticeably improving outcomes. Eliminating them will save **\$40 billion annually**.

#### Farm Subsidies

Far from “saving the family farm,” federal agricultural subsidies are environmentally destructive corporate welfare, with more than 70 percent of aid going to the largest 10 percent of agribusinesses. Zeroing out farm welfare will save **\$25 billion annually**.

#### Military Overreach

The Constitution envisions a U.S. military that “provide[s] for the common defence” of the United States, not one that serves as the world's policeman and nation-builder. By withdrawing our troops from Iraq and Afghanistan, we could save at least **\$125 billion** next year. Eliminating other unnecessary overseas missions would allow for a leaner force structure and defense budget, saving at least **\$100 billion a year** without undermining U.S. security.

#### Transportation Programs

The federal government has no business funding the state and local projects that make up the bulk of federal transportation spending. Federal involvement results in pork-barrel spending, excess bureaucracy, and costly one-size-fits-all regulations. Moving funding for activities such as highways to the states and air traffic control to the private sector would spur greater innovation while also saving **\$85 billion a year**.

#### Housing Subsidies

Federal interference in housing markets has done enormous damage to our cities and the economy at large. HUD subsidies have concentrated poverty and fed urban blight, while Fannie Mae and Freddie Mac stoked the financial crisis by putting millions of people into homes they couldn't afford. Getting the government out of the housing business will save **\$45 billion annually**.

#### Federal Worker Pay

Federal workers enjoy far greater job security than their private-sector counterparts—and far better total compensation: an average of \$120,000 a year in wages and benefits. Cut federal compensation by 10 percent to save **\$20 billion annually**.

#### Energy Subsidies

The 30-year legacy of federal energy subsidies is replete with corporate cronyism and failed “investments.” Entrepreneurs with their own capital have incentives to develop viable alternative energy sources. Ending federal energy subsidies would save **\$20 billion a year**.

#### Government-run Health Care

Medicare and Medicaid are driving the explosion in federal debt. The 2010 health care law should never have been passed. The same level of Medicare cost savings could have been realized by moving to a consumer-driven health plan through vouchers, which would protect the elderly from government rationing. Medicaid should be converted to a fixed block grant to save money and encourage state innovation. Total savings would be more than **\$1 trillion** over the next decade.

#### Drug War

Since the start of the federal War on Drugs in 1970, we've spent hundreds of billions on a futile crusade that's done little to curb drug use and much to impair our civil liberties. In fact, a Cato study showed that Portugal's decriminalization of drugs actually lowered drug-related problems. Returning drug policy to the states—where it belongs—would save at least **\$15 billion annually**.

#### Social Security

As the Baby Boom generation retires, our largest entitlement program lurches toward crisis. Social Security should be phased out as a mandatory program and an alternative voluntary system of private accounts, providing for ownership and inheritability, should be offered. Current obligations can be reduced by tying annual benefit growth to price inflation rather than wage growth, saving **\$50 billion annually** by 2020.

Visit [DownsizingGovernment.org](#) for a free download of the Cato Institute's acclaimed book *The Struggle to Limit Government*.



In September the Cato Institute called President Obama to task for failing to honor his campaign pledge to “go through the federal budget page by page, line by line—eliminating those programs we don't need.” Full-page ads setting out hundreds of billions in budget cuts—cuts explained in greater detail at [DownsizingGovernment.org](#)—ran in major newspapers nationwide, including the *Wall Street Journal*, the *Washington Post*, the *Los Angeles Times*, the *New York Times*, the *Washington Examiner*, *Politico*, the *Houston Chronicle*, the *Dallas Morning News*, the *Minneapolis Tribune*, the *Burlington Free Press*, the *Oregonian* (Portland), the *Santa Barbara News Press*, the *Charlotte Observer*, the *Baton Rouge Morning Advocate*, and the *Lexington Herald-Leader*.



BY EDWARD H. CRANE

## President's Message

# The Fallacy of a Cause Greater than Yourself

**T**he political class got slapped upside the head November 2, as well it should have. Those who are claiming a GOP victory miss the point. With some notable exceptions most voters cast their ballots awkwardly, while holding their nose. This was, for the most part, voters saying Enough! Enough with your power-mongering, enough with your arrogance, enough with your utter incompetence.

One of the more encouraging elements of the Tea Party movement has been its focus on the Constitution. It is a wonderful, if flawed, document. It grants very little power to the federal government, whose powers were to be few and well defined, to quote James Madison, who knew a thing or two about it. As my colleague Roger Pilon likes to point out, the key to understanding the Constitution is in understanding the Declaration of Independence. And the key to understanding what the Declaration is all about is the radical phrase, "Life, Liberty and the Pursuit of Happiness." It is to secure these rights that proper governments are instituted.

Alas, the political class is bemused by such naiveté, not to say disdainful of the concept that America is about *individual* liberty. They always have grand designs, and it annoys the hell out of them when we focus on our own goals, dreams, and ambitions. Or when we disagree with their grand designs. As President Obama points out, when the little people get scared, we don't "always think clearly." The political class, in a word, is patronizing.

My late friend and colleague, Roy Childs, described the battle between the political class and the rest of us as liberty against power. It is a clean, simple explanation of what all the brouhaha in Washington is about. There are people who enjoy having power over others and there are people who just want liberty and the right to pursue happiness. Ultimately, those who lust for power can gain it only by convincing others to give it up. A major means of doing that is to drum into our hardwired brains (to quote the noted community organizer, Barack Obama) that we, as individuals, are not all that important. We should, the political class keeps telling us, pursue not our self-interest, but a cause greater than ourselves. Usually a cause the political class has conjured up.

Here are but a few examples: Neoconservative intellectual David Brooks defines National Greatness as when "*individual ambition and willpower are channeled into the cause of national greatness. And by making the nation great, individuals are able to join their narrow concerns to a larger national project.*" Former Obama chief of staff Rahm Emanuel at a commencement address last spring said, "*The final lesson I want to leave you with today*

*is the importance of serving a cause greater than yourself.*"

Sen. John McCain, urging students to join the Peace Corps or AmeriCorps, likes to say, "*please remember there's nothing nobler than serving a cause greater than your own self-interest.*" That's an idea seconded by former President George W. Bush who told Larry King he hopes his daughters will "*someday understand what it means to serve a cause greater than self.*"

Journalist Andrew Ferguson searched the White House database and came up with 1,020 times W. used that phrase. The list of the political class making this point is long, indeed. But perhaps the most telling example comes from President Obama himself, who doesn't shy away from the implications of all this self-sacrifice he wants from his hardwired constituents.

In the May 16 issue of *Parade* magazine, the president offered a sample commencement address. *Of course, each of you has the right to take your diploma and seek the quickest path to the biggest paycheck or the highest title possible.* [Bill Gates comes to mind, and he didn't even have a diploma—cool title and tons of money.] *But remember: You can choose to broaden your concerns to include your fellow citizens and country instead.* [See, here's where Gates went wrong. What did he ever do for the 320 million of us?] *By tying your ambitions to America's, you'll hitch your wagon to a cause larger than yourself.*"

The president then goes on to recommend public service over the private sector, even to suggest "*you may decide to make your mark in ways that may be smaller but are just as important—volunteering at a local shelter. . .*" Volunteering is certainly laudable, but the business of business—making money producing something society values—is what makes the luxury of volunteerism possible.

Look, by way of disclaimer, of course we all take pleasure in achieving goals while working with others—a volunteer group to fight illiteracy, a corporate task force to create a software breakthrough—but that's not what the political class is talking about. Those two examples are too close to pursuing your own values, which by definition is not selfless. No, they want you to look to them for the goals "greater than yourself." Hopefully, November 2 was a statement that Americans—across the political spectrum—are reasserting their rights to life, liberty and the pursuit of happiness. Happiness as defined by each of us, not by the political class.

“Politicians always have grand designs, and it annoys the hell out of them when we focus on our own goals, dreams, and ambitions.”

## Russia's leading libertarian

# Andrei Illarionov's Busy Year

When he's not on a plane, flying from one corner of the world to another, Andrei Illarionov, senior fellow at the Cato Institute's Center for Global Liberty and Prosperity, is on the phone. This workaholic champion of market democracy is Russia's leading libertarian, a former chief economic adviser to Vladimir Putin, and now a force in Russia's pro-liberty opposition. His colleagues find Illarionov still at his desk when everyone else is headed home for the night—and still there as they arrive again in the morning.

