JAMES BUCHANAN
The legacy of a Nobel laureate
PAGES 1, 3

DAVID KOPEL
Defending the Second Amendment
PAGES 14, 17

CATO PAPERS
New, in-depth research from the Institute
PAGE 12

Cato Policy Report

March/April 2013 Vol. XXXV No. 2

Saving the Soul of Classical Liberalism

BY JAMES M. BUCHANAN

The 1950s were dark days for classical liberals. Big Government was an idea tolerated across the political spectrum in Western nations. In those years my colleague Warren Nutter often used to say that "saving the books" was the minimal objective of classical liberals. At the very least we had to keep liberal ideas in print. Friedrich von Hayek, the free market's great advocate, broadened Nutter's notion to "saving the ideas."

Both of these objectives have been achieved. Today liberal, free-market books are still read, and the ideas they advance are more widely understood than at midcentury. Today, for example, most thinking Americans know that the core of classical liberalism lies in an understanding that the advancement of the individual can bring more good than any project that focuses on the collective. Many intuitively understand, too, that classical liberalism bears little relation to the postwar "liberalism" advanced by the American left.

Despite these successes, we true liberals are failing to save the soul of classical liberalism. Books and ideas are necessary, but alone, they are not sufficient to insure the viability of our philosophy. No, the problem lies in presenting the ideal.

Thus, for example, George Bush, during his presidency, derisively referred to "that vision thing," when someone sought to juxtapose his position with that of Ronald Reagan. The "shining city on a hill," the Puritan image that Mr. Reagan invoked to call attention to the American idea, was foreign to Mr. Bush's mind-set. Mr. Bush did not understand what Mr. Reagan meant and failed to appreciate why the image resonated in public attitudes.

In a sense, we can say that Ronald Reagan was tapping into a part of the American soul about which George Bush remained illiterate. The critical distinction between those whose window on reality emerges from a comprehensive vision of what might be, and those whose window is pragmatically limited to current perceptions, comes

Continued on page 6

JAMES M. BUCHANAN *was the Emeritus University Professor of Economics in the Center for the Study of Public Choice at George Mason University and a Distinguished Senior Fellow of the Cato Institute. He was awarded the Nobel Prize in Economic Science in 1986. This article appeared in the* Wall Street Journal *on January 1, 2000.*

At the Cato Institute's 7th Annual State Health Policy Summit, Rep. PAUL RYAN (R-WI) spoke about the importance of minimizing government intervention in state health care markets. In particular, he offered his plans to repeal and replace Obamacare.

BY ROBERT A. LEVY

Chairman's Message

Should We Reform the Electoral College?

> "The Maine-Nebraska alternative encourages candidates to campaign in competitive districts even when they have little chance statewide."

Let's start with the basics: In presidential races, each state has electoral votes equal to the number of its House representatives plus two for its senators. Currently, there are 435 House members and 100 senators, plus three votes for Washington, D.C. (thanks to the 23rd Amendment), for a total of 538. The candidate who garners a majority—270 or more—wins, even if he loses the popular vote.

That's what happened in the 2000 Bush versus Gore election, which sparked the effort to switch to popular voting for presidential elections. Ordinarily, that switch would require a constitutional amendment; but a group of activists came up with a scheme—the National Popular Vote Interstate Compact (NPVIC)—that could work without a constitutional amendment.

Article II of the Constitution gives states broad authority to decide how their electoral votes are selected and divided among the candidates. In 48 states, the candidate who gets the most votes wins all of the state's electoral votes. But the Constitution doesn't require that rule. Maine and Nebraska have implemented district-by-district voting. One electoral vote goes to the winner in each congressional district, and the remaining two electoral votes are awarded to the winner of the statewide popular vote.

Assume, however, that a state enacts a law giving all its electoral votes to the presidential candidate who wins the national popular vote. And assume further that the law says it will not be effective unless enough other states pass the same law to yield a total of at least 270 electoral votes. That would be perfectly valid under Article II. It would force a majority of electoral votes to be cast for the national popular vote winner—without amending the Constitution.

But is it a good idea? The Framers meticulously crafted an electoral model that reduced sectionalism and reinforced minority rights. Instead, popular voting would favor regions with high voter density and large states over small. "One man, one vote" may be the rallying cry of a democracy; but that is not our form of governance. We are a constitutional republic; political outcomes are not always determined by majority rule. For example, it takes two-thirds of Congress to override presidential vetoes, approve treaties, impeach a president, or expel a member of Congress. Imagine if NPVIC had been operative in 2004: George W. Bush would have received all of California's electoral votes even though John Kerry trounced Bush statewide by 10 percentage points.

