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Not a State-Broken People

BY GEORGE F. WILL

I want to thank all of the people in this room for making Cato and its work possible. I also want to thank a few million more people who, in recent weeks, have toiled to demonstrate in a timely manner why Cato is necessary. I refer, of course, to the people of Greece.

Milton Friedman, whose name we honor tonight, was honored often for his recidite and subtle scholarship. But it was complemented by a sturdy common sense much in fashion nowhere now. About 40 years ago he found himself in an Asian country where the government was extremely eager to show off a public works project of which it was inordinately and excessively fond. It was digging a canal. They took Milton out to see this, and he was astonished because there were hordes of workers but no heavy equipment. He remarked on this to his government guide, who replied, "You don't understand, Mr. Friedman. This is a jobs program. That's why we only have men with shovels." To which Friedman said, "Well, if it's a jobs program, why don't they have spoons instead of shovels?"

The attempt to educate the world to the principles of rationality and liberty never ends. For a lot of us, it began in earnest in

1962 with the publication of *Capitalism and Freedom*. In 1964, two years later, we got a demonstration of how urgent it was to have that book, when Lyndon Johnson, campaigning for president, said, "We're in favor of a lot of things, and we're against mighty few."

In 1964, the man running against Johnson was Barry Goldwater who, to the superficial observer, appeared to lose because he carried only six states. When the final votes were tabulated, 16 years later, it was clear

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Akbar Ganji, joined by his wife, Massoumeh Shafii, celebrates winning the 2010 Milton Friedman Prize for Advancing Liberty. Ganji was presented with the award, recognizing his contributions to advancing human rights and democracy in his native Iran, at a gala dinner ceremony hosted by the Cato Institute in May.

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GEORGE F. WILL is a Pulitzer Prize-winning newspaper columnist, a *Newsweek* columnist, a regular panelist on ABC's *This Week*, and the author of numerous books on politics and baseball. He delivered these remarks at the Cato Institute's biennial Milton Friedman Prize for Advancing Liberty Dinner on May 13.



BY DAVID BOAZ

“So far as I know, you are the only 12 people in Nashville who have been forced to watch this movie.”

Editorial Standing on Principle When It Matters

When I went to my first off-campus libertarian event back in my college days, I was mildly surprised that the first person I encountered was an ex-Marine of about 40, which seemed old to me at the time. How could someone so old believe in such radical ideas? Then another person arrived, a young woman in her late 20s. But her first question was, “Have you seen my parents?” I soon learned that her parents—who seemed really old at the time, but, alas, were in fact slightly younger than I am now—were the leading libertarians in Tennessee.

Philip and Myrle Carden were quite a couple. They raised six children, teaching them at home with the Calvert curriculum. He served in World War II and then became a newspaperman. Like my father, he got around to attending law school in his mid-30s. He became a great defender of the rule of law. When he was the Republican nominee for a statewide judgeship, his campaign brochure began:

To Regain Respect for Law—Restore Respectability of Law

“No society can exist unless the laws are respected to a certain degree. The safest way to make laws respected is to make them respectable.”

—Frederic Bastiat, “The Law”

The most respectable laws the world has ever known were those developed within the common law traditions preserved in the Constitutions of Tennessee and the United States.

This is the tradition that was developed in Britain and spread around the world to bring more ordered liberty to more people over wider areas than any other legal system known to man.

Later he found a more comfortable home in the new Libertarian Party. The Cardens were especially known for their exuberant Fourth of July celebrations in their big family home.

I remember Phil Carden telling me a story that has stuck with me all these years. As I recall, he was engaged to defend the right of a theater owner to show the pornographic movie *Deep Throat* in Nashville. He and the prosecutor made their opening statements. The room was then darkened, so the jurors could watch the movie. Mr. Carden, as I always called him, conspicuously left the room because he didn't approve of such trash. Then, when the lights came back on, he turned to the jury and said, “So far as I know, you are the only 12 people in Nashville who have been forced to watch this movie.” The jurors rejected the attempt to ban the movie.

I recently discovered that he wasn't just a naïve country lawyer confronting the issue of pornography for the first time; as a student, he had published “The Supreme Court and Obscenity” in the *Vanderbilt Law Review*. No doubt he cited the law in his courtroom argument, but I prefer to think that his common-sense libertarian point was what convinced the jury.

I've drawn several lessons from this story. The importance of free speech, for instance, even offensive speech. Modern “liberals” have often defended the First Amendment rights of communists, atheists, pornographers, and other purveyors of ideas that might offend the majority. Unfortunately, in recent years liberals have not been so protective of speech that offends them—racist, sexist, and homophobic speech or speech by corporations, for instance.

Second, there's the principle of “mind your own business.” If you don't want to watch the movie, don't. But let other people make their own decisions. If you don't want to patronize a smoky bar, eat fatty foods, or marry someone of the same sex, then don't. Just don't interfere with people who do.

And of course, every story like this reminds us of the importance of the rule of law. Because of the common law and the Constitution that Philip Carden valued, kings and governors and prosecutors can't just shut down a movie they don't like. They have to go through due process of law. Too often, the law still allows coercion against innocent people. And our recent presidents have pushed the limits of the law in expanding their powers of arrest, surveillance, bailouts, seizures, and shakedowns. But we're far better off in a society governed by law, even imperfectly, than in a world ruled by arbitrary power.

And finally, the most important lesson was the importance of knowing what you believe and sticking to it. Phil Carden was a family man, a lawyer in private practice, in a Bible Belt city, and he was personally offended by a pornographic movie. But he believed in free speech, and he stood up in open court and defended the right of a business owner to show that movie to willing customers.

We all face tests of our willingness to stand on principle at some cost. For some—Cicero, John Lilburne, Sophie Scholl, Vladimir Bukovsky, Aung San Suu Kyi—the risks are very high. For most of us they're not that high, but they may still be very real. When faced with a challenge, I sometimes wonder, What would Phil Carden do?

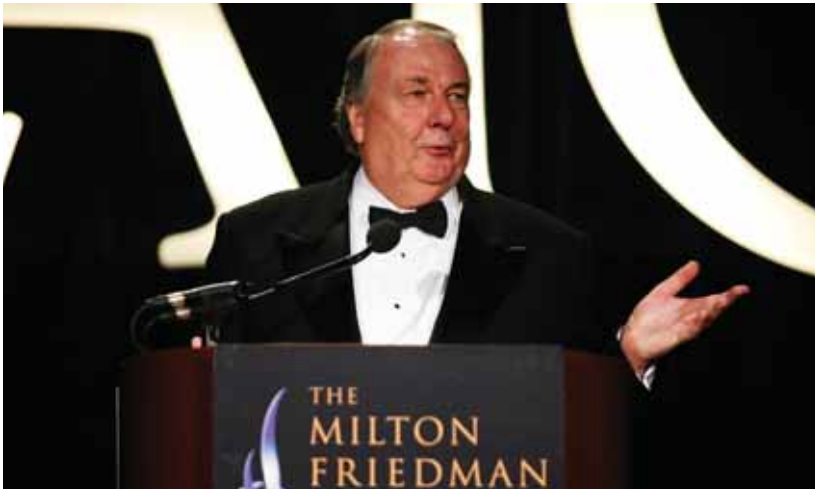


THE
MILTON
FRIEDMAN
PRIZE FOR
ADVANCING LIBERTY

Draped in the color of Iran's Green Movement and standing beside his wife, Akbar Ganji accepted the 2010 Milton Friedman Prize for Advancing Liberty on May 13. Ganji's acceptance and the remarks that followed capped an evening of celebration and speeches—a biennial event the Cato Institute has presented for the last eight years.

More than 900 Cato Sponsors and friends from as far as Australia filled the gala ballroom of the Hilton Washington to join in celebrating the legacy of Friedman and the achievements of Ganji. The Iranian writer and journalist, who spent six years in a Tehran prison for advocating a secular democracy and exposing government involvement in the assassination of individuals who opposed Iran's theocratic regime, was the fifth recipient of the prize, joining Yon Goicoechea, leader of the pro-democracy student movement in Venezuela; Mart Laar, former prime minister of Estonia; Hernando de Soto, Peruvian property rights crusader; and Peter Bauer, the late British development economist.