This overwhelming productivity isn't new for Illarionov. Before leaving the Kremlin in 2005 in protest over Putin's authoritarian policies, Illarionov was instrumental in reducing government expenditures, cutting red tape, liberalizing the Russian economy, creating the Stabilization Fund, and bringing Russia into full membership in the G-8. He's published three books and more than 300 articles on Russian economic and social policies.

Illarionov remains Russia's leading voice for liberty, a role he retains even though the government prevents him from appearing on television and limits his access to newspapers and radio. With those mainstream sources cut off, much of Illarionov's advocacy flows through his hugely popular Russian language blog, one of the top 100 blogs in the country. It was there that he broke many crucial facts about the airplane crash at Smolensk in April that claimed the lives of Polish president Lech Kachinsky and almost 100 members of the Polish political and military elite.

He also travels. Since 2009, Illarionov has given lectures in Britain, Germany, Belgium, Poland, Slovenia, Macedonia, Estonia, Georgia, Azerbaijan, Kazakhstan, Kyrgyzstan, Russia, Mexico, and Peru—as well as Chicago, New York, Charlottesville, Bozeman, and Washington, D.C. He spoke about the global financial crisis, the necessary conditions for freedom, democracy's impact on economic growth, communism's heritage and the post-communist world, the Russian-Georgian War, and the questionable science of global warming alarmism.

So much time in the air and behind the lectern hasn't prevented him from spending much of the last year studying what he terms "the Russia Puzzle," the combination of economic growth occurring simultaneously with the government's destruction of the institutions of civil society. This has led Illarionov to begin work on a book that will trace how Russia had diverged from the path of political and social evolution familiar to the modern civilized world. Much of this huge endeavor has already appeared as articles Illarionov authored for journals, including "The Siloviki in Charge," published in the April 2009 issue of the *Journal of Democracy*.



At the Cato Summer School in Alushta, Crimea, Ukraine, senior fellow ANDREI ILLARIONOV (right) awards a diploma to VLADIMIR BUKOVSKY (left), senior fellow at the Cato Institute, former Soviet political dissident, author, and activist.

# Cato News Notes

## DOWNSIZING HHS

With Cato Institute ads in all the major newspapers telling President Obama that it's time to cut the size of the federal government, Cato director of tax policy studies Chris Edwards and budget analyst Tad DeHaven have expanded DownsizingGovernment.org. Freshly added is a detailed report on the bloated Department of Health and Human Services, with a budget of \$869 billion in 2010, or about \$7,400 for every U.S. household. Edwards proposes \$81 billion in annual cuts to non-health programs and reforms to health programs that would cut overall HHS spending to less than 40 percent of current projections in the decades ahead.

## CATO IS EVERYWHERE

August was the Cato Institute's biggest month ever for broadcast appearances. Forty Cato scholars appeared 267 times—100 times on television and 167 times on radio. They participated in 89 interviews on major networks. Neal McCluskey discussed President Obama's federal takeover of education on ABC's *World News Tonight* with Diane Sawyer, while Cato's Capitol Hill briefing on counterterrorism was featured on C-SPAN's Book TV.

## ECONOMIC FREEDOM DROPS WORLDWIDE

The *Economic Freedom of the World: 2010 Annual Report* brings bad news. Co-published by the Cato Institute, the Fraser Institute in Canada, and more than 70 think tanks around the world, the new edition shows the first global setback for economic freedom in decades. The average economic freedom score rose from 5.55 (out of 10) in 1980 to 6.70 in 2007, but fell back to 6.67 in 2008, the most recent year for which data are available. Of the 123 countries with economic freedom rankings dating back to 1980, 88 saw their rankings decrease while only 35 recorded increases. In this year's index, Hong Kong retains the highest rating for economic freedom, 9.05 out of 10, followed by Singapore, New Zealand, Switzerland, Chile, the United States, Canada, Australia, Mauritius, and the United Kingdom.

## THE FALL 2010 ISSUE OF REGULATION



Is Coca-Cola the cause of Americans' exploding waistlines? Or is it the huge portion sizes in most restaurants? And, in either case, what can be done to bring Americans back down to a more manageable and healthy size? These questions and many others are answered in the Fall 2010 issue of *Regulation*.



**C**NBC anchor and reporter MICHELLE CARUSO-CABRERA spoke at the Cato Club 200 retreat in Vermont, discussing her new book, *You Know I'm Right: More Prosperity, Less Government*, and her experience interviewing Milton Friedman. Among the attendees were CAROL SELDIN; JOAN CARTER, an entrepreneur and former chairman of the Federal Reserve Bank of Philadelphia; and her husband JOHN AGLIALORO, producer of the upcoming *Atlas Shrugged* movie.



**D**istinguished senior fellow JOSÉ PIÑERA told Cato interns and new staff in September about how he privatized Chile's Social Security system. It was one of a series of such seminars all Cato interns attend, designed to provide these young libertarians with a strong background in the philosophy, policy, and practice of freedom.



**“H**onor the vision of your founders. Respect the most sublime constitution devised by human intelligence,” DANIEL HANNAN, member of the European Parliament and author of *The New Road to Serfdom: A Letter of Warning to America*, told the audience at a Cato Book Forum in September.

**O**bjectivist philosopher DAVID KELLEY (left) and JAN NARVESON (center), professor at the University of Waterloo and author of the classic book *The Libertarian Idea*, chat with Cato executive vice president DAVID BOAZ after a book forum in August. At the event, Narveson debated James P. Sterba of the University of Notre Dame about the compatibility of liberty and equality.



**S**IV JENSEN, leader of the Progress Party of Norway, spoke at a lunch for Cato scholars in August. She discussed how her party began in 1973 as an anti-tax movement and is now committed to reducing the size of government and expanding the scope of individual freedom, though she was challenged on several of the party's policies by Cato analysts.



**C**ato Board member emeritus DAVID H. PADDEN (left), one of the Institute's founding Board members, and TED GALEN CARPENTER (center), vice president for defense and foreign policy studies, talk with JACOB HORNBERGER of the Future of Freedom Foundation at Cato's BisonFest in September. The annual event, held at the home of Ed and Kristina Crane, brought together more than 400 Sponsors and friends of Cato.

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Perhaps we shouldn't find it surprising that so many players in the tech policy arena now look to throw each other under the Big Government bus to gain marketplace advantages. After all, that's the story of many other industries that got under the covers with Washington. But the sheer rapidity with which this sorry state of affairs has unfolded in the tech policy world is shocking, even to the most jaded among us.

### AS THE WORLD TURNS

Lest you think I am exaggerating, here's a quick rundown of the cast of characters in this Silicon-era soap opera and some of the steamy plotlines:

- In recent years, telecommunications and cable companies both asked the FCC to intervene to harm the other in the [“winback wars”](#)—skirmishes involving marketing efforts to capture or retain consumers. Many years earlier, both sides advocated “open access” mandates be applied to each other's networks while insisting there was no reason such regulations needed to cover their own systems.
- But those physical infrastructure guys have kissed and made up as part of their unified effort to get the FCC to help them extract better contractual terms from the content creators and broadcasters for their video content. In the battle over [“retransmission consent,”](#) cable, satellite, and telco video distributors have made an unholy alliance with traditional regulatory advocates like Public Knowledge and New America Foundation, asking the FCC to intervene in contractual disputes about program carriage and pricing. Rather than focusing on dismantling the many other legal privileges granted to broadcasters and programmers, video distributors and regulatory advocates would instead essentially force broadcasters and content owners to cut deals they might not find acceptable.
- But the broadcasters don't exactly have clean hands, either. They [pulled out all the stops](#) in an attempt to block their

“The high-tech policy scene within the Beltway has become a cesspool of backstabbing politics, hypocritical policy positions, shameful PR tactics, and bloated lobbying budgets.”

struggling satellite radio industry competitors (Sirius and XM) from merging. They'd [previously begged](#) Congress and the FCC to block those satellite operators from offering competing local programming—an exercise in naked protectionism. Recently, broadcasters [have asked](#) lawmakers to mandate that all cell phones and mobile devices include FM radio tuners. Broadcasters argue this should be required for “public safety” purposes, but it's really just an attempt to hold on to fleeing audiences, even if there is little demand for such tuners or the added cost such a mandate would entail for consumers. And then there's the broadcast industry's long-standing love affair with [“must-carry”](#) mandates, which abridge the property rights of video distributors by forcing pay TV providers to carry channels they might not want (and which the public probably doesn't demand).