Still, the existing electoral structure may be unwise. Winner-take-all means that candidates will ignore states where the outcome of the popular vote is evident (e.g., California and Texas) even if a number of districts within the state are competitive. Interestingly, 15 California districts elected Republican representatives; 12 Texas districts elected Democrats. Currently, presidential voters in those districts are powerless. But that problem can be mitigated without resort to pure popular voting. The Maine-Nebraska alternative encourages candidates to campaign in competitive districts even when they have little chance statewide. As an added benefit, our presidential election would no longer depend so heavily on a few swing states, such as Florida and Ohio.

Yes, there are downsides to district-by-district voting. First, it would increase the number and influence of marginal candidates who have little chance to win statewide majorities. Recall 1992, when Ross Perot captured nearly 19 percent of the national vote, but not a single state. If he had won a significant percentage of electoral votes, the election would have been thrown into the House of Representatives. Second, winner-take-all eliminates the pernicious effect of gerrymandering from presidential elections. Under a district-based system, gerrymandering would impact presidential outcomes as well as congressional results. Third, less populated and closely divided states might attract candidates if the law provided for winner-take-all, but not if electoral votes were narrowly split.

Finally, a practical problem: district-by-district voting would have to be enacted by state legislatures. Because the dominant party would probably lose electoral votes, repeal of winner-take-all would be an uphill battle. Politicians in both parties understand what might have transpired in the recent election. President Obama routed Mitt Romney, 332 to 206 electoral votes. But the Republicans won 24 states and 234 House seats. If the split in the House approximated the district-by-district voting for president, a district-based system would have given the Republicans 282 electoral votes—enough to win the presidency.

Regrettably, many legislators will decide on winner-take-all versus district-by-district versus popular voting based on expected political outcomes. On the merits, however, there's much to recommend the Maine-Nebraska system—if for no other reason than to foreclose the popular voting option.

Robert A Levy

The problem of constitutional choice

James M. Buchanan, RIP

James M. Buchanan, Nobel laureate in economics and Distinguished Senior Fellow of the Cato Institute, has died at the age of 93. We join his family, his many students, and scholars around the world in mourning his loss.

One of the greatest proponents of limited government and free markets in the 20th century, Buchanan reminded us that liberty under a just rule of law is essential to a healthy society. Like Adam Smith, Buchanan was interested in the institutions that would allow individuals to pursue their own self-interest while benefiting others through a system of what Milton Friedman has called "free private markets." Buchanan considered the principle of spontaneous order—that is, the harmony and wealth creation that emerges through voluntary exchange when government is limited and rights to life, liberty, and property safeguarded—to be "the most important central principle in economics."

The primary question that occupied Buchanan during his long career is the problem of constitutional choice—the alternative rules that would best allow individuals the freedom they need to increase their range of choices and bring about social harmony. The proper balance between the state and the individual—or between coercion and consent—is at the foundation of constitutional political economy.

Although Buchanan made substantial contributions to the field of public choice, he was primarily interested in the choice of regimes and how alternative rules would influence behavior. He also strongly criticized both citizen and policy myopia. "Until and unless we begin to take the long-term perspective in our private and in our public capacities, including the adoption of new and binding constitutional constraints on the fiscal and monetary powers of government, we are doomed to remain mired in the muck of modern politics," he once wrote.

Buchanan's passing leaves a giant void at a time when Western democracies are expanding the size and scope of government and threatening the future of liberty. His vast body of work, however, will continue to live on. ■

Cato News Notes

MORE BANG FOR YOUR BUCK

The Cato Institute tops a new measure of think tank performance in the United States, according to the Center for Global Development (CGD). Cato bested all other U.S. think tanks in the main category of "Aggregate Profile per Dollar Spent," which divides performance indicators (such as media mentions, scholarly citations, and web traffic) by annual spending. These results are "more practically relevant," the report read, because donors are most interested in an institution's ability to build a following per dollar spent. "I'm grateful to the CGD for showing that Cato gives its Sponsors something I wish government gave more of to taxpayers: bang for the buck," Cato CEO John Allison said.

A DIGITAL DIOGENES

In December, the *Washington Examiner* referred to Jim Harper as "the digital era's version of Diogenes the Cynic." The article focused specifically on Harper's quest to encourage the use of "distinct identifiers"—digital characteristics attached to every federal outlay that would help make Washington's spending more transparent and accessible. "In a manner reminiscent of the ancient contrarian," the *Examiner* noted, "the Cato Institute's director of information policy studies walks around town figuratively carrying a lamp while searching for honesty."