The Milton Friedman Prize for Advancing Liberty, named in honor the great 20th century



MILTON FRIEDMAN PRIZE WINNER AKBAR GANJI (ABOVE) AND HIS FELLOW IRANIAN DEMOCRACY ACTIVISTS GATHERED AFTER THE AWARD CEREMONY. IN HIS ACCEPTANCE SPEECH, GANJI PRAISED THE EXAMPLE THE UNITED STATES HAS SET FOR ALL THOSE AROUND THE WORLD STRUGGLING FOR THEIR FREEDOM, BUT ALSO CRITICIZED U.S. FOREIGN POLICY AND ITS EFFECT ON IRAN. CATO PRESIDENT EDWARD H. CRANE (LEFT) WAS THE MASTER OF CEREMONIES AT THE DINNER.

champion of liberty, is presented every other year to an individual who has made a significant contribution to advance human freedom. This year's pool of nominees was deep, but Akbar Ganji stood out. He is best known for a 1999 series of articles investigating the Chain Murders of Iran, which left five dissident intellectuals dead. Later published in the book *The Dungeon of Ghosts*, his articles tied the killings to senior clerics and other officials in the Iranian government, including former President Ali Akbar Hashemi Rafsanjani.

In his acceptance speech, delivered through an interpreter, Ganji said that “emancipation movements in the United States,” from the American Revolution to the civil rights movement, have inspired struggles for freedom around the world. But he warned that the United States had sometimes supported dictatorial regimes in other countries and that in the Middle East “the tyranny of secular and corrupt governments, supported by the United States and other Western countries,” had pushed their people toward the only visible

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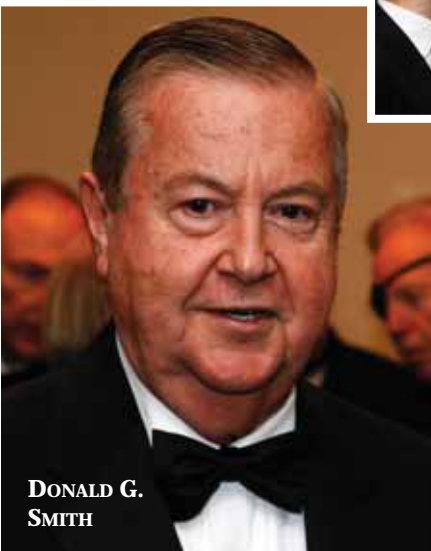
**GEORGE F. WILL,
MARY ANASTASIA
O'GRADY**



**JULIANA GERAN PILON,
DOUGLAS GINSBURG,
ROGER PILON**



**IAN VÁSQUEZ,
JEFF YASS**



**DONALD G.
SMITH**



**AKBAR GANJI,
YON GOICOECHEA,
MOHAMMAD
JAHAN-PARVAR**



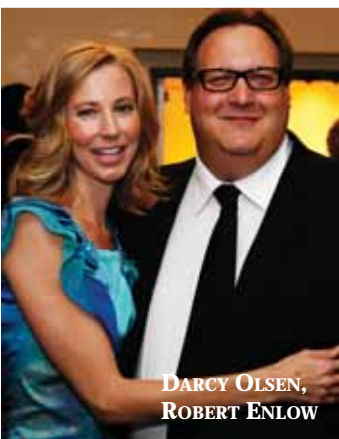
**LAURA BARNETT,
RANDY E. BARNETT,
ROGER REAM,
KELLY REAM**



**GARY JOHNSON,
DAVID PADDEN**



**DAVID
BOAZ**



**DARCY OLSEN,
ROBERT ENLOW**



**KATHY NISKANEN,
JIM AND CAROL DORN,
BILL NISKANEN**



**MASSOUMEH
SHAFII**



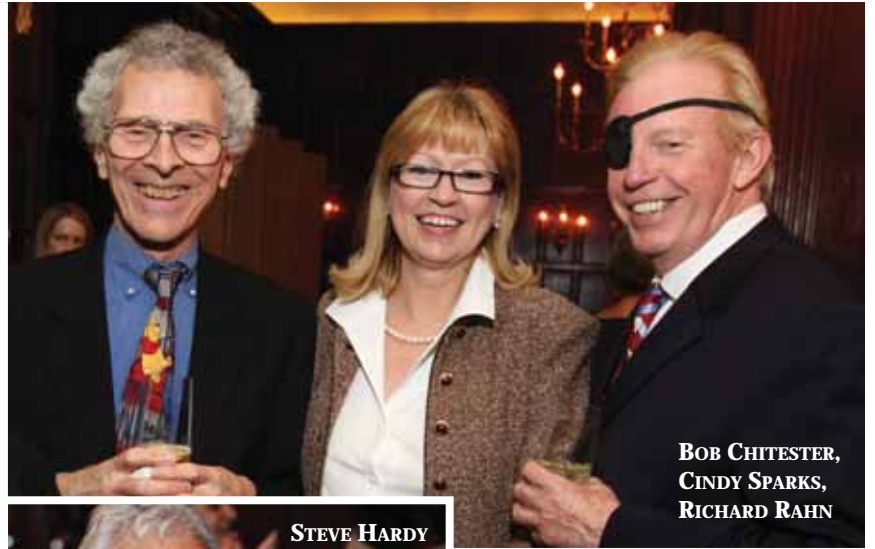
LANA HARDY



DONNA WEAVER



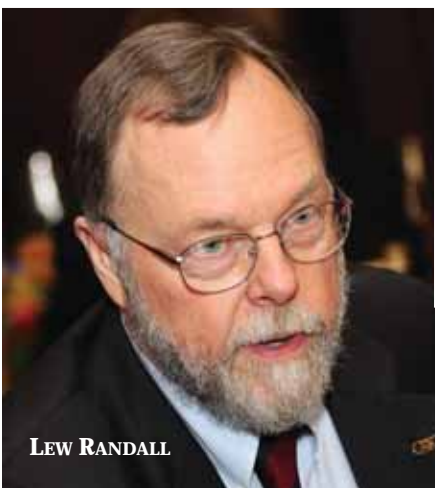
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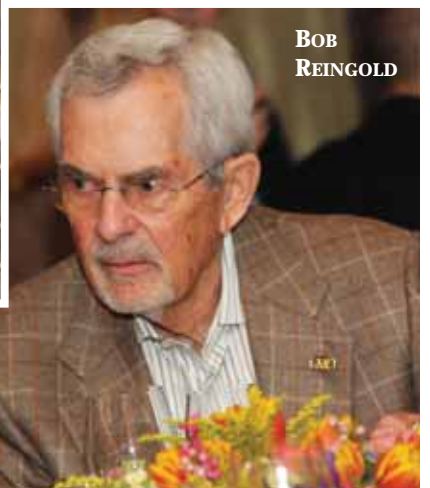
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CINDY SPARKS,
RICHARD RAHN