- But broadcasters stand firm on their own property rights. The spectrum they've occupied for decades may be worth [up to a trillion dollars](#), and they obviously don't want anyone else getting their paws on it. But the wireless industry covets thy neighbor's wife, or at least the spectrum that is hers. It [wants the FCC to pressure](#)—or even force—broadcasters to vacate their spectrum so it can be re-auctioned for other purposes, especially wireless broadband.
- In the name of protecting copyright, many in the entertainment industry have called for various forms of techno-

logical engineering—such as a mandated [“broadcast flag”](#) to protect the transmission of high-definition video, or restrictions on [“remote-storage” digital video recorders](#), which would allow consumers to save shows on servers run by cable TV companies. Some also want network operators and digital device makers to “do more”—potentially through force of law—to police their systems for piracy or help ensure content can be monetized. Some news-gathering institutions also want other Internet intermediaries, especially search providers, to help ensure that readers and advertisers don't abandon them entirely. Which brings us to Google.

- Everybody—and I do mean everybody—wants Google dead, right now. Google currently serves as the Great Satan in this drama—taking over the role Microsoft filled a decade ago—as just about everyone views it with a combination of envy and enmity. Of course, in a sense, Google had it coming. The company [has been the biggest cheerleader](#) in the push to impose “Net neutrality” regulation on the Internet's physical infrastructure providers, which would let the FCC toss property rights out the window and regulate broadband networks to their heart's content. Meanwhile, along with Skype and others, Google [wants the FCC to impose “openness” mandates](#) on wireless networks that would allow the agency to dictate terms of service. It's no surprise, then, that the cable, telco, and wireless crowd are firing back and now hinting we need [“search neutrality”](#) to constrain the search giant's growing market power. File it under [“mutually assured destruction” for the Information Age](#).
- Google had it coming in another sense, having joined the decade-long effort by myriad Silicon Valley actors to hobble Microsoft [through incessant antitrust harassment](#). Google has hammered Microsoft in countless legal and political proceedings here and abroad. But revenge is a dish best served cold, and Microsoft now relishes its role as

the ringleader of the rising War on Google! Microsoft is [using against Google](#) the same antitrust playbook once used against them. Whether it's the legal battle over Google Books, Department of Justice reviews of various Google acquisitions, or other fights, Microsoft now stalks Google at every turn.

● Finally, there's the subsidy circus, with more high-tech companies lining up at the taxpayer-funded trough than ever. One [government report](#) after [another](#) lambasts the waste, fraud, and abuse that runs rampant in America's "universal-service" system, which is supposed to guarantee that wireline telephone service be widespread and affordable. Just about everyone who wants a hard-wired phone has one these days, and Americans are "cutting the cord" faster than ever. And yet, those old government programs just keep growing. Many had hoped increasing wireless competition would alleviate the need for such subsidies. Instead, the wireless industry's lobby is content to demand a subsidy system that "[ensures competitors have equal access to support.](#)" AT&T, the biggest recipient of such funds, [justifies being on the subsidy gravy train](#) in typical 'better-us-than-them' fashion: "In a competitive business like wireless, it's not easy to sit idly by while your competitors tap into a new revenue stream. Nor is it consistent with your shareholders' interests."

● And the High-Tech Pork Barrel is about to get a lot bigger. In March, the FCC released a 360-page [National Broadband Plan](#) (none dare call it an industrial policy) that will invite even more of this behavior, with its calls for significant expansion of subsidies for the diffusion of broadband services. Amazingly, [the agency says its plan is costless](#), claiming that the bulk of the bill will be covered by increased spectrum auc-

“Perhaps we shouldn't find it surprising that so many players in the tech policy arena now look to throw each other under the Big Government bus to gain marketplace advantages.”

tions. That's nonsense, of course, and the scheme will only grow more expensive for consumers in the long-run as more companies line up for handouts. Worse yet, the more checks government writes, the more opportunities it will have to exercise control—subtle or blatant—over more layers of the Internet and the speech that travels over it.

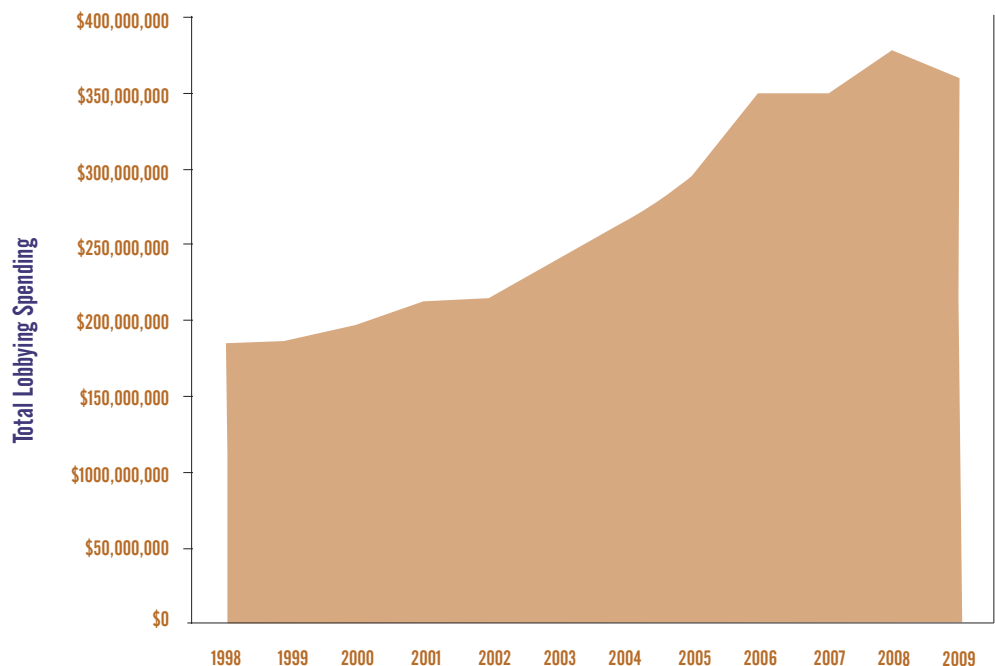
#### AT LEAST THE LOBBYISTS BENEFIT

Unsurprisingly, as a result of this intensifying political warfare, [the high-tech lob-](#)

[bying frenzy](#) is now completely out of control. "The [high-tech] sector doubled its federal lobbying effort in a decade from \$185 million in 1998 to a record \$377.5 million in 2008," [reports](#) the Center for Responsive Politics. "The biggest share of that increase came from the computer and Internet industry and the TV, movies and music industry." Only the health care and financial/insurance/real estate sectors have spent more lobbying Washington in recent years. Like other sectors, the recent recession resulted in a slight downturn in tech lobbying activity, but most expect things to return to normal shortly. According to *National Journal*, 4 of the top 20 spenders on federal lobbying in the first half of 2010 were broadband companies.

Although few Silicon Valley firms even had a D.C. office a decade ago, today legions of their lobbyists descend on the Capitol and regulatory-agency hearing rooms each day. House and Senate Commerce Committee hearings on high-tech and media policy issues are packed like rock concerts and have lines out the door that stretch literally around the buildings some days.

Lobbying & Political Spending by Communications & Electronics Sector



Source: Center for Responsive Politics.

“Net neutrality regulation of the Internet’s physical infrastructure providers would let the FCC toss property rights out the window and regulate broadband networks to their heart’s content.”

Indeed, [an entire cottage industry of \\$11–35/hour line-sitters](#) has developed, largely to serve tech lobbyists’ need to make sure they could get in the hearing room and get face-time with lawmakers and Hill staff.

The only two major tech companies who’ve generally resisted the urge to “normalize relations” with D.C. are Apple and Sony. They have just a handful of reps inside the Beltway. Ironically, their lack of “engagement” with Washington has been greeted with a combination of puzzlement and ridicule by everyone else in high-tech lobbying circles. The typical response one hears—apart from [subpoena threats](#) from senators angry at their disengagement—is “Don’t they know what happened to Microsoft for being late to Washington?” In other words, we’re supposed to believe that if only Microsoft had employed hoards of lobbyists inside the Beltway in the early 1990s, the antitrust cops wouldn’t have come knocking! Sadly, Google seems to have bought into this myth and is [now hiring new Hill and regulatory lobbyists at a frantic pace](#) as the company prepares for what will no doubt be the mother of all high-tech antitrust battles.