MOST INFLUENTIAL IN U.S. DEFENSE

Christopher A. Preble, vice president for defense and foreign policy studies at the Cato Institute, has been named to *Defense News*'s "100 Most Influential People in U.S. Defense." He is ranked #82 on the list, which includes the most prominent members of the U.S. defense community, from policymakers to industry executives. Preble's entry on the list notes, "When some think tanks are arguing for a larger defense budget, Preble brings his classically libertarian message to the debate: Defense cuts, he argues, will actually make America's defense stronger." Preble was selected for his prominence in two major spheres of influence: military funding and opinion shaping.

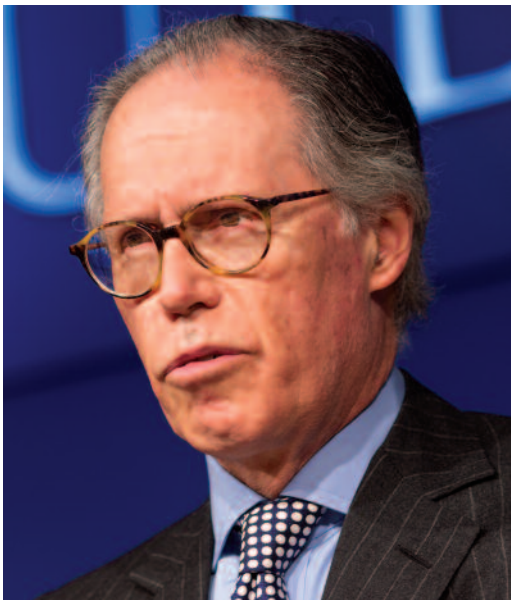
TOM W. BELL (speaking), a professor at the Chapman University School of Law, discussed his chapter in *Copyright Unbalanced: From Incentive to Excess*, a new book edited by JERRY BRITO (left), a senior research fellow at the Mercatus Center. "What's illustrative about copyright is that it reminds me a lot of the problem with government in general," Bell said of the ever-expanding U.S. system.

In December, ANDREW COULSON, director of Cato's Center for Educational Freedom, testified before the Senate Judiciary Subcommittee on the Constitution, Civil Rights, and Human Rights on the "school-to-prison pipeline."

DAVID HENDERSON (right), an associate professor of economics at the Naval Postgraduate School, leads a discussion of executive power at a January colloquium sponsored by Cato and the Liberty Fund. Cato's JOHN SAMPLES directed the event, which attracted scholars and policymakers from around the nation.

JOHN A. ALLISON, president and CEO of the Cato Institute, addressed the current intern class in the Richard & Sue Ann Masson Policy Center, a state-of-the-art classroom that provides an ideal venue for student seminars. Allison spoke about the value of principled leadership and the foundation of organizational success.

At a Cato Book Forum in January, Brian Tamanaha, a professor at the Washington University Law School, gave a devastating critique of what went wrong with the American law school and discussed the solutions he offers in his new book, *Failing Law Schools*. The crux of the problem, he said, is that the cost of a legal education is far out of proportion to its economic return.



Carlos Urrutia, Colombian ambassador to the United States, emphasized his country's "unwavering" support for the drug war before a panel on whether Colombia's modest success in tackling the illicit drug trade can be replicated in other countries such as Mexico.

Robert A. Mikos, professor of law and government at Vanderbilt University Law School, explored the law and politics of state-level marijuana legalization. Former Drug Enforcement Administrator Asa Hutchinson outlined some of the legal barriers between permissive state laws and restrictive federal regulations.

Courtesy First Coast News Jacksonville

Michael Cannon (standing), Cato's director of health policy studies, told the Florida Senate's Select Committee on the Patient Protection and Affordable Care Act that Obamacare would increase health care costs and reduce access to care—ultimately eliminating 800,000 jobs and shrinking economic output by as much as $750 billion.

Continued from page 1

clear in this comparison.

My larger thesis is that classical liberalism cannot secure sufficient public acceptability when its vocal advocates are limited to this second group of "does it work?" pragmatists. Science and self-interest do indeed lend force to any argument. But a vision, an ideal, is necessary. People need something to yearn and struggle for. If the liberal ideal is not there, there will be a vacuum and other ideas will supplant it. Classical liberals have failed, singularly, in their understanding of this dynamic.

Not that we liberals don't have material to work from. The writings of Adam Smith and his peers did, for example, create a comprehensive and coherent vision of an order of human interaction. What can be more persuasive than Smith's description of the "invisible hand," or his "simple system of natural liberty"? These powerful arguments for liberty and the primacy of the individual still have the power to resonate today.

Precisely because it remains potentially rather than actually attainable, the classic vision of individual liberty satisfies a generalized human yearning for a supraexistent ideal. Classical liberalism shares this quality with its newer archrival, socialism, which also offers a comprehensive vision that transcends both the science and self-interest that its sometime advocates claimed as characteristic features. That is to say, both classical liberalism and socialism have souls, even if their motivating spirits are categorically and dramatically different, one from the other.