STEVE HARDY



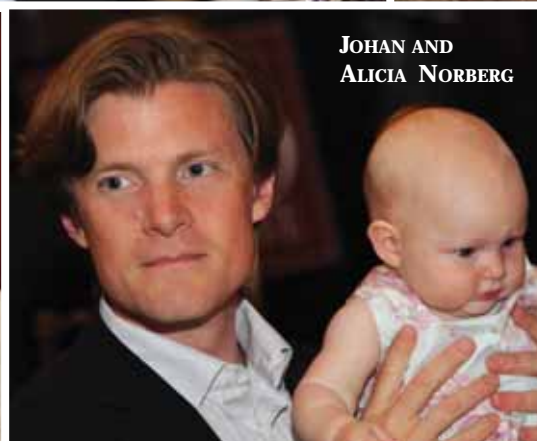
LEW RANDALL



BOB
REINGOLD



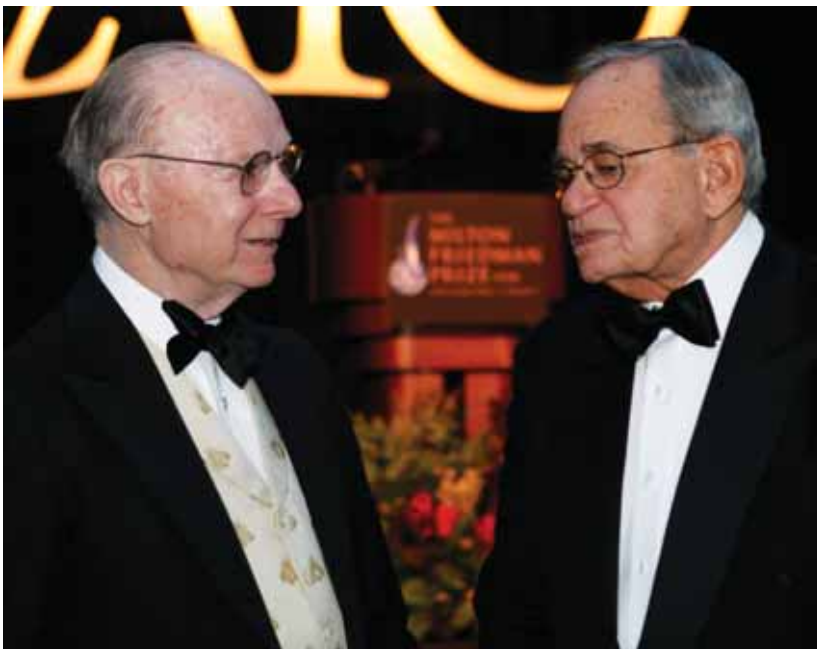
LISA
FRITSCH



JOHAN AND
ALICIA NORBERG



RUTH
REINGOLD



COLUMNIST GEORGE WILL (ABOVE) GAVE THE EVENING'S KEYNOTE ADDRESS, EXPLICATING THE EUROPEAN FINANCIAL CRISIS AND AMERICA'S GROWING WELFARE STATE BY WAY OF BASEBALL ANECDOTES. SPEAKING TO A ROOM FILLED WITH NEARLY 1000 CATO SPONSORS AND FRIENDS, WILL THANKED THE PEOPLE OF GREECE "WHO, IN RECENT WEEKS, HAVE TOILED TO DEMONSTRATE IN A TIMELY MANNER WHY CATO IS NECESSARY." LEO MELAMED (RIGHT), WHO SPOKE AT THE AWARD DINNER, CHATS WITH DISTINGUISHED MONETARY ECONOMIST ALLAN MELTZER. FOUNDER OF THE CHICAGO MERCANTILE EXCHANGE AND A FRIEND OF THE LATE MILTON FRIEDMAN, MELAMED TOLD OF FRIEDMAN'S LIFE AND LEGACY. ON THE FACING PAGE, SCENES FROM THE SMALL DINNER FOR BENEFACTORS AND CATO CLUB 200 MEMBERS HELD THE NIGHT AFTER THE FRIEDMAN PRIZE GALA.

alternative, religious extremism and fundamentalism. In his own Iran the U.S.-backed shah was overthrown by the Islamic Revolution in 1979. Today, he said, after 31 years of "extremist Islamic fundamentalism," Iran is "the only country in the region that if fair, free, and competitive elections were to be held, democratic forces that believe in the separation of religion from the state would be victorious." He also said that Western leaders were wrong to believe that "by invading a country and occupying it they can bring democracy to it." It didn't work in Iraq, and in Iran both the intensification of economic sanctions and the threat of military action will weaken the democratic opposition and strengthen the hand of the ruling regime.

George Will, Pulitzer prize-winning columnist, delivered the keynote address, a meditation on the financial crisis in Greece, the American welfare state, and baseball. "Given freedom, the American people will flower," Will said. "Given the Cato Institute, the American people will, in time, secure freedom."

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he had won. It was, however, a contingent victory.

In 2007, per capita welfare state spending, adjusted for inflation, was 77 percent higher than it had been when Ronald Reagan was inaugurated 27 years earlier. The trend continues and the trend is ominous. Fifty-one days ago the president signed into law health care reform, that great lunge to complete the New Deal project and the Great Society, that great lunge to make us more European. At exactly the moment that this is done the European Ponzi scheme of the social welfare state is being revealed for what it is.

There is a difference. We are not Europeans. We are not, in Orwell's phrase, a "state-broken people." We do not have a feudal background of subservience to the state. No, that is the project of the current administration—it can be boiled down to *learned feudalism*. It is a dependency agenda that I have been talking about ad nauseam.

Two recent examples. First, when the government took over student loans, making it the case that the two most important financial transactions of the average family—a housing mortgage and a loan for college—will now be transactions with the government, they included a provision that said there will be special forgiveness of student loans for those who go to work for the government or for nonprofits. Second, one-third of the recent stimulus was devoted to preserving unionized public employees' jobs in states and local municipalities. And so it goes. The agenda is constant.

In 1965, the Elementary and Secondary Education Act (the final dissolution, in some ways, of the federal government's sense of restraint) was advertised as aid for the poorest of the poor. Eighteen years later, in 1983, 90 percent of all school districts were participating in this. It is a principle of liberal social legislation that a program for the poor is a poor program. The assumption is that middle class Americans will not support a program aimed only at the poor. That is a theory refuted by the fact that the Earned Income Tax Credit—a policy supported and extended by Ronald Reagan—is extremely

“ We do not have a feudal background of subservience to the state. No, that is the project of the current administration—it can be boiled down to *learned feudalism*. ”

popular in this country. But it does reveal the fact that dependency is the agenda of the other side. Their agenda is to make more and more people dependent on the government for more and more things.

We can see today, in the headlines from Europe, where that leads. It leads to the streets of Athens, where we had what the media described as “anti-government mobs.” Anti-government mobs composed almost entirely of government employees going berserk about threats to their entitlements!

The Greeks and the Europeans have said all along, as they increase the weight of the state, “So far, so good.” It reminds me, as everything eventually does, of a baseball story. In 1951 Warren Spahn, on the way to becoming the winningest left-handed pitcher in the history of baseball, was pitching for the then-Boston Braves against the then-New York Giants in the then-Polo Grounds. The Giants sent up to the plate a rookie who was zero for twelve. It was clear this kid, name of Willie Mays, could never handle big league pitching. Spahn stood out on the mound 60 feet and six inches away, threw the ball to Willie Mays, who crushed it—first hit, first home run. After the game the sports writers came up to Spahn in the Club House and asked, “Spahn, what happened?” Spahn said, “Gentlemen, for the first 60 feet that was a hell of a pitch!”

It's not good enough in baseball and it's not good enough in governance, either. Let me give you a framework to understand

this extraordinarily interesting moment in which we live. I believe that today, as has been the case for 100 years, and as will be the case for the foreseeable future, the American political argument is an argument between two Princetonians: James Madison of the class of 1771, and Thomas Woodrow Wilson of the class of 1879. I firmly believe that the most important decision taken anywhere in the 20th century was the decision where to locate the Princeton graduate college. Woodrow Wilson, then Princeton's president, wanted it located on the campus, others wanted it located, where it in fact is, up on the golf course away from campus. When Wilson lost that, he had one of his characteristic tantrums, went into politics, and ruined the 20th century.

I'm simplifying a bit. Madison asserted that politics should take its bearings from human nature and from the natural rights with which we are endowed, and which pre-exist government. Woodrow Wilson, like all people steeped in the 19th century discovery that history is a proper noun—History—with a mind and a life of its own, argued that human nature is as malleable and changeable as history itself, and that it's the job of the state to regulate and guide the evolution of human nature and the changeable nature of the rights we are owed by the government that—in his view—dispenses rights.

Heraclitus famously said that you “cannot step into the same river twice,” meaning the river would change. The modern Progressive believes you can't step into the same river twice because *you* change constantly.

Those of us of the Madisonian persuasion believe that we take our bearings from a certain constancy. Not from—to coin a phrase—“the evolving standards of decency that mark the progress of a maturing society.” That phrase, from Justice Warren, has become the standard by which the Constitution is turned into a living document—a Constitution that no longer can constitute. A constitution has, as Justice Scalia has said, an anti-evolutionary purpose. The very virtue of a constitution is that it's not changeable. It exists to prevent change, to embed certain rights so that they cannot easily be taken away.

Madison said rights pre-exist government. Wilson said government exists to dispense whatever agenda of rights suits its fancy, and to annihilate, regulate, attenuate, or dilute others. Madison said the rights we are owed are those necessary for the individual pursuit of happiness. Wilson and the Progressives said the rights you deserve are those that *will* deliver material happiness to you, and spare you the strain and terror of striving.

The result of this is now clear. We see, in the rampant indebtedness of our country and the European countries, what Yuval Levin has called a “gluttonous feast upon the flesh of the future.” We see the infantilization of publics that become inert and passive, waiting for the state to take care of them. One statistic: 50 percent of all Americans 55 years old or older have less than \$50,000 in savings and investment. The feast on the flesh of the future is what debt is.