### CAPITALISTS AGAINST CAPITALISM

Thus, in just a single decade, high-tech America has not just “normalized relations” with Washington, but gotten into bed with Big Government and cuddled up tight. What this sorry state of affairs proves, as Rodgers aptly noted a decade ago, is “that many businessmen are not capitalists.” They’re only too happy to make peace with Washington if they think it might serve a short-term interest—especially hamstringing a rival.

High-tech America has refused to heed Rodgers’s warning that “Government can do only two things here: take our money, limiting our economic resources; or pass laws, limiting our other freedoms. Even in Washington, alluring subsidies come at a high cost to our industry. Washington’s money is never free.” Instead, the actors in this tragedy scheme to wield the power of Leviathan to humble their competitors or

gain competitive advantage. In that sense, this case study is also a prime example of what Milton Friedman, in the March/April 1999 *Cato Policy Report*, called “[The Business Community’s Suicidal Impulse](#)”: the persistent propensity to persecute one’s competitors using regulation or the threat thereof.

It would be quixotic to believe this situation will be slowed or reversed anytime soon. There’s enormous pressure on the high-tech sector to actually become more entrenched in coming years, at least to remain “competitive” with other companies who have planted a flag inside the Beltway. Recently, for example, Reid Hoffman, founder of LinkedIn, a social networking site for professionals, worried that policymakers tend to ignore high-tech startups. “We don’t have an entrepreneurship lobby,” [he said](#), “because entrepreneurs are off doing it.” As if that was a bad thing! In particular, he fretted about startups not getting their share of recent stimulus funding and argued that “It’s much easier when you’re embedded in the political infrastructure to respond to immediate things” such as nabbing stimulus dollars, he said.

Hoffman’s logic is impeccable; it certainly is easier to get in on the action when you have a small army of lobbyists inside the Beltway shilling for taxpayer handouts. But has he considered the costs? High-tech America’s expanded embrace of Washington will likely take it down the familiar path followed by the agriculture and auto-

motive sectors (among many others), with the State becoming both protector and punisher of industry. The entrepreneurialism that Hoffman and others care most about will then be at serious risk. Today’s dynamic tech industries will increasingly stagnate as they come under the sort of “Mother, May I?” permission-based regulatory regime that has crippled so much of the rest of our economy.

### TOWARD REAL INTERNET FREEDOM

There are some reasons for optimism, however. First, it’s mostly been the largest tech players who have normalized relations with Washington. Smaller tech companies have thus far largely resisted the urge. Hopefully that’s for principled reasons, not just due to a shortage of lobbying resources. Second, the esoteric nature of many Internet and digital technology policy discussions frustrates many lawmakers and often forces them to lose interest in these topics. Third, the breakneck pace of technological change makes it difficult for regulators to bottle up innovation and entrepreneurialism. Policymakers can still create plenty of short-term headaches for the tech sector, however, and it would be foolish to think digital technology can magically cut through all the red tape Washington can produce.

For that small remnant of believers in real Internet Freedom—freedom from incessant government techno-meddling—we will never stop hoping that disputes among high-tech companies might be settled in the marketplace instead of within regulatory agencies and congressional committee rooms. And we must continue our push to discourage high-tech companies from an excessive “normalization” of relations with the parasitic culture that dominates Washington by reminding them, as Rodgers noted in 2000, “that free minds and free markets are the moral foundation that has made our success possible. We must never allow those freedoms to be diminished for any reason.”

Let’s hope it’s not too late for high-tech America to learn that lesson.

# Global Development and the Benefits of Business

With the right institutions in place, free markets provide the potential for enormous economic growth. But establishing those institutions, especially in countries without a history of good governance and the rule of law, has proved notoriously difficult. Some developing nations have successfully taken advantage of market-driven prosperity, while others fail to thrive. In September Ann Bernstein, founding director of the Centre for Development and Enterprise in Johannesburg, spoke about the need for businesses to stand up to anti-market activists. That same month, Ejaz Ghani, economic adviser to the World Bank, discussed the growth of the service sector in India and what other countries can learn from it. And in October, Greg Mills, director of the Brenthurst Foundation in South Africa, told of his experiences working in Africa and the roadblocks that still inhibit African economic progress.

**ANN BERNSTEIN:** I spent some time in Washington a few years ago and was struck by what I heard. It soon became apparent that a “good” company was one that complied with so called global standards (labor, environmental, and social issues), devised by activists/interests/governments in some of the world’s richest countries, on how companies should behave in poorer countries. You can participate in conversations in London, Brussels, Washington, or New York, and it is taken for granted that global standards are a good thing. No one wants to hear the ex-president of Mexico who argued that, just as goods and services from poorer countries are starting to become globally competitive, rich countries want poorer countries to conform to standards that have taken the rich centuries to reach. People don’t want to listen to more than 2,000 trade unions in India, who oppose these labor standards. Nobel Laureate Paul Krugman and others have argued that it’s important to understand that the alternative to low-paying jobs is not high-paying jobs—it’s no jobs at all.



Ann Bernstein

“Companies are continually pressured to ‘do more,’ to demonstrate what benefits they provide society in addition to ‘just making money.’”

Companies are continually pressured to “do more,” to demonstrate what benefits they provide society in addition to “just making money.” It’s as though profit-making has to be redeemed through good works; and companies must pay reparations for their existence. The current conversation about business is fundamentally flawed. The debate about “responsible” corporations takes for granted the everyday activities of companies and their contribution to society. This then makes it possible to focus so much attention on what else a company must do to contribute to society. These attitudes have led to the development of the “corporate social responsibility” industry. In almost all cases, business leaders have given in to these attacks without a struggle and accepted the general charge that companies need to do more than “just business” to contribute to society. Instead of a bold and persuasive case for business, we have seen a process of appeasement.

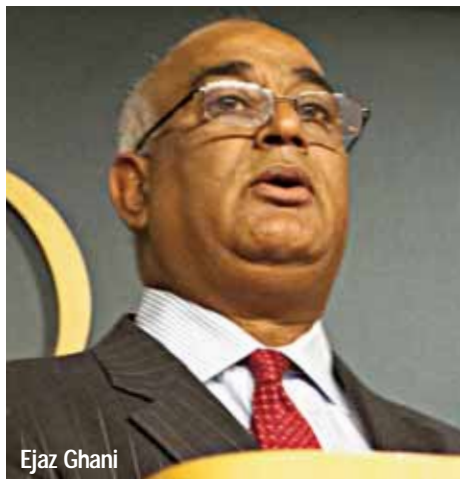
Any conversation about business, what it does, and what it should do needs to take place within a comprehensive understanding of what “just doing business” actually contributes to society. You can divide normal company activities into direct and indirect impacts. What are the direct impacts? Modern business is the most powerful engine of innovation, large-scale organization, and transmission of know-how across frontiers. That’s in addition to “minor” things like creating wealth and jobs, and paying taxes—things we all depend on. The limited liability corporation has been called the greatest single accomplishment of modern times. It is the mechanism through which companies increase the pool of capital available for productive investment and allow investors to spread their risk by purchasing small, easily marketable shares in several enterprises. It provides a way of imposing effective management structures on large organizations and has the capacity to fail with relatively low social costs.

Companies are uniquely effective in making human effort productive. Specialized resources in the form of labor, raw material, capital, and knowledge come together in a remarkable process that transforms those components into goods and services of greater value. By doing this, companies make a revolutionary contribution to the world. Participation in private enterprise is an important source of intangible but vital benefits such as openness to ideas, innovation, opportunity, and empowerment. When dynamic enterprises are allowed to flourish, they tap into people's initiative, ingenuity, and self-reliance. When people participate in an economy by creating or joining an enterprise, they gain voice.