No, the problem here lies in the leading thinkers. Few socialists dispute the suggestion that an animating principle, an ideal, is central to the whole socialist perspective. But many who profess to be classical liberals have seemed reluctant to acknowledge the existence of what I have called "the soul" of their position. They often seem to seek exclusive "scientific" cover for advocacy, along with occasional reference to enlightened self-interest.

Today's classical liberals seem somehow embarrassed to admit the underlying ideological appeal, even romance, that classical liberalism as a Weltanschauung, can possess. While this stance may offer some internal satisfaction to the individuals who qualify as cognoscenti, it is terribly damaging when it comes to winning public acceptance for liberalism.

> "It is only through an understanding of, and appreciation for, the extended order of the market that an individual may refrain from nonsensical political action."

Here, as elsewhere, political economists are plagued by the presence of the "every man his own economist" phenomenon. Scientific evidence, on its own, cannot be made convincing; it must be supplemented by conviction and ideals. Every man thinks of himself as his own economist, yes, but every man also retains an inner yearning to become a participant in the imagined community, the virtual utopia that embodies a set of abstract principles of order.

In 2003 at the Cato Institute's 21st Annual Monetary Conference on "The Future of the Euro," the late Nobel laureate JAMES M. BUCHANAN discussed the importance of constitutional principles when it comes to determining monetary policy.

Classical liberals must understand that their work is more difficult than that of the hard scientist. The physicist or biologist need not concern himself with public acceptance of his experimental findings. The public necessarily confronts natural reality, and to deny this immediately sensed reality is to enter the room of fools. We do not observe many persons trying to walk through walls or on water.

Also, and importantly, we recognize that we can utilize modern technological devices without any understanding of their souls, or organizing principles of their operation. I do not, personally, need to know the principle upon which the computer allows me to put the words on the page. Compare this stance—awed acceptance before the computer—with that of an ordinary participant in the economic nexus. The latter may, of course, simply respond to opportunities confronted, as buyer, seller, or entrepreneur, without so much as questioning the principles of the order of interaction that generates such opportunities. At another level of consciousness, however, the participant must recognize that this order emerges from human political choices.

It is only through an understanding of, and appreciation for, the animating principles of the extended order of the market that an individual may refrain from nonsensical political action. Those who advocate minimum wage laws, rent controls, price supports, or monetary inflation simply do not have an understanding of the individual or the marketplace. For the scientist in the academy, understanding such principles should translate into advocacy of classical liberal stances. But economic scientists alone do not possess the authority to impose their own opinions, the citizenry at large must also be brought into the fold.

THE RISE OF THE COLLECTIVISTS

Classical political economy, as taught in the early decades of the 19th century, and in England particularly, did capture the minds of the masses. The advocates of classical liberalism were able to present a vision so compelling, so soulful, that it motivated support for major political reform. Think of the repeal of England's Corn Laws, surely a difficult step. Why, after all, ought England to give up protection of its farmers? Only by presenting the larger vision of a free-trade England could the Corn Laws' opponents prevail with lawmakers. When the reformers succeeded, the repeal's passage changed the world.

After the middle of the 19th century, however, the soul of the liberal movement lost its way. In 1848 Karl Marx published his Communist Manifesto, and the powerful attractions of socialism made liberalism seem a weak light. From that time onward, classical liberals retreated into a defensive posture, struggling continuously against the reforms promulgated by utilitarian dreamers. Individual liberty was no longer the focus.

The collectivists claimed superior wisdom; life became the pursuit of happiness in the aggregate. Aided and abetted by the Hegel-inspired political idealists, these new intellectuals shifted away from the notion of personal realization to that of collective psyche. The ideal of socialism was so successful that it led to major political and institutional changes—even when the experience of history showed it to be deeply flawed. What else but the power of the socialist ideal can explain its longevity in Russia or even parts of Western Europe?

So what differences are we actually parsing here? The categorical difference between the soul of classical liberalism and that of socialism is that one idealizes the individual, the other the collective. The individual is indeed at the center of the liberal vision: He or she strives to achieve goals that are mutually achievable by all participants in society. Precisely because these goals are internal to the consciousness of those who make choices and take actions, the outcomes they produce are neither measurable nor meaningful as "social" outcomes. Yet most aggregate numbers that we use are designed with the "social" in mind: think of the distribution tables that American tax analysts use to depict the nation's tax burden, or the standard unemployment figure that governments issue periodically.

> "The difference between the soul of classical liberalism and that of socialism is that one idealizes the individual, the other the collective."