Let’s get a sense of the size of our debt. In 1916, in Woodrow Wilson’s first term, the richest man in America, John D. Rockefeller, could have written a personal check and retired the national debt. Today, the richest man in America, Bill Gates, could write a personal check for all his worth and not pay two months interest on the national debt. By 2015, debt service will consume about one-quarter of individual income taxes. Ten years from now the three main entitlements—Medicare, Medicaid, and Social Security—plus interest will consume 93 percent of all federal revenues. Twenty years from now debt service will be the largest item in the federal budget.

Calvin Coolidge, the last president with whom I fully agreed, once said that when you see a problem coming down the road at you, relax—nine times out of ten it will go into the ditch before it gets to you. He was wrong about the one we now face. We are facing the most predictable financial crisis—the most predictable social and political crisis—of our time. And all the political class can do is practice what I call “the politics of assuming a ladder.”

There’s an old story where two people are walking down the road, one an economist, the other a normal American, and they fall into a pit with very steep sides. The

“The American political argument is an argument between two Princetonians: James Madison of the class of 1771, and Thomas Woodrow Wilson of the class of 1879.”

normal American says, “Good Lord, we can’t get out.” The economist says, “Not to worry; we’ll just assume a ladder.” This seems to me to be the only approach politicians have to the Ponzi nature of our own welfare state.

It is time for us to understand that the model we share—so far in attenuated form—with Europe simply cannot work. It states that we should tax the rich (a.k.a. the investing and job-creating class), while counting on spending the revenues of investment and job creation. No one has explained to the political class that it is very dangerous to try to leap a chasm in two bounds.

We are now being told that a Value Added Tax is going to be required. A VAT would help the political class to shower benefits on those who can vote for them while taxing people who can’t vote for them. The beauty of the VAT is that it taxes everybody, but nobody quite notices it.

We are going to come to a time when America is going to have to revisit Madison’s Federalist Paper no. 45, and his statement, “The powers delegated by the proposed Constitution to the federal government are few and defined.” The cost of not facing this fact, of not enforcing the doctrine, in some sense, of enumerated powers, is that big government inevitably breeds bigger government. James Q. Wilson, one of the great social scientists in American history, put it this way. “Once, politics was about only a few things. Today, it is about

nearly everything.”

Once the legitimacy barrier has fallen, political conflict takes a very different form. New programs need not await the advent of a crisis of extraordinary majority, because no program is any longer *new*. It is seen, rather, as an extension, modification or enlargement of something the government is already doing. Since there is virtually nothing the government has not already tried to do, there is little it cannot be asked to do. And so we have today’s death spiral of the welfare state; an ever-larger government resting on an ever-smaller tax base—government impeding the creation of wealth in order to enforce the redistribution of it. They are not, however, fooling the American people.

This morning, the *Wall Street Journal* announced, with a sort of breathless surprise, that 80 percent of the American people disapprove of Congress—raising a fascinating question: who are the 20 percent!? It is a sign of national health that Americans still think about Washington the way they used to talk about the old Washington Senators baseball team, when the saying was, “First in war, first in peace, and last in the American League.” Back then they were run by a man named Clark Griffith who said, “The fans like home runs, and we have assembled a pitching staff to please our fans.”

That is why the American people do not mind what they are instructed by their supposed betters to mind, the supposed problem of legislative gridlock. Gridlock is not an American problem, it is an American achievement! When James Madison and 54 other geniuses went to Philadelphia in the sweltering summer of 1787, they did not go there to design an efficient government. That idea would have horrified them. They wanted a safe government, to which end they filled it with blocking mechanisms: three branches of government, two branches of the legislative branch, veto, veto override, supermajorities, and judicial review. And yet, I can think of nothing the American people have wanted intensely and protractedly that they did not eventually get. The world understands, a world most of whose people live under governments they

wish were capable of gridlock, that we always have more to fear from government speed than government tardiness.

We are told that one must not be a “Party of No.” To “No,” I say an emphatic “Yes!” For two reasons. The reason that almost all improvements make matters worse is that most new ideas are false. Second, the most beautiful five words in the English language are the first five words of the First Amendment, “Congress shall make no law.” That is: no law abridging Freedom of Speech, no law establishing religion, no law abridging the right to assemble and petition in redress of grievance. The Bill of Rights is a litany of “No’s”—no unreasonable search and seizure, no cruel and unusual punishments, no taking of property without just compensation, and so it goes.

The American people are, I think, healthier than they are given credit for. They have only one defect. They have nothing to fear, right now, but an insufficiency of their fear itself. It is time for a wholesome fear of what people with a dependency agenda are trying to do. We have few allies. We don’t have Hollywood, we don’t have academia, and we don’t have the mainstream media. But we have two things. First, we have arithmetic. The numbers do not add up, and cannot be made to do so. Second, we have the Cato Institute. The people in this room are what the Keynesians call “a multiplier.” And, for once, they are right!

In Athens, the so-called “cradle of democ-

“Given the Cato Institute, the American people will, in time, secure freedom.”

cracy,” the *demos* (a Greek word for “the people”) have been demonstrating, in recent days, the degradation that attends people who become state-broken to a fault—who become crippled by dependency and the infantilization that comes with it. We shall see. I think America is organized around the very principle of individualism, which I can illustrate with what is, I promise you, the last baseball story.

Rogers Hornsby, the greatest right-handed hitter in the history of baseball, was at the plate, and a rookie was on the mound. He was, quite reasonably, petrified. The rookie threw three pitches that he thought were on the edge of the plate, but the umpire called, “Ball one! Ball two! Ball three!” The rookie got flustered, and shouted at the umpire, “Those were strikes!” The umpire took off his mask, looked out at the rookie, and said, “Young man, when you throw a strike, Mr. Hornsby will let you know.”

Hornsby had become the standard of excellence. If he didn’t swing, it wasn’t a strike. We want a country in which everyone

is encouraged to strive to be his own standard of excellence and have the freedom to pursue it. There are reasons to be downcast at the moment. Certain recent elections have not gone so well. Let me remind you, however, of something, again going back to 1964. In 1964 the liberal candidate got 90 percent of the electoral votes. Eight years later the liberal candidate got 3 percent of the electoral votes. This is a very changeable country.

Recall the words of the first Republican president who, two years before he became president, spoke at the Wisconsin State Fair, with terrible clouds of civil strife lowering over the country. Lincoln told his audience the story of the Oriental despot who summoned his wise men, and assigned them to devise a statement to be carved in stone, to be forever in view and forever true. They came back ere long, and the statement they had carved in stone was, “This, too, shall pass away.”

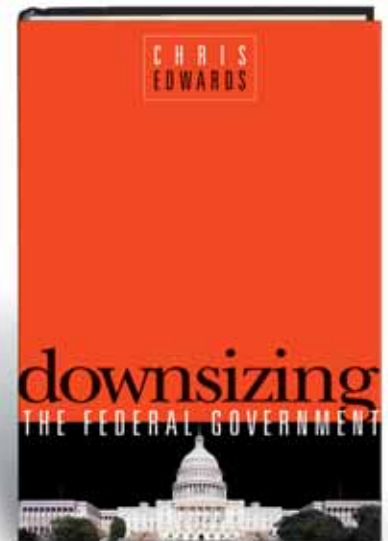
“How consoling in times of grief,” said Lincoln, “How chastening in times of pride.” And yet, said Lincoln, if we cultivate the moral world within us as prodigiously as we Americans cultivate the physical world around us it need not be true. Lincoln understood that freedom is the basis of values, not the alternative to a values approach to politics. Freedom is the prerequisite for the moral dimension to flower. Given freedom, the American people will flower. Given the Cato Institute, the American people will, in time, secure freedom.

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A Greek Tragedy

With Greece in economic collapse brought about by a bloated public sector and chronic over-promising by the state, it is becoming increasingly clear that the European-style welfare state is in serious trouble. At events in April and May, experts discussed how Greece got to be in such bad fiscal shape, how that nation can reform, and what Greece's experience means for the rest of the European Union. Speaking were Simeon Djankov, minister of Finance and deputy prime minister of Bulgaria; Cato senior fellow Steve Hanke; and Takis Michas, staff writer for the Greek national daily, *Eleftherotypia*.