Modern businesses also have indirect impacts, predominantly positive, on the societies in which they operate. I call this invisible corporate citizenship. It's not discussed in company board rooms, it's not what they intend to do. But if you look at the inadvertent impact of enterprise and corporate activity you can discern a number of profoundly important phenomena. Walmart's everyday low prices bring down inflation; Toyota's just-in-time productivity changes the Western world's production curve; Infosys becomes a global competitor out of Bangalore and redefines what is possible for India. The so-called sweatshops in Asia turn out to be the best possible opportunity for empowerment for mainly rural women, changing their lives and those of their daughters. If you go into so-called sweat shops in Asia you find that it is disproportionately women working in often unpleasant conditions in what we would see as horrible jobs. But they often ask to work longer hours and overtime. They know that the number of years they can do these jobs is limited. They intend to save money and either go back to their rural areas—where they are now independent, no longer under the thumb of a husband, father, brother—or they start small businesses servicing workers in factories or rural areas. The opportunity to get a job that to us looks awful is, in fact, the best alternative open to them; a first step on the ladder of opportunity and modernity.

Through the unintended consequences of its everyday activities, business can trans-

form the future of national economies (think Mauritius), fuel the forces and dynamics of modernization (China, Vietnam), expand and strengthen civil society (companies investing in new markets need certainty, resulting in their lawyers/accountants influencing the shape of emerging markets), expand human rights, and unleash pressures for democratization (apartheid South Africa



“The old idea of services being non-tradable and non-scalable no longer holds for a host of modern services.”

saw companies recognize black trade unions and start to operate on a more equal basis in the workplace before democratization).

There's a lot of pressure on companies to get involved in doing something about global poverty. This is a rather strange conversation, both about the nature of development and the obligations people want to put on business. Well-known companies sign on to the Millennium Development Goals and tell us how they are contributing to their achievement. But companies should stop signing on to other people's agendas. They should work out what their agenda is with respect to development and promote that. If you were to ask any multinational corpora-

tion wanting to work or invest in Africa “what are the top three issues you think should be dealt with to make you more likely to risk investing money in that continent?” they would talk to you about infrastructure for growth and how to improve the environment for business. These aren't mentioned in the millennium development goals. And countries can only have a limited number of priorities.

The ongoing conversation about business and society is dominated by activists who live in rich countries. Most of them, living in formal houses with hot and cold running water, do not grasp the realities of poverty in developing countries and the hard choices of development outside the rich world. As a result, the debate about business responsibility, corporate involvement, and development is distorted, and few voices from developing countries are heard. We need a new discourse on how to think about business and the public good. The current approaches are not effective and have dangerous consequences.

Business has a profound interest in how societies understand capitalism and business. Recent research by a *Newsweek* journalist on German textbooks and what they say about capitalism and business produced stunning results. Whether in an ordinary school in Germany, or a reputable university, textbooks ascribe all manner of evils to companies and capitalism. Companies should take more interest in that issue.

Companies, businesses leaders, and their organizations need to play a more thoughtful, strategic role in the societies in which they operate. The past 40 years have seen smart states opening their societies to more enterprise and more competition from local and foreign firms, with phenomenal results: more people have moved out of poverty than ever before, and more quickly than we have ever seen. Businesses leaders should recognize the importance of the battle of ideas. Business is good for societies and essential for sustained development. The question is how companies can become more effective at making this case. They should stop apologizing for their very existence and stand up for what they do every day. The facts are on their side.

**EJAZ GHANI:** The growth experienced by India in the 21st century is remarkable because it contradicts a seemingly ironclad law of development, one that has held true for almost 200 years. That law, which is now conventional wisdom, says that industrialization is the only route to rapid economic development and that, as a result of globalization, the pace of development can be explosive. But the potential for explosive growth is no longer distinctive only to manufacturing. India's growth patterns suggest that service is as dynamic. This service revolution fundamentally changes the pattern of development for many developing countries and for Africa.

The service revolution upset three long-held tenets of economic development. First, services have long been thought to be driven only by domestic demand. They could not by themselves drive growth, but instead follow growth. In the classical treatment of services, any attempt to expand the volume of service production beyond the limits of domestic demand would quickly lead to a deterioration in the price of services, a reduction in profitability, and the impulse to choke off expanded production.

Second, services were considered to have lower productivity than industry. It is hard to improve the labor productivity of a symphony, or as it turns out, of a government. As economies began to become more service oriented, their growth would slow down. For rich and advanced countries with high demand for various services, the slowdown in growth was an acceptable consequence of the higher welfare achieved by the shift toward services. But for developing countries, this tradeoff was thought to be inappropriate.

Third, service jobs in developing countries were thought of as menial, and for the most part poorly paid, especially for low-skilled workers. As such, service jobs could not be an effective pathway out of poverty.

India's growth pattern upsets all three of those beliefs. Growth in India has in fact been led by service's labor productivity. Levels in services productivity are above industry—and productivity growth in services matches labor productivity growth in manufacturing in China. Services are the largest contributor to GDP growth in India.

The service sector accounts for more than 50 percent of GDP growth in all South Asian countries. Its contribution to GDP growth is nearly twice that of industry. Further, contribution of services to overall GDP growth has increased over time in India. This is in sharp contrast to the situation in China, South Korea, and Japan, where industry contributes much more



Greg Mills

“African governments have to give up a lot of control.”

than services to GDP growth.

Given that the process of development is one of transferring resources—largely labor from low-productivity areas to high-productivity areas—it makes sense to interpret rapid growth in India as the result of moving labor from low-productivity agriculture to high-productivity services. India has experienced an exponential increase in service exports at a rate that exceeds even the rapid growth of China in manufacturing exports. This suggests that service exports are a key component of service-led growth.

Can service growth reduce poverty? Does it create jobs? Does it contribute to gender parity? Our results show that trend growth in the service sector among Indian states is associated with a decrease in the poverty rate. In fact the service sector is the only sector showing a statistically significant associ-

ation with poverty reduction. And service-sector growth is strongly associated with the reduction of both urban and rural poverty rates. Service jobs are good jobs. Wage growth has been higher in the service sector than in manufacturing and agriculture in recent years in India.

The old idea of services being non-tradable and non-scalable no longer holds for a host of modern services. Under the right circumstances, the service sector can demonstrate significant labor and productivity growth.

Is there hope for the “bottom billion”? India's experience offers hope that globalization of service can indeed be a force for development in many more countries. The marginalization of Africa during a period when China and other East Asian countries grew rapidly led some to wonder whether latecomers to development were doomed to failure. The process of globalization in the 20th century led to a divergence of incomes between those who industrialized and broke into global markets and the bottom billion in some 60 countries where incomes stagnated for 20 years. It seemed as if the bottom billion would have to wait their turn for development until after the giant industrializers like China became rich and uncompetitive in labor-intensive manufacturing.

The promise of service revolution is that countries do not need to wait to get started with rapid development. There is a new boat that development latecomers can take. As the number of services produced and traded across the world expands with globalization, the possibilities for all countries, developed and developing, are enormous.

**GREG MILLS:** Let me give two very short examples of some of the potential Africa has to move in the right direction.

In Rwanda, I met a man named Frank Butara who had a great idea for a taxi business. He was looking to access finance for it but he was not able to put together a business proposal. For all of the money spent by the World Bank and other institutions in Rwanda, there was no place Frank Butara—who was almost illiterate—could take his idea and get it turned into a business plan,

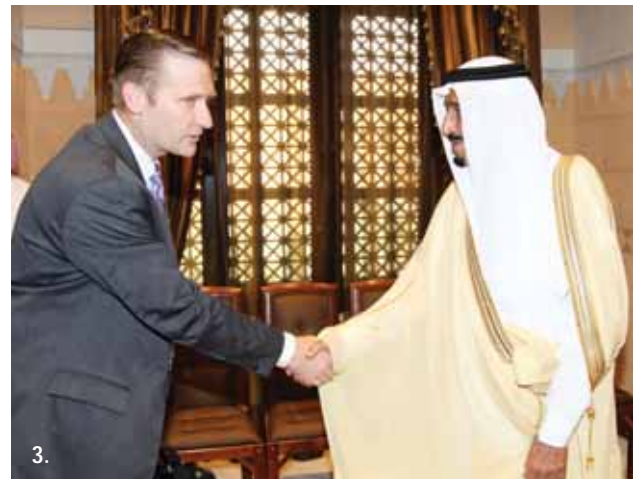
*Continued on page 17*

Meetings and lectures from Santiago to Saudi Arabia

## Cato Scholars Take the Message across the Globe



The founding principles of the Cato Institute—individual liberty, free markets, and peace—have value far beyond America’s borders. Cato scholars routinely bring these principles to students, businessmen, political leaders, and activists worldwide. By traveling internationally, these scholars also learn firsthand about the impact of American policies on the global stage.