As soon as we lay down a "social" purpose, even as target, we contradict the principle of liberalism itself. Yet classical liberals succumbed. They themselves have confused the discussion by advancing the claim that the idealized and extended market order produces a larger "bundle" of valued goods than any socialist alternative.

To invoke the efficiency norm in so crude a fashion as this, even conceptually, is to give away the whole game. Almost all of us are guilty of this charge, since we know, of course, that the extended market does indeed produce the relatively larger bundle, on any measure. But attention to any aggregative value scale conceals the uniqueness of the liberal order in achieving the objective of individual liberty.

To be sure, we classical liberals can play good defense even in the socialists' own game. But by so doing, we shift our own focus to their game rather than to our own, which we must learn to play on our own terms, as well as get others involved. Happily, a few modern classical liberals are beginning to redraw the playing fields as they introduce comparative league tables, as in sports, that place emphasis on measuring liberty itself.

PIDDLING PUZZLES

The scholarly field of economics as practiced and promulgated in this century has done its share of damage. Rather than allow the study of economics to offer genuine intellectual adventure and excitement, we have converted it into a complex mathematical and empirical science. This trend was only partially offset during the decades of the Cold War, when the continuing challenge of fighting communism offered motivation to liberals such as Hayek and a relatively small number of his peers. But since then, the discipline has become piddling puzzle solving. How can we make economics come alive again, especially for those who will never be professionally trained economists?

The beginning of the answer lies with Ronald Reagan and his "shining city on a hill." Mr. Reagan could not himself solve the simultaneous equations of general equilibrium economics. His economics education was confined to undergraduate courses at Eureka College. But he carried with him a vision of a social order that might be. This vision was and is built on the central, and simple, notion that "we can all be free." Through Mr. Reagan we see that Adam Smith's "simple system," even if only vaguely understood, can enlighten the spirit, can create a soul that generates a coherence, and unifying philosophical discipline.

What else is there to know about the nature of liberalism's soul? A motivating element in the liberal philosophy is, of course, the individual's desire for liberty from the coercive power of others. But a second element in the liberal soul and spirit is critically important. It is the absence of desire to exert power over others. In the idealized operation of an extended market order, each person confronts a costless exit option in each market. Coercion by another person is drained out; individuals are genuinely "at liberty."

Of course, even today, markets are not entirely free. But, as an ideal, this imagined order can offer the exciting and relevant prospect of a world in which all participants are free to choose.

There are plenty of images from our history to draw from. Much, for example, has been made of the American frontier spirit. Yet why was the frontier so important, particularly in the first century of the American experience? It was important because it symbolized liberal free-

dom. The proper economic interpretation of the frontier lies in its guarantee of an exit option, the presence of which dramatically limits the potential for interpersonal exploitation. Today, the territorial frontier is closed. But the operating market order acts in precisely the same way as the frontier; it offers each participant exit options in each relationship.

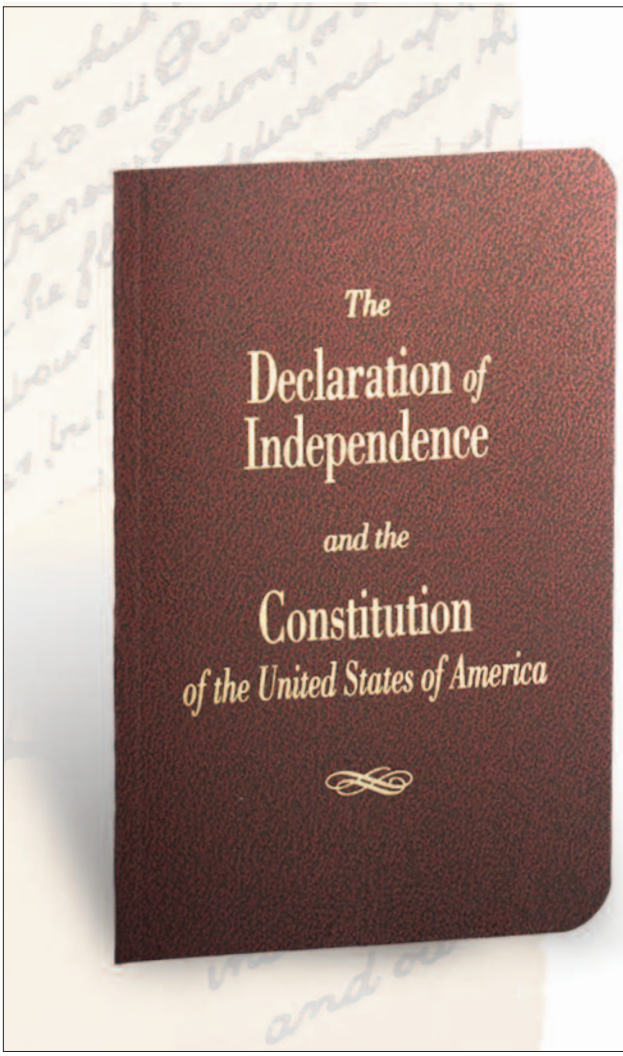
To restore the soul of liberalism we must step back a bit. Small liberal "victories" on details of legislative policy are not enough. Nor, even, are electoral successes by those who, to an extent, espouse the liberal principles. Just because we manage to ban rent control in our locality, or to elect a Ronald Reagan as president, does not mean that classical liberalism can be said to inform public attitudes. Classical liberals quite literally "went to sleep" during the decade of the 1980s, and kept sleeping after the death of socialism. The result is that public attitudes today are more shaped by the nanny state, or by paternalist, rent-seeking, mercantilist regimes than they are by liberal ideals.