SIMEON DJANKOV: The view of European finance ministers, and politicians generally, is that the Euro is here to stay—and that Europe should take all necessary steps to ensure it remains a strong currency. Some of the actions in the last few days have shown that there is some resolve here, and they have met with some success, but we may well find out in the following days and weeks that more needs to be done.

Most countries—Greece most prominently—have lived well beyond their means for at least the last decade. They have gotten into so much debt that countries like Greece, especially after joining the Euro, have been lulled into complacency and have been spending enormous amounts of money—more than their economies can generate, or will generate for years to come. Were this a problem for Greece only, we might write it off. Soon, however, we will likely be talking about other countries as well, both in the Eurozone and beyond. If you take a careful look at the fiscal situation across countries, you will find there are others, such as the United Kingdom, that have higher debt levels, and certainly higher deficits, than Greece.

The cause of the problem is that, especially over the last decade or two, Europe has become decreasingly competitive relative to

Asia and, somewhat strikingly, given what's happening there, the United States.

What is it about Europe that makes it less competitive? Significantly, it has a poor environment for doing business, caused by over-regulation. From the beginning of the World Bank's "Doing Business" report, Greece was shown as a middle-income country that very heavily regulates, and has well-organized labor unions that prevent sensible reforms of pensions, public administration, health care, and education.

There are other countries that fit this model: Spain, Portugal, and, to some extent, Italy. This is evidence that the level of regulation—and the related level of taxation—is too burdensome to these countries' economies. In other words, if you are already a fairly rich country, like Sweden, maybe you can allow yourself a high level of taxation and regulation, but if you are still a middle-income country trying to grow while sustaining a fairly high standard of living, then you should be more business-friendly.

Europe has a lot more regulation than is needed, a lot heavier public administration than is needed, and very little reform in some of the key social sectors. The European excuse is that, because we are social democracies, we are already well-off and democratic, so we don't need reforms better suited to

developing countries. Nor, Europeans continue, do we need some of the "right-wing" tax policies of the U.S., because we live in a more sophisticated, advanced society. We can just continue, somehow, as we are.

Since at least 2000, there had been a realization in Europe that competitiveness needed to improve. In typical bureaucratic fashion it was decided that, beginning in 2000, we would have the "Lisbon Agenda." The Lisbon Agenda insisted that in 10 years—by 2010—Europe would be more competitive than the U.S., and there were a number of indicia that were supposed to signal when that goal had been reached. At the end of this year we will get the Lisbon Agenda's report. I am sure it will be very well written, and will say that, while we have not quite succeeded, there have been some notable advances. If you look at the indicators, though, it is quite striking. In the last 10 years Europe has not only failed to catch up to the U.S., it has gotten relatively less competitive. In other words, the U.S., despite all its hang-ups in the last 10 years, somehow has managed to separate itself even further from Europe. (Asia has done even better, including countries such as China and Vietnam that are not considered bedrocks of capitalism.)

In short, for 10 years Europe has done nothing to increase its competitiveness and, in fact, its relative competitiveness has fallen. This has not prevented the European Commission from deciding to create another 10-year plan called "Europe 2020." The idea, once again, is that over the next decade Europe will catch and surpass the United States. I am sure this is not going to happen, given that the discussion about what indicators to use primarily concerns how to fudge them.

If there is something good about this current crisis, it is that it's starting to make clear, in a serious manner, that we cannot keep going as we've been. But if there is a change it will not come from Western Europe. That's been tried already. Rather, it will come from what's called the "New Europe," the Eastern European countries. While these

countries are individually small, in coalition and with the help of some of the more reform-minded countries in Western Europe they can create enough pressure to introduce meaningful changes to the European Union. If you put Europe's reformist policies on a continuum from left to right, from no change to radical change, you will see that the most radical reforms over the last 10 years, from both socialist and not-so-socialist governments, have all come from Eastern Europe. These countries have led the charge on becoming more business friendly and competitive.

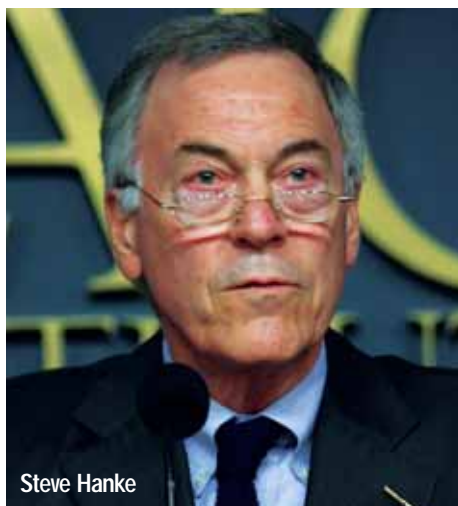
In a way one can say they had to in order to become globally competitive. But some of these countries have continued to do so even after achieving a reasonable level of well-being, and surpassing some of the older European Union members. One such country, which I think is the standard bearer, is Estonia. Estonia has done all the necessary things to go from being a Soviet basket-case to one of the best economies in Europe, notwithstanding the crisis and other issues. Hopefully, within a few weeks, Estonia will succeed in joining the Euro zone. Estonia serves as an example of a country that had a lot of things to do and did them, regardless of whether the political party in charge was to the left or to the right.

I am almost alone, among my fellow finance members, in thinking that improving European competitiveness is a meaningful goal. The other ministers seem to think this is somehow too petty, too small, or too non-European. I hope this crisis reminds us that it is very European to be competitive, and once we are competitive, then we can do other "sophisticated" European things.

STEVE HANKE: How did Greece get into this death spiral that they're in? Unfunded entitlements. In other words, promise somebody something, don't come up with the financing for it, and pretty soon you have yourself in a fiscal/debt crisis. This is where Greece ended up, and in February they called in some outside advisers (Professor Stiglitz for one), and the blame game began. The prime minister, who is also the head of the Socialist International, started blaming everyone. The speculators were the first.

Then he went on a tear against his own colleagues in the European Union. The Germans really got whacked—they were a big cause of the trouble.

Ironically, after blaming outsiders for all their problems, the Greeks have called in the foreign doctors. In this case it isn't just the IMF, but also the EU politicians and bureau-



“How did Greece get into this death spiral that they're in? Unfunded entitlements.”

crats who are involved. I think this will ultimately be a case in which the doctors kill the patient. They've started the sequence not with what they should be doing, but with an austerity program. There have been promises that government expenditures in Greece will be cut. There have also actually been some tax increases. Unlike Bulgaria, which did exactly the right thing by refusing to increase its VAT, Greece has increased the VAT twice since the crisis.

But there are no structural reforms, outside of what I call "fiscal structural reforms," in the proposals for Greece's recovery. What should they have done? They should have started with a Big Bang, doing a number of

things simultaneously à la New Zealand. In 1984, New Zealand elected a Labor government after the conservatives had made a complete mess of the economy. The Muldoon government introduced, over a course of years, a socialist system in New Zealand. Labor, under finance minister Roger Douglas, introduced structural reforms centered on competitiveness. As a consequence, New Zealand had a massive economic revolution after the '84 election, and that should be part of Greece's Big Bang.

Greece should have begun by rescheduling their debt. They also should have implemented a supply-side fiscal consolidation. What that means is that you cut government expenditures, but also change the taxing setup. Right now, Greece has very onerous payroll taxes that are paid by employers and, ultimately, labor. As part of the Big Bang, what Greece should do is eliminate employers' contribution to payroll taxes. The other thing they should do with respect to supply-side fiscal consolidation is to make the VAT uniform. Right now, there are three VATs in Greece. This is a typical in Europe. You have the regular VAT, a VAT that is reduced by 50 percent for other categories, and, finally, a super reduced VAT. I would eliminate the reduced and super-reduced rates, and just have one, uniform rate for the VAT.

If you did those two things you would end up generating more revenue than they are generating right now. Even on a static, simple-minded analysis, you would be ahead of the game by making that change. But, more importantly, you would reduce the labor cost in the economy. The contribution of employers right now is 7.8 percent of GDP. By eliminating the employer contribution you would get a 22 percent reduction in the overall burden on wages as a percent of GDP in Greece. You would make the economy more competitive. You would also, obviously, reduce consumption, increase savings, and reduce the level of debt in the country.