1. Director of Health Policy Studies **MICHAEL F. CANNON** in Viña del Mar, Chile, speaking to the International Federation of Pension Fund Administrators about the benefits of replacing compulsory health insurance schemes with personal medical accounts. 2. Matthew Elliott, head of the TaxPayers Alliance of Great Britain (right), introduces **IAN VÁSQUEZ**, director of Cato’s Center for Global Liberty and Prosperity, to former British Prime Minister Margaret Thatcher at the European Resource Bank meeting in London in September. 3. Director of foreign policy studies **CHRISTOPHER PREBLE** meets with Prince Salman bin Abdulaziz, Governor of Riyadh and a son of King Ibn Saud, during a trip to Saudi Arabia. 4. Cato adjunct scholar **LORENZO BERNALDO DE QUIRÓS** presents the Spanish-language version of the “Economic Freedom of the World” report at a press conference in Madrid in May.





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5. CHRISTOPHER PREBLE shares dinner with representatives from the Institute of Diplomatic Studies in Riyadh, Saudi Arabia. 6. JUAN CARLOS HIDALGO speaks about the failure of the war on drugs at the 2nd Latin American Conference on Drug Policy held in Rio de Janeiro, Brazil, in August. 7. JOSEF STORM (far left), foreign policy analyst MALOU INNOCENT (third from right) and senior fellow DOUG BANDOW (far right) pose with Afghan police several miles outside of Kabul near Qargha Lake. 8. JAMES A. DORN, vice president for academic affairs and editor of *Cato Journal*, speaks to the China Development Forum at the London School of Economics and Political Science last January.



**P**ETER VAN DOREN (left) and MICHAEL D. TANNER (right) were just two of the Cato scholars who spoke to congressional staff as part of Cato University at Capitol Hill. The sessions, held in August and September, emphasized a better understanding of the importance of a free society, approaching public policy issues from a limited-government perspective, and maintaining a small-government philosophy in a big-government town.



**P**rofessor MASHIRO MATSUMURA of St. Andrew's University in Osaka, Japan, discussed the U.S.-Japan relationship in light of Japan's current political power struggles at a lunch at the Cato Institute on September 21. Matsumura was a visiting scholar at Cato during August and September.



**N**EILL FRANKLIN (right), executive director of Law Enforcement Against Prohibition, talks with Cato's TIM LYNCH after a Cato Policy Forum in September. Franklin, along with Cato legal policy analyst David Rittgers and Joseph I. Cassilly, state's attorney of Harford County, Maryland, discussed the controversy over citizens recording the police.



**A** recent CBO report on bio-fuels subsidies is "an illustration of what is wrong with extending the ethanol tax credit," said HARRY DE GORTER, visiting fellow at the Cato Institute and professor at Cornell University. De Gorter spoke at a Capitol Hill Briefing in September on the need to rethink biofuels policy.

**D**ICK ARMEY, chairman of FreedomWorks and former House majority leader, signs copies of his new book, *Give Us Liberty: A Tea Party Manifesto*, after a Cato Book Forum in September. “Our government’s run amok in a spending spree of self-indulgence because we have not been vigilant,” Armey said at the event. But the Tea Party movement is a sign, he argued, that “America’s getting healthy again.”



**AUGUST 3:** *Are Liberty and Equality Compatible?*

**AUGUST 4:** The Real Impact of the New Health Care Law

**SEPTEMBER 1:** *Empire for Liberty: A History of American Imperialism from Benjamin Franklin to Paul Wolfowitz*

**SEPTEMBER 8:** The Service Revolution in South Asia

**SEPTEMBER 14:** *Give Us Liberty: A Tea Party Manifesto*

**SEPTEMBER 16:** 9th Annual Constitution Day Conference

**SEPTEMBER 17:** The Upcoming Supreme Court Term and the Future of Economic Liberty

**SEPTEMBER 20:** *The Right to Earn a Living*

**SEPTEMBER 22:** Recording the Police: Is Citizen Journalism against the Law?

**SEPTEMBER 23-26:** Cato Club 200 Retreat

**SEPTEMBER 28:** The Case for Business in Developing Economies

**SEPTEMBER 29:** *The New Road to Serfdom: A Letter of Warning to America*

**SEPTEMBER 30:** Rethinking Biofuels Policy

**SEPTEMBER 30:** San Francisco Book Forum and Reception featuring P. J. O'Rourke

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](http://www.cato.org/events). You can also find write-ups of Cato events in Ed Crane's bimonthly memo for Cato Sponsors.

## Cato Calendar



### ASSET BUBBLES AND MONETARY POLICY

28th Annual Monetary Policy Conference  
Washington • Cato Institute  
November 18, 2010

Speakers include John B. Taylor, George S. Tavlas, Jerry L. Jordan, Charles Plosser, Lawrence H. White, Steve Hanke, Gerald P. O'Driscoll Jr., and Carmen Reinhart.

### CATO INSTITUTE POLICY PERSPECTIVES 2010

Chicago • The Drake  
December 1, 2010

### 23RD ANNUAL BENEFACTOR SUMMIT

San Diego • The Grand Del Mar  
February 24-27, 2011

## Constitution Day 2010

## A Term of Blockbuster Decisions

On September 17, 1787, the delegates to the Constitutional Convention gathered in Philadelphia's Independence Hall to sign the newly drafted U.S. Constitution. Every year, to celebrate that momentous date in liberty's history, the Cato Institute hosts a daylong conference. This year marked the ninth, and coincided with the release of the 2009-2010 *Cato Supreme Court Review*.

The conference, "The Supreme Court: Past and Prologue: A Look at the October 2009 and October 2010 Terms," featured panels of legal experts discussing the most important cases of the last term and what we can expect in the near future from the Supreme Court.

James Bopp Jr., the country's leading campaign finance attorney, addressed the landmark decision in *Citizens United v. Federal Election Commission*. Alan Gura, who argued before the Supreme Court in the Heller gun rights case, talked about his latest groundbreaking case, *McDonald v. Chicago*, which extended the Second Amendment right resurrected in *Heller* to states and localities.

Constitution Day closed with the annual B. Kenneth Simon Lecture, with a distinguished legal scholar presenting a paper to be included in the next year's *Supreme Court Review*. This September, the lecturer was William Van Alstyne, professor of law at William and Mary Law School. Drawing an analogy to the children's story "The



**WILLIAM VAN ALSTYNE** (left) of William and Mary Law School delivered the annual B. Kenneth Simon lecture to close the Constitution Day 2010 conference, discussing the role of the Supreme Court in setting limits on congressional power. **ALAN GURA** (above right) spoke on a panel titled "Guns, Enron, and Sexual Predators: The Scope of Federal Power" moderated by Cato chairman **ROBERT A. LEVY** and including noted civil liberties attorney **HARVEY A. SILVERGLATE** and George Mason University law professor **ILYA SOMIN** (also seen bottom right).

Emperor's New Clothes," Van Alstyne said, "The function of the Supreme Court is not that of the applauding crowd, that wants to see the emperor as suitably dressed in an adequate raiment." Rather, "if the emperor

lacks for suitable clothing—if Congress lacks the authority to deal with certain problems"—then it is up to Congress either to amend the Constitution or to act within its authority.

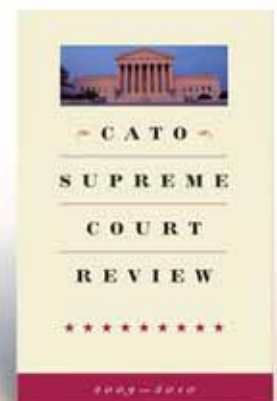
## The 2009-2010 *Cato Supreme Court Review*

Accompanying the Constitution Day conference, as it does every year, was the release of the ninth edition of the *Cato Supreme Court Review*. Covering the 2009-2010 term, the *Review* features essays on major cases and what the future holds for the Court.