> "Creating a new vision, a new soul for liberalism, is our most important task now."

Creating a new vision, a new soul for liberalism, is our most important task now. I am not here suggesting that attention should be limited to the design of all-inclusive political packages. Politics, for the most part, proceeds in piecemeal fashion, one step at a time. What I am suggesting is that we, those who teach liberalism, focus on the vision, the constitution of liberty, rather than merely on a pragmatic utilitarian calculus that shows liberalism to yield quantifiably better results than politicized economies.

In other words, liberals should not lean back and say, "our work is done." The organization and the intellectual bankruptcy of socialism in our time has not removed the relevance of a renewed and continuing discourse in political philosophy. We need discourse to preserve, save, and recreate that which we may, properly, call the soul of classical liberalism. Without public understanding of its organizing principles, the extended market order will not survive. ■

© 2000 Dow Jones & Company. Reprinted with permission. All rights reserved.



The Pocket Constitution—National Bestseller

To encourage people everywhere to better understand and appreciate the principles of government that are set forth in America's founding documents, the Cato Institute published this pocket edition (3.5" x 5") of the Declaration of Independence and the Constitution of the United States of America. With more than five million copies in print, this edition's influence has been observed far and wide. It has been held up by senators at press conferences and by representatives during floor debate; found in federal judicial chambers across the country; appeared at conferences on constitutionalism in Russia, Iraq, and elsewhere; and sold at bookstores nationwide. It includes the Bill of Rights and all of the amendments.

CATO INSTITUTE

$4.95 • 978-1-930865-40-2 • Discounts available for bulk orders.
SPECIAL: 10 copies for $10, only at Cato.org/store.

How Will a Culture of Permanent War Impact America's Future?

Although America's all-volunteer military absorbs much of the burden of war, military conflicts impact our entire society. The wars in Iraq and Afghanistan, which are projected to cost over $3 trillion, have also led to changes in domestic politics that have curtailed civil liberties, expanded intrusive government practices, and bypassed congressional war powers. At a Cato Student Forum in November, Doug Bandow, senior fellow at the Cato Institute, explored why the biggest increases in the size and scope of government power have historically been during times of war. Thomas Duncan, an economist at George Mason University, explored the political economy of the military-industrial complex.

DOUG BANDOW: Some of us are old enough to remember a time when we weren't actually involved in shooting wars, but if you look over the past 10 or 20 years, we have constantly been at war in many places throughout the world. We live in a very different world—and it's one where there are extraordinary consequences that we have to consider.

In many ways, our current foreign policy can be called an imperial one. But what does America get out of empire? To some degree, it depends on your perspective. If you are part of the Washington establishment, war can be quite advantageous. As a secretary of state, for instance, it's much more fun to be in charge of the United States—where you wander around the world telling everyone what to do. The foreign minister of, say, Greece doesn't enjoy the same advantages.

But what about the general public? There was a statesman who once captured the issue quite well. In response to a question about war, he responded: "Why of course the people don't want war. Why would some poor slob on a farm want to risk his life in a war when the best that he can get out of it is to come back to his farm in one piece? Naturally, the common people don't want war; neither in Russia nor in England nor in America, nor for that matter in Germany. That is understood. But, after all, it is the leaders of the country who determine the policy and it is always a simple matter to drag the people along, whether it is a democracy or a fascist dictatorship or a Parliament or a Communist dictatorship."

Doug Bandow

> "Our soldiers are not pawns in a global chess game that we can sacrifice to some grand design."

"Voice or no voice, the people can always be brought to the bidding of the leaders. That is easy. All you have to do is tell them they are being attacked and denounce the pacifists for lack of patriotism and exposing the country to danger. It works the same way in any country." That was Hermann Goring while he was awaiting hanging at Nuremberg. He in fact got it quite right. Common people have very little reason to want war. They pay the cost. They die in it. They don't see all the grandiose visions and dreams that come out of it.