Let me make a comment about devaluation. There are some people—Professor Krugman, for example—who are wringing their hands saying, "Well, the problem with Greece is that they've gotten themselves into this straightjacket of the Euro and they

can't devalue the Drachma, anymore. So they're in the soup. There's nothing they can do!" But, as I've just pointed out, there is something they can do. They can make a 22 percent reduction in the total labor cost to the economy, simply by eliminating the employer contribution to payroll taxes. If we assume that 50 percent of the devaluation would be passed through to the economy—a reasonable assumption about a small, open economy like Greece's—you would have to have a 44 percent devaluation to be equivalent, in terms of competitiveness, with the elimination of the employer contribution to payroll taxes. So you get a lot by eliminating the payroll tax. You get the equivalent of a 44 percent devaluation of their currency (if they still have a currency), without the inflation, and widespread private sector bankruptcy, that would go along with that.

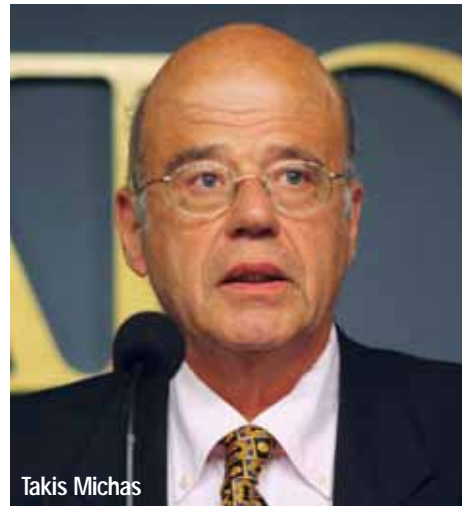
The ideal end game for Greece would be a New Zealand kind of Big Bang. They'd get their reputation back, get their confidence back, and have a pro-growth strategy that attacks Greece's fundamental structural problems.

TAKIS MICHAS: Greece has been called by various analysts "the last existing socialist state in Europe," or "the last Marxist state." All of these terms denote the predominance of politics in the economy. Yet one could say that Greece better fits the model of a post-socialist society, as described by Yegor Gaidar. It is a form of capitalism where the bureaucracy and its allies consider the state their property, and use its mechanisms for personal enrichment.

In Greece, the fundamental principle that has been dictating economic and political development since the creation of the Greek state in the 19th century is political clientelism. This is a system in which political support is provided in exchange for benefits. In this situation, rent-seeking—the attempt by various groups and individuals to influence the location of political benefits—becomes paramount. The origins of political clientelism can be traced back to the origins of the Greek state in the 1830s. As a left-wing political historian puts it, "The fundamental structure of Greece has never been civil soci-

ety. Ever since the middle of the 19th century, nothing could be done in Greece without its necessarily passing through the machinery of the state."

The social group that took over the running of the Greek state after liberation from the Ottomans was primarily the village notables. Their power, under Ottoman rule,



“ In Greece, the fundamental principle that has been dictating economic and political development since the creation of the Greek state in the 19th century is political clientelism. ”

lay not in their ownership of Greek land, but in the fact that they acted as tax collectors for the Ottomans, something that gave them prestige, power, and wealth. Their new role, as leaders of the Greek state, was continuous with the old one. Tax collection was still their major business. However, under the new conditions, they did not have to transfer the proceeds to the Ottoman rulers,

but could keep them for themselves. At the same time, they could utilize the networks of local allegiances they had built under Ottoman rule and carry them into the new state. Political offices gave them seemingly inexhaustible resources.

In Western Europe, and, especially, in Northern Europe and the Anglo-Saxon world, the State was seen primarily as the protector of certain Lockean rights, especially the right to own property. This conception, as has been frequently noted, went hand in hand with a ruling class that had a vested interest in large property-holdings. In the new Greek state, on the contrary, owing to the absence of a large landowning class, the ruling class saw the state not only as an instrument for pre-existing assets, but as its source of income par excellence. Hence, the conquest of the state apparatus did not only serve the power and ambitions of various individuals, it also became the most important mechanism for the distribution of material rewards and benefits.

The benefits that the political system could bestow upon the clients took many forms. The most important of these was the provision of jobs in the civil service to supporters and their kin. This quickly led to an explosion in the number of people employed by the state. By the late 1880s, when Greece was still an agricultural country which had barely begun to industrialize, Greece had one of the largest civil services in Europe. Per 10,000 inhabitants there were 200 civil servants in Belgium, 176 in France, 126 in Germany, and 73 in Great Britain. In Greece the number was 214. This went hand in hand with a rise in public expenditure. By the latter half of the 19th century, Greece had one of the highest ratios of public expenditure to GDP. It was 19.1 percent, compared to 6.6 percent for England, 13.2 percent for France, 10 percent for Germany, and 7 percent for the U.S. The largest part of public expenditure was directed, not to public works or infrastructure, but to the wages of public service workers and civil servants. The grounds for the rent-seeking struggles of the future were thus firmly laid. Everybody wanted to join the civil service.

Much water has, of course, gone under

Continued on page 19



Sen. ORRIN HATCH (R-UT) argues that, in light of mammoth growth in the reach of government, there is a renewed need to debate “what the Constitution really is” and “whether the Constitution controls the government, or vice versa.” Hatch spoke at a Cato Policy Forum on May 5 on the constitutionality of ObamaCare.



At a May 27 Cato Book Forum, Cato senior fellow JAGADEESH GOKHALE introduced the sophisticated new model for analyzing Social Security’s finances he developed for his book, *Social Security: A Fresh Look at Policy Alternatives*. Unfortunately, this model finds that Social Security’s budget shortfall is greater than previously thought, highlighting the need for serious reform.



Cato senior fellow JOHAN NORBERG introduces his new documentary, *Overdose: A Film about the Next Financial Crisis* at a Cato Film Premiere on May 17. The movie, narrated and co-written by Norberg, argues that the greatest financial crisis of our time isn’t the one we’re in today, but the one we will be in tomorrow when the stimulus bubble bursts.



At a May 18 book forum, JEFFREY A. MIRON, Cato senior fellow and author of the new *Libertarianism, from A to Z*, told the audience how he came to that political philosophy, realizing that all of government’s current policies have negative and unintended consequences. Cato senior fellow TOM G. PALMER offered his thoughts on Miron’s book.

Cato founder and president EDWARD H. CRANE delivers his annual State of the Institute address to the Cato staff, presenting highlights from Cato's activities in 2009 and discussing what the next year holds for the Institute. Most exciting is Cato's building expansion, which will double the size of the Institute and bring updated facilities, all to help Cato better advance the cause of liberty.



The Cato Institute is pleased to announce that LINDA HERTZOG has been named Vice President, Events and Conferences. In her seven years at Cato, Hertzog built a robust conference department that, in 2009, hosted 66 book and policy forums, drawing nearly 7,000 attendees. Her new title is a recognition of the important role she plays in ensuring that Cato's public policy events get such high marks for organization and style.

WALTER OLSON, whom the *Washington Post* has called an "intellectual guru of tort reform," has joined the Cato Institute as a senior fellow with the Center for Constitutional Studies. Prior to joining Cato, Olson was a senior fellow at the Manhattan Institute, as well as a columnist for Great Britain's *Times Online* and *Reason*. He is the author of several books, including *The Litigation Explosion* and *The Excuse Factory*, and has made approximately 400 broadcast appearances, including on all the major networks, CNN, Fox News, PBS, NPR, and Oprah. He is also founder of the popular legal blog, *Overlawyered.com*. His new book, *Schools for Misrule*, will appear in February 2011.



Cato Calendar

CONSTITUTION DAY

Washington • Cato Institute
September 16, 2010

Speakers include Joan Biskupic, James Bopp Jr., Tom Goldstein, Harvey Silverglate, Roger Pilon, and William Van Alstyne.

CATO CLUB 200 RETREAT

Stowe, Vermont • Stowe Mountain Lodge
September 23–26, 2010

CATO INSTITUTE POLICY PERSPECTIVES 2010

New York • Waldorf-Astoria
October 29, 2010

ASSET BUBBLES AND MONETARY POLICY

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

Speakers include Jerry L. Jordan, Charles Plosser, Lawrence H. White, Steve Hanke, Gerald P. O'Driscoll Jr., and Carmen Reinhart.