Among the *Review's* notable contents are

- The 2009 Simon Lecture by Judge Michael W. McConnell, "The Ninth Amendment in Light of Text and History."
- James Bopp Jr. and Richard E. Coleson examining the landmark campaign finance ruling, *Citizens United v. Federal Election Commission*.

- Nadine Strossen on speech restrictions and *United States v. Stevens*.
  - Richard A. Epstein discussing religion and freedom of association in light of *Christian Legal Society v. Martinez*.
  - Alan Gura, Ilya Shapiro, and Josh Blackman analyzing Chicago's handgun ban and the McDonald decision striking it down.
  - Erik S. Jaffe looking ahead to the October 2010 term.
- These essays and many others from the *Cato Supreme Court Review* can be downloaded for free from [www.cato.org](http://www.cato.org) or purchased for \$15.



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get some accounting injected into it, and then go away and raise some capital.

I helped him with this, putting together a business plan with him staring over my shoulder. He had the difficult job of getting some money. He had some cars that he'd bought from Uganda, where he had been in exile for 30 years, and he offered some of those cars as a down payment, but he still needed extra cash. I went to the head of a bank, whose CEO I used to let beat me at tennis on a regular basis. I managed to get a loan from him, but Frank was still short. At the end of the day, I became a rather reluctant investor in a Rwandan taxi business.

But really this should never have happened. There should have been a system out there to take Frank's idea forward, to provide him with the incubation and innovation processes necessary to take his idea and make it happen. But that's only half of Frank's problem. He is focusing on tourism, the movement of tourists around the country, and the numbers are always going to be limited. Tourism in Rwanda maxes out at the number of people who can see gorillas, which is just under 20,000 people a year.

To develop other tourism products Rwanda needs to liberalize the airspace and

hotel accommodations and allow foreign investors in. Don't just give them the rhetorical welcome and then squeeze them out again, which has happened on a number of occasions. But actually go through with the ideas, remain open, liberalize the airspace, and stop protecting the very small and frankly inefficient assets that they have.

This is a problem for many African countries. They are caught between the desire to retain control and the realization that the only way they are going to have long-term stability is by letting go. This tension between control and liberalization remains all the time. Of course tourism is one of the comparative areas of advantage that Africa possesses. The global tourism business is a nearly one-billion-visitor industry. Yet Africa as a whole gets only 4 percent of this total. We need to change the things we can change in order to access a much larger slice of the pie. Even if we increased it by just 50 percent, we'd be transforming life for many Africans. We need to change visa regimes as well. Members of OECD countries richer than we are, with a higher per capita income, shouldn't need visas to visit Africa because they are unlikely to stay. People from those countries shouldn't need work permits either for the same reason.

My second example comes from the root diagnostics that we have conducted throughout Africa. A root diagnostic is not some painful piece of invasive surgery. It's sitting on a truck and doing motion studies. We've done them from Johannesburg to the Congo, in East Africa, and through a Kasabonika border post where Dante's *Inferno* meets *Mad Max* on steroids. The results are always the same. The trucks stop for one-third of the time for the driver—eating, sleeping, and so on. One-third of the time is spent actually driving. And one-third of the time the truck is stopped at border posts.

The sheer inefficiency of that explains why, for example, it costs \$5,000 to move a container from Kinkaili to Mombassa, and only one-third of that to move it from Mombassa to Rotterdam. Things can be changed, for a positive impact, with relatively little work. But it means that African governments have to give up a lot of their control.

The former British foreign secretary Malcolm Rifkind once said that the only thing dark about Africa was our ignorance of it. We need to stimulate more debate as we seek the means to help my continent find its global place and put people, rather than narrow-minded politics, first.



Cato's expansion to be completed in 2012.

## CATO INSTITUTE CAPITAL CAMPAIGN

In its more than three decades of existence, the Cato Institute has never undertaken as ambitious a program as the capital campaign it is now launching. This initiative—"Liberating the Future"—involves the addition of nearly 50 new policy and professional staff members and the construction of an expanded headquarters. The last decade amply demonstrated the harmful effects of runaway government.

With the scholars and resources that Cato will gain through this campaign, it will be better able to forge a new path to limited, constitutional government and the triumph of freedom that has been Cato's mission and passion for more than 30 years.



TO LEARN MORE, AND TO BECOME A PART OF THIS CAMPAIGN, PLEASE VISIT [CATO.ORG](http://CATO.ORG).

# Saving Taxpayers Money through Drug Legalization

State governments face catastrophic budgetary shortfalls while the national debt soars. In **“The Budgetary Impact of Ending Drug Prohibition”** (White Paper), Jeffrey A. Miron, senior lecturer in economics at Harvard University and senior fellow at the Cato Institute, and Katherine Waldo, doctoral candidate at the Stern School of Business at New York University, show how ending the drug war “would reduce state and federal deficits by eliminating expenditure on prohibition enforcement—arrests, prosecutions, and incarceration—and by allowing governments to collect tax revenue on legalized sales.” Legalizing drugs would reduce government expenditure by \$41.3 billion annually, with \$25.7 billion accruing to state and local governments and \$15.6 billion to the federal government. Approximately \$8.7 billion of the savings would result from legalization of marijuana and \$32.6 billion of legalization of other drugs. Assuming that drugs were taxed at rates comparable to alcohol and tobacco, ending prohibition would yield \$46.7 billion annually, with \$8.7

billion from marijuana and \$38 billion from other drugs. Miron and Waldo point out that their analysis does nothing to undermine the civil liberties arguments for ending prohibition. Instead, they write, the budgetary benefit is just another good reason for ending a bad policy.

## Cutting the Military, Not National Defense

Nearly one out of every two dollars spent on military forces is spent by the United States. With a defense budget of \$700 billion, it’s difficult to even refer to the U.S. military budget as “defense” spending. Benjamin H. Friedman, research fellow in defense and homeland security studies at the Cato Institute, and Christopher Preble, director of foreign policy studies at the Cato Institute, in **“Budgetary Savings from Military Restraint”** (Policy Analysis no. 667), write that “our military forces’ size now has little to do with protecting Americans.” They argue that “a less busy military could be a smaller and cheaper one,” and so cuts should focus on reducing the military’s size and scope, not

on merely increasing its efficiency. Friedman and Preble provide a 19-point proposal that would “reduce military spending by more than \$1.2 trillion over 10 years.” Among these are cutting the nuclear weapons arsenal and the active-duty Army to 360,000 personnel, reducing the number of Navy aircraft carriers to eight and naval air wings to seven, cutting the Pentagon civilian workforce, and reducing intelligence spending by 15 percent.

## Finding Someone to Blame

Those who bring word of a crisis, rather than those who caused the crisis, become tempting targets for outrage and legislation. In the wake of the recent financial meltdown, short sellers became this scapegoat. In **“Short Sales Bans: Shooting the Messenger?”** (Briefing Paper no. 119), Laurence Copeland, professor of finance at Cardiff University Business School in Cardiff, Wales, writes that “short sellers and other market participants were expressing their judgment regarding the health of these companies—a judgment that governments wished to suppress.” Copeland likens short

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 Steve H. Hanke.....Senior Fellow  
 John Hasnas.....Senior Fellow  
 Penn Jillette.....Mencken Research Fellow  
 David B. Kopel.....Associate Policy Analyst  
 Christopher Layne.....Visiting Fellow, Foreign Policy Studies  
 Patrick J. Michaels.....Senior Fellow in Environmental Studies  
 Jeffrey Miron.....Senior Fellow  
 P. J. O'Rourke.....Mencken Research Fellow  
 William Poole.....Senior Fellow  
 Gerald P. O'Driscoll Jr.....Senior Fellow  
 Jim Powell.....Senior Fellow  
 Richard W. Rahn.....Senior Fellow  
 Ronald Rotunda.....Senior Fellow, Constitutional Studies  
 Teller.....Mencken Research Fellow  
 Cathy Young.....Research Associate

sellers to “no” voters in an election. Regulators want them banned in order to prop up company stock prices and increase bank depositor confidence. CEOs favor high stock prices for their companies, too, and so they often favor bans. But short selling plays an important role in markets because “the act of trading serves to transmit information to the market.” He concludes that “banning short selling is a knee-jerk reaction by regulators, often in response to lobbying by corporate management seeking to preserve its freedom to operate without pressure from the market.”