Of course, those who promote war argue that we receive quite a few benefits. We get security, promote global stability, and become the preeminent power. We create more trade through a stable international order. We have the humanitarian influence to promote democracy and freedom. But it's also important to step back and recognize the disadvantages, which are often lost in the discussion.

The first is monetary cost: a country's military spending is the price of its foreign policy. If you don't have carrier groups and armored divisions and Marines, you can't intervene in other countries. It's these conventional forces that are quite expensive, which is why the United States accounts for roughly half of all military spending on Earth. Very little of that money goes to genuine defense. Most of it is offense. The projection of power is what's expensive.

In fact, the wars that we've gotten into should therefore be viewed as unfunded liabilities.

We've spent about $860 billion in Iraq so far, a price tag that has slowed down since the withdrawal of troops from that country. But, over the long term, we will still spend about $2 or $3 trillion on the Iraq war because of all of the injured soldiers we'll be caring for throughout the course of their lives. It's important to remember that the decisions we make right now will have fiscal ramifications for decades down the line.

Of course, there are other costs as well. Consider the Patriot Act. We live in a time when the president of the United States can declare that he has the power to have an American citizen arrested in America, where that citizen is then locked away in a brig without access to courts or attorneys. It's an extraordinary claim in a democratic republic. That president can also sit down with his closest advisors and peruse slides of American citizens and decide who to kill. He has become a Roman emperor of sorts: thumbs up or thumbs down. Randolph Bourne said that war is the health of the state, and we certainly see it in cases like this.

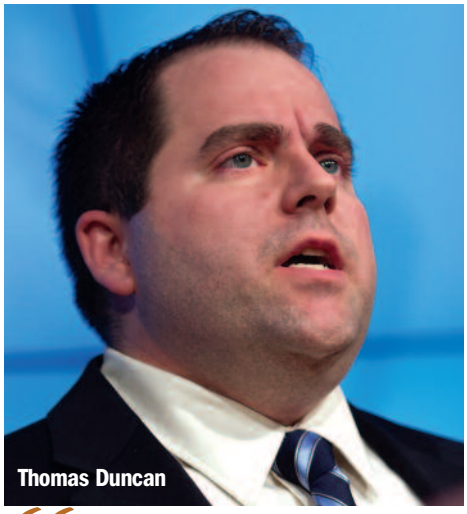
War also tends not to be very humanitarian. And it is not just Americans who die. The starting point for estimates of dead Iraqi civilians is around 200,000. Now, we didn't directly kill each and every one of those men, women, and children—but we did decide to loosen the dogs of war, and those people died in the aftermath. That is a consequence of action that we must take into account.

Finally, war doesn't even serve our security interests. This is the most obvious justification for war: we often tend to go to war under the pretense and rhetoric of protecting the country. But what you find is that military action rarely stops where it begins. We instead get drawn in further and further. The assumption is always that conflict will be easy, but the costs are almost always far, far higher than imagined. Alliances also tend to act as tripwires for conflict.

So when should we risk the lives, spend the wealth, threaten the liberties, and put the security of Americans at risk? It needs to be when something is critically at stake for the country's citizens. We should be careful to risk the lives of military personnel only when their own community has something at risk. They're not pawns in a global chess game that we can sacrifice to some grand design.

THOMAS DUNCAN: In 2010 the United States government spent more on national defense than it did at the height of the Cold War in 1986, when the U.S. was competing in an arms race against the then–Soviet Union. Yet, instead of facing the threat of a large, consolidated enemy, the United States is now focused on two foreign wars against smaller, decentralized enemies in Afghanistan and Iraq, as well as the seemingly endless War on Terror.

Of course, it is not just the public sector that has increased spending on defense. Private sector spending for homeland security has increased over the last decade as well. The business of ending terrorism is a thriving one, and President Dwight D. Eisenhower's military-industrial complex thrives along with it. "In the councils of government, we must guard against the acquisition of unwarranted influence, whether sought or unsought, by the military-industrial complex," President Eisenhower said in 1961. "The potential for the disastrous rise of misplaced power exists and will persist."


Thomas Duncan

> "The permanent war economy cannot remain on the outskirts of the nonmilitary economy in a neutral way."

But what is the true cost of this thriving complex, where the government and the private sectors intersect? I would like to argue that the costs of that intersection have been understated. The conventional estimates don't take into account the full forgone opportunities of the resources drawn into the war economy. In fact, the opportunity costs are far more extensive than those counted simply in defense spending budgets. Once the United States entered into a state of permanent war, resources were continuously drawn from the nonmilitary sector to support and advance military-related activities in what has become a permanent war economy.