23RD ANNUAL BENEFACTOR SUMMIT

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



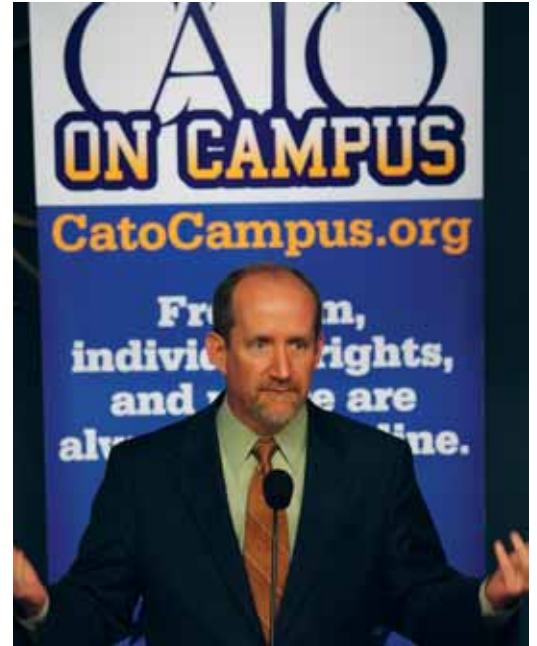
The Nuclear Security Summit, hosted at the Washington Convention Center two blocks from the Cato Institute in April, brought a heavy military presence to the neighborhood, including these soldiers and Humvees outside the building.



JOHN SAMPLES, director of the Cato Institute's Center for Representative Government, spoke about his new book, *The Struggle to Limit Government: A Modern Political History*, at a Capitol Hill Briefing in April. He argued that the Tea Party movement offers the possibility of returning the Republican Party to "limited-government ideas and concerns about individual liberty and about a proper constitutional order."



Cato's continuing outreach efforts for young people included an intern reunion in May. HELEN WHALEN-COHEN, SUSAN BANKO, DAFINA MULAJ, AMY JOY MANDLER, and SARIA SHEIKH joined more than 150 other intern alumni at an opening reception in the Wintergarden. JIM HARPER (right), Cato's director of information policy studies, spoke to students about the intellectual property debate at an event co-hosted by Cato on Campus and D.C. Forum for Freedom.



Conference speakers staff new government

Forging Slovakia's Future

Slovaks headed to the polls on June 12. In Slovakia, the ruling coalition of socialists and nationalists has been weakened by a number of corruption scandals. The Greek debt crisis turned Slovakia's ballooning budget deficit and national debt into election issues. There is a growing sense that something must be done about the unsustainable social spending and inefficient welfare state.

Cato teamed with *Trend*, a well-regarded local business magazine, to organize a one-day conference, "Slovakia at the Crossroads of Reform," in the Slovak capital of Bratislava in May. Following the fall of communism, Slovakia greatly liberalized its economy.

The conference started with libertarian author and American Enterprise Institute scholar Charles Murray delivering the keynote address on "Freedom in the 21st Century." He emphasized that while, in the short term, the cause of freedom faces many challenges from an overbearing welfare state, in the long run, freedom will prosper.

Murray was followed by a panel on corruption discussing the practical measures that could be implemented to increase accountability of public officials and transparency of government spending. Cato's Marian Tupy emphasized that, in the absence of a vibrant civil society, independent media, and parliamentary independence that keep Western governments in check, ex-communist coun-



Ivan Miklos (left), who will return to the Slovakian finance ministry he ran between 2002 and 2006, was one of about 150 people who attended Cato's conference on the future of Slovakia, held in Bratislava just weeks before national elections. Richard Sulik, the father of Slovakia's flat tax reform, gets his copy of *Losing Ground: American Social Policy 1950-1980* autographed by the American Enterprise Institute's Charles Murray. Sulik will be the next speaker of Parliament.



tries should focus on business deregulation and reducing government procurement.

Richard Vedder, a higher education specialist from Ohio University, criticized the obsession of many European governments with increasing the number of students enrolled in taxpayer-financed public universities. Instead, he advocated tuition-based and quality-oriented higher education. The healthcare panel discussed ways of moving away from a wasteful Soviet-style "single-payer, single-provider" system toward a market-based system of personal health insurance.

Charles Murray joined a number of Slovak reformers for a spirited discussion of the welfare state. Murray's concept of a "basic

income grant" as an alternative to the current mishmash of welfare grants and social engineering policies drew strong support from the father of Slovakia's flat tax reform, Richard Sulik, but was vigorously opposed by other panelists who felt that it would reward idleness.

The conference drew an audience of about 150 people, including some of the country's past leaders, such as former finance minister and deputy prime minister Ivan Miklos and former justice minister Daniel Lipsic. It was covered by most of the largest newspapers and TV stations, and contributed to the pre-election debate about the future of reforms in Slovakia.

A Panoply of Regulatory Analysis

The latest issue of *Regulation* covers everything from stock options to plea bargaining, network neutrality to animal testing. Bruce Yandle opens the issue with a look at the "latest long-dead economist to enthrall bloggers, policy wonks, and entrepreneurial analysts," Arthur Cecil Pigou. Yandle shows how Pigou's theories have been misinterpreted by politicians eager to use the tax code for social engineering.

Among the issue's other features is "Network Neutrality or Internet Innovation?" by Christopher S. Yoo. Yoo shows how the evolution of the internet has been away from "rigid and uniform hierarchy" and toward decentralization. He warns that regulating the net would reverse this trend, raising costs, discouraging investment, and harming consumers.

Richard A. Booth looks at the benefits of stock options as "the best way to align the interests of CEOs with those of diversified stockholders."

Oren Bar-Gill and Omri Ben-Shahar present an intriguing take on the game theory of plea bargaining, likening it to the classic Prisoner's Dilemma. They write, "If defendants could bargain collectively—that is, if they were to coordinate a strategy and stonewall as a group by refusing to accept harsh plea bargains—they would all be better off."

John Hasnas, in "The Discordance of New York Central Jazz," argues that it is time to abandon the notion of corporate criminal liability and return to the jurisprudence of "the 19th century, when the rules of criminal law were consistent with its underlying theoretical structure and the oxymoron of vicarious criminal liability and the abomination of collective punishment were unknown."

Regulation is available by subscription or online at www.cato.org/regulation.



Don't Fear the Chinese, Sell to Them

As China's economy surges and the Great Recession hammers American confidence, frictions between the two countries rise. Americans worry about what this changing relationship means for their pocketbooks and their country's political objectives—worries the media are only too happy to encourage. Daniel Ikenson, associate director of the Cato Institute's Center for Trade Policy Studies, examines the economic relationship between China and the United States in **"Manufacturing Discord: Growing Tensions Threaten the U.S.-China Economic Relationship"** (Trade Briefing Paper no. 29) and finds more to be excited about than to be apprehensive about. He addresses the major points of concern, from China's growing manufacturing sector ("The fact that China surpassed Germany to become the world's largest exporter last year . . . says less about Chinese economic might than it does about the extent of global economic integration") to currency manipulation ("Compelling China to revalue under threat of sanction could produce

adverse consequences . . . without achieving the underlying policy objective"). Ikenson debunks the myth of harmful dumping, and argues that "an uncharacteristic paranoia or lack of confidence among U.S. opinion leaders seems to be driving the discussion about U.S.-China relations." He warns against a more aggressive U.S. trade policy, calling it unnecessary and unwanted. The "use of carrots," he writes, is far better than "reaching for sticks."

Africa's Struggle for Freedom

It is difficult not to feel that the march of global progress has left Africa behind. In **"The State of Liberal Democracy in Africa: Resurgence or Retreat?"** (Development Policy Analysis no. 12), Tony Leon, a leader of the liberal opposition to both the National Party and ANC governments in the South African Parliament between 1989 and 2009, tries to counter this gloomy assessment, painting Africa as a continent successfully struggling toward true democracy. "Africa," he writes, "is no longer synonymous with

rigged elections, rapacious and unaccountable big-man rules, and the accretions of predatory and vampiric states." This has led to a "democratic picture in 48 African countries that are home to some 800 million people [that] is better than at any time since African nations gained independence." Leon urges reformers to focus on the promotion of strong institutions supporting the "separation of powers, checks and balances, an independent media and judiciary, restriction on presidential power," and other key elements of free societies. Leon uses the stories of four African nations—Botswana, Kenya, South Africa, and Zimbabwe—to explore the range of the African experience with democracy, economic growth, and the kleptocratic temptation. He remains realistic about Africa's future, giving cause



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for hope but also warning of threats to the continued growth of liberal democracy on the world's poorest continent.