### Defending the Defenseless

America’s criminal defense system is understaffed and overburdened. For many of the accused, being charged means turning to a public defender—an agent of the same government attempting to put the defendant behind bars. Stephen J. Schulhofer, of New York University School of Law, and David D. Friedman, of Santa Clara University School of Law, present a simple means for addressing both these problems. In **“Reforming Indigent Defense: How Free Market Principles Can Help to Fix a Broken System”** (Policy Analysis no. 666), they show how “a voucher model would provide a practical and effective cure for many of the major ills of indigent defense organization, to the ultimate benefit of both defendants and the public at large.” They advocate “a free market for defense services, one that would, so far as possible, function in the same way that the existing market functions for affluent defendants who are able to retain their own counsel.”



David D. Friedman

Schulhofer and Friedman identify the problems plaguing the current system, categorizing them into incentive, information, and insurance. They argue that increasing public defender resources would ameliorate case-load burdens but would do nothing to increase the freedom of choice so crucial for indigent defendants.

### Time to Follow Bastiat’s Advice

It’s a tale as old as trade itself. Protective tariffs drive up costs to consumers and keep capital and labor from finding more productive uses. In July 2010 Congress advanced the cause of trade liberalization when it passed the U.S. Manufacturing Enhancement Act, suspending duties on hundreds of imported goods of special interest to U.S. manufacturing companies. In **“The Miscellaneous Tariff Bill: A Blueprint for Future Trade Expansion”** (Trade Briefing Paper no. 30), Daniel Griswold, director of the Cato Institute’s Center for Trade Policy Studies, calls the bill a “rare step forward in U.S. trade policy in recent years,” one that “could provide a template for expanding the freedom of Americans to buy and sell in global markets.” But it doesn’t go far enough, leaving in place tariffs that protect many domestic producers from competition. When the House begins work on the next miscellaneous tariff bill, he writes, “House republican leaders should put aside their misplaced objections to the process and work with their counterparts across the aisle to expand the reach of the next bill to cover even more categories of imports—for the benefit of consumers, the manufacturing sector, and a U.S. economy struggling to shake off a steep recession.”

### The Wrong Financial Solutions

Reducing systemic risks in derivative markets is a popular policy prescription for staving off another financial crisis, with much attention focused on counterparty risk in the over-the-counter market. In particular, many call for the federal government to mandate the trading of derivatives over a centralized clearing-

### Grading the Governors



Bobby Jindal

Cato’s 10th biennial fiscal report card on the governors comes at a time when states face significant budget shortfalls and unemployment. Many governors have responded by raising taxes or spending, while some have taken the responsible route of reducing their states’ budgets. In **“Fiscal Policy Report Card on America’s Governors: 2010”** (Policy Analysis no. 668), Chris Edwards, director of tax policy studies at the Cato Institute, graded all of the governors and awarded four of them an “A”—Mark Sanford of South Carolina, Bobby Jindal of Louisiana, Tim Pawlenty of Minnesota, and Joe Manchin of West Virginia. Seven governors were awarded an “F”—Ted Kulongoski of Oregon, David Paterson of New York, Jodi Rell of Connecticut, Pat Quinn of Illinois, Jim Doyle of Wisconsin, Bill Ritter of Colorado, and Chris Gregoire



Mark Sanford

of Washington. Edwards also offers short analyses of each governor’s performance. Recent tax increases have been by far the largest in many years, with states raising taxes even as they received billions in federal stimulus dollars. Edwards finds fiscal patterns and trends across the states, including a push to raise personal income taxes, moves toward increasing corporate taxes, and the proliferation of tax incentives to “create jobs.” As the *Wall Street Journal* said, governors “could do worse than look to the A-listers on the Cato report as policy guides.”

house. “In the debate over financial regulation in the aftermath of the financial crisis, clearing has become a deus ex machina to solve all the problems inherent in derivatives markets,” writes Craig Pirrong, professor of finance at the Bauer College of Business at the University of Houston, in **“The Inefficiency of Clearing Mandates”** (Policy Analysis no. 665). Pirrong examines the advantages and risks of clearing mandates and shows how the mandates can, in some cases, actually increase systemic risk. He also looks at counterparty risk in the derivatives market, as well as bilateral markets and clearinghouse mandates. He shows how “economic considerations suggest that a clearing mandate is likely to reduce market efficiency and pose its own systemic risks in a world where information is costly.” Pirrong lays out an auction alternative designed to better resolve and displace defaulted trades.

## CATO POLICY REPORT

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# “To Be Governed...”

## WHAT'S THE MATTER WITH THE VOTERS?

The 111th Congress returned to Washington this week with a record of legislative achievement that rivals President Lyndon Johnson's "Great Society." Voters may show their thanks by throwing lawmakers out of office. . . .

"Historically, it's going to rank as one of the most productive Congresses in recent time, comparable to LBJ's first two years, and maybe even Franklin Roosevelt's time" when Social Security was created, said [James Thurber, director of the Center for Congressional and Presidential Studies at American University in Washington]. . . .

Still, Obama's party has found little public support, as only 33 percent of Americans surveyed by The Gallup Poll said they approve of the job Democrats are doing in Congress. Obama's approval rating is below 50 percent, and polls show a lack of public confidence in the health plan, financial overhaul and economic stimulus.

—*Bloomberg News*, September 17, 2010

## WHAT'S THE MATTER WITH THE PEOPLE?

Told to Eat Its Vegetables, America Orders Fries

—*headline, New York Times*, September 24, 2010

## HAS HE BEEN READING HAYEK?

"Do you know how many political and economic decisions are made in this world by people who don't know what in the living daylight they are talking about?" [former president Bill] Clinton said.

—*Associated Press*, September 21, 2010

## DIDN'T WE TRY PROHIBITION BEFORE?

Black-market cigarettes are costing many

states hundreds of millions of dollars a year in lost tax revenue. And the lucrative, illicit trade is attracting violent criminal gangs that can be lethally ruthless.

The rewards, and the risks, of dealing in contraband cigarettes became quite clear recently in northern Virginia, says Capt. Dennis Wilson of the Fairfax County Police Department.

Undercover investigators working with his department "had two cases where contacts that we were working with had asked us to murder their competition," Wilson says.

—*National Public Radio*, September 19, 2010

## OUTLAWING CHOICE

"I believe we can solve the problems of urban education in our lifetimes and actualize education's power to reverse generational poverty," [D.C. Schools Chancellor Michelle] Rhee wrote. "But I am learning that it is a radical concept to even suggest this. Warren Buffett [the billionaire investor] framed the problem for me once in a way that clarified how basic our most stubborn obstacles are. He said it would be easy to solve today's problems in urban education. 'Make private schools illegal,' he said, 'and assign every child to a public school by random lottery.'"

—*Courtland Milloy, Washington Post*, September 13, 2010

## BORN-AGAIN BUDGET HAWKS?

The candidate was outraged—just outraged—at the country's sorry fiscal state.

"We have managed to acquire \$13 trillion of debt on our balance sheet," he fumed to a roomful of voters. "In my view, we have nothing to show for it."

And that was a Democrat, Sen. Michael Bennet of Colorado, who voted "yes" on

the stimulus, the health-care overhaul, increased education funding and other costly bills Congress approved under his party's control.

—*Washington Post*, September 3, 2010

## CUT THE LEAST IMPORTANT SPENDING FIRST

Struggling Cities Shut Firehouses in Budget Crisis

—*headline, New York Times*, August 26, 2010

## CRONY CAPITALISTS FEAR THE TEA PARTY

Business leaders and lobbyists are increasingly worried that the election of tea party-backed Republican candidates to Congress might threaten their priorities next year, fearing that these candidates' anti-spending fervor and opposition to special tax breaks would jeopardize prized programs. . . .

"They may view some of the tax incentives as some type of corporate welfare," said Trent Lott, the former Senate Republican Leader and now a lobbyist. "But if you care about jobs and the economy, you have to give people incentives." . . .

State Rep. Raul Labrador, a House candidate in Idaho with strong support from tea-party groups, opposed the cash-for-clunkers program that was popular among car dealers and manufacturers. He also criticized the \$8,000 new homeowner tax credit that homebuilders strongly favored.

Mr. Labrador said he opposed all government programs that help one segment of the business community over another. "I'm against all of them," Mr. Labrador said in an interview. "I don't think the government should be picking winners and losers."

—*Wall Street Journal*, September 17, 2010