This has set in motion a process whereby the private market is distorted as certain individuals respond and adjust their behaviors to take advantage of new profit opportunities. As this continues, the private economy becomes increasingly intertwined with the state. The result is a bloated corporate state and a less dynamic private economy, the vibrancy of which is at the heart of increased standards of living. In undermining the market, the permanent war economy ultimately stifles the process of wealth creation.

This notion of opportunity cost has not gone totally unrecognized in the economics literature on national defense. Economists as early as Adam Smith recognized that war is a costly endeavor—and an empire that grows too large will find itself difficult to protect. In writing on the costs of protecting and enforcing British imperialism he notes, "The interest of this [military] debt alone is not only greater than the whole extraordinary profit, which, it ever could be pretended, was made by the monopoly of the colony trade, but than the whole value of that trade." The efforts to protect and intimidate the satellites of the British Empire, in other words, were bankrupting the empire itself.

Here are some indicators of the magnitude of the permanent war economy. The United States, of course, routinely spends more on defense than any other nation in the world. We have spent 38 percent more between 2001 and 2010 than between 1991 and 2000. We have also spent 12.5 percent more in that same decade than between 1981 and 1990, when the Soviet Union was considered a serious military and nuclear threat. In the decade since

2001, the official Department of Defense budget has grown at an average rate of more than 12 percent every year compared with nondefense discretionary spending which has grown at a rate of 8 percent per year. To provide some context, in the decade prior to 1986, during the arms race, the average annual rate of growth of discretionary defense spending was 6 percent.

Of course, resources drawn into the war economy are more than just the dollars spent as constant war preparation also shapes the constitution of the labor force. Consider, for instance, that according to the Bureau of Labor Statistics, in 2008, the Defense and Homeland Security departments made up nearly 49 percent of civilian employment in the federal government. Each of these men and women represents a valuable economic resource in terms of the alternative opportunities he or she could find in the private, nonmilitary workforce

This analysis has a number of worrisome implications. The first is the persistence of these misallocated resources. Because the military-industrial complex lacks a mechanism for meaningful feedback, there is no true method of correction once these massive distortions are set in motion.

In fact, the permanent war economy is not simply resistant to correction. It is self-extending. Throughout time, one profit opportunity creates several new opportunities. The discovery of a more technologically advanced radar system, for example, will create a further demand by the Departments of Defense and Homeland Security. The decisionmakers in those agencies will then look for marginal gains in the effectiveness of the radar without knowing whether those gains are economically worthwhile. If that demand does not reflect an actual demand for defense, then each additional unit will be a further impediment to economic efficiency.

The third implication is that those very same institutions that were set up to ensure national security actually threaten to erode it. After all, is the situation that the United States finds itself in today much different from the one the British faced in Adam Smith's day? The peace and prosperity that the military is supposed to defend is in danger, with that prosperity drawing back into the recesses of the war economy rather than being directed toward satisfying the wants of the people.

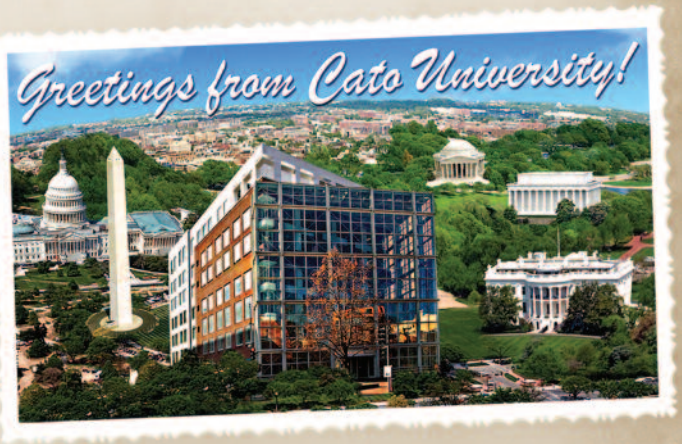
As Ludwig von Mises once argued, "the government has no more ability than individuals to create something out of nothing. What the government spends more, the public spends less." The permanent war economy cannot remain on the outskirts of the nonmilitary economy in a neutral way. In fact, the United States may be quickly approaching a crisis state. If it reaches that state, the United States, and the world as a whole, will be all the poorer for it. ■

CATO UNIVERSITY

Summer Seminar on Political Economy

JULY 28–AUGUST 2, 2013 • WASHINGTON, D.C.

In a time of great national challenges, pitched battles over critical policy issues, and so much more, our nation's capital is the perfect setting for Cato University. This year's program is once again being held at the Cato Institute's newly expanded headquarters, located in the heart of the city. Speakers include Robert