Pulling Back the Curtain on the Federal Reserve

The Federal Reserve was at the center of the financial crisis and continues to play a significant role in the government's response. Yet the institution's inner workings remain hidden from the public. In **"The Case for Auditing the Fed Is Obvious"** (Briefing Papers no. 118), Cato Institute adjunct scholar Arnold Kling looks at the debate surrounding calls to audit the Fed and offers a plan for what an audit should look for. "What is presented as concern about threats to the political independence of the Fed," he writes, "is in fact a concern about a threat to the myth of the Fed's technocratic competence." This concern has led to a showdown between progressives—who want to maintain the Fed's air of infallibility—and libertarians and conservatives. Kling says maintaining this myth must not stand in the way of an audit. If the audit occurs, he writes, it should focus on two aspects of the Fed's behavior: the process by which it makes its decisions and the profits and losses of its investments. Having this information would better enable us to address future crises effectively. "How can anyone be so certain of their views on these

matters," Kling asks, "that they would not like to see the facts brought to light?"

Don't Miss the Cato Institute's Policy Bulletins

Every month, the Cato Institute publishes short policy studies called bulletins. In May, Václav Klaus, president of the Czech Republic, wrote an Economic Development Bulletin, **"When Will the Eurozone Collapse?"**



He argues that "the European monetary union is not at risk of being abolished. The price of maintaining it will, however, continue to grow."

Jorge Castañeda, foreign minister of Mexico during the administration of President Vicente Fox, wrote **"Mexico's Failed Drug War,"** another Economic Development Bulletin. He looks at the War on Drugs from Mexico's perspective, writing, "We are in this mess today, as opposed to over the last 40 or 50 years, because when the current president, Felipe Calderón, took office over three years ago, he felt that he had no choice but to declare a full-fledged, no-holds-barred war on drugs."

Duanjie Chen and Jack Mintz, of the

University of Calgary, wrote **"U.S. Effective Corporate Tax Rate on New Investments: Highest in the OECD,"** a Tax and Budget Bulletin. Their paper "presents estimates of effective corporate tax rates on new capital investments in 80 nations for 2009" and finds "that the U.S. effective corporate rate is 35.0 percent, which is much higher than the 80-nation average of just 18.2 percent."

Cato recently launched two new bulletins. The Nuclear Proliferation Update is dedicated to promoting peaceful resolutions to the nuclear crises in North Korea and Iran. It aims to provide policymakers with analysis on the latest developments in both nations and options for formulating coherent U.S. responses. In highlighting the importance of achieving diplomatic solutions, the goal is to avoid armed conflict and its attendant consequences.

The Immigration Reform Bulletin provides timely information, insight, and analysis about efforts to expand opportunities for legal immigration to the United States. The bulletin focuses on immigration policies that promote economic growth, national security, and individual liberty.

These bulletins, along with all of Cato's publications and e-mail lists to stay abreast of new releases, can be found at www.cato.org.

Continued from page 13

the bridge since those days. Greece experienced wars, revolutions, occupations, bankruptcies, dictatorship, and earthquakes. If there was one thing that remained constant throughout this period, it was the system of political clientelism as the central organizing principle of Greek society. Of course, some things have changed. From the middle of the 1930s onwards, political parties have become more centralized than the loose coteries of personalities heading extended patronage networks they used to be. The clientelistic orientation remained intact.

Another thing that changed, of course, was the rhetoric that justified the distribu-

tion of benefits. Client groups today receive benefits in the name of social justice, national necessity, or acquired rights. Those three concepts are extremely prominent in the political discourse of Greece and, I expect, elsewhere.

Clientelism in Greece has gone hand in hand with the development of an oversized state apparatus where social groups competed not to enforce different policies but to reap personal gains. "The Greek state is huge yet hollow," write two academics in a recent book, "It intervenes in all aspects of social and economic activity, yet, at the same time, it has been taken over from within by groups that prey on the national welfare in the same way the Vikings preyed on

European societies a few centuries ago."

One of the main criticisms that the left has been directing all of these years against capitalism is that capitalism puts markets above people. At the same time, the left believes that political intervention is needed to restore the people to their rightful place. Lifting them, that is, from the tragic position as slaves of the market to the glorified position of lords and masters of the market. What makes the case of Greece interesting is that Greece can be said, in a certain sense, to provide the perfect realization of the left's vision of putting people above markets. Greek politicians have always placed people (their clients) above markets, with results we can all see today.

CATO POLICY REPORT

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“To Be Governed...”

THE GOVERNMENT IS IN TROUBLE

President Obama took his rhetoric of reform on Thursday to the nation's financial capital.

... “Unless your business model depends on bilking people, there is little to fear from these new rules,” he said.

—*New York Times*, April 23, 2010

HOW THE DEBT CRISIS WILL STOP?

Some economists are now warning that the hefty pension checks handed out to some retired government workers in California could bankrupt the state. . . .

Former Assembly Speaker Willie Brown, a longtime union champion, helped create the system in place now. But even he admits California's pension system needs fixing—and there could be serious trouble on the horizon.

“No it's not going to bankrupt the state,” Brown said. “My guess is that the State of California, like most places involved with pensions, is going to cease to pay them.”

—*CBS13.com*, May 4, 2010

EXCEPT FOR, YOU KNOW, THE OTHER \$49.5 BILLION

We're proud to announce: We've repaid our government loan. In full. With interest. Five years ahead of the original schedule.

—*General Motors CEO Ed Whitacre in the Wall Street Journal*, April 21, 2010

AFTER THE GOOD TIMES ROLL

The boom was good for Montgomery County.

In the four years before the recession began in late 2007, revenue increased more than \$1 billion and spending jumped nearly as much. Public schools were showered with resources, public

employees were paid generously, the uninsured were given health coverage and the poor were given tax breaks.

Now officials are scrambling not to run out of money by June 30. . . .

“When there's a lot of money, it's fun to give it away,” said Nancy Dacek, a former PTA leader who served on the Montgomery County Council for a dozen years.

—*Washington Post*, May 18, 2010

FISCALLY CONSERVATIVE, SOCIALLY LIBERAL?

Socially liberal and fiscally conservative voters believe, especially after what happened with health care, that they have no clear choice: They must sign on with the religious right or the economic left. It is just a matter of time before they demand their own movement or party.

—*Mark Penn in the Washington Post*, May 6, 2010

The world is complicated, and an electorate so diverse in geography, race, class and beliefs can't be shoehorned into two fixed templates. There is no particular reason why all advocates of fiscal restraint should also oppose abortion rights, or why supporters of a progressive tax code should necessarily favor restrictions on gun ownership.

—*Washington Post* editorial, May 13, 2010

ZONING VS. THE FAMILY

The Rev. Kenneth Dupin, who leads a small Methodist church [in Salem, Virginia], has a vision: As America grows older, its aging adults could avoid a jarring move to the nursing home by living in small, specially equipped, temporary shelters close to relatives. So he invented the MEDcottage, a portable high-tech dwelling that could be trucked to a fami-

ly's back yard and used to shelter a loved one in need of special care.

Skeptics, however, have a different name for Dupin's product: the granny pod.

Protective of zoning laws, some local officials warn that Dupin's dwellings—which have been authorized by Virginia's state government—will spring up in subdivisions all over the state, creating not-in-my-back-yard tensions with neighbors and perhaps being misused. . . .

—*Washington Post*, May 6, 2010

THE INSANE DRUG WAR

Thousands of police and soldiers swarmed into slums in Jamaica's capital Tuesday in search of an alleged drug kingpin wanted by the United States, trading gunfire with masked supporters of the fugitive. At least 30 people, mostly civilians, have been reported killed since the battle erupted Sunday. . . .

[Christopher] Coke, who allegedly assumed leadership of the “Shadow Posse” from his father, was accused in a U.S. indictment in August of heading an international trafficking ring that sells marijuana and crack cocaine in the New York area and elsewhere.

—*Washington Post*, May 26, 2010

Federal surveys put the District [of Columbia] among the nation's leaders in pot consumption. . . .

“People don't feel marijuana is dangerous, but it is, because of the way it is sold,” [D.C. Assistant Police Chief Peter Newsham] said. “We frequently recover weapons when serving search warrants associated with the sale of marijuana.” . . .

Teenagers in parts of the city said they can buy pot more easily than beer or cigarettes.

—*Washington Post*, May 4, 2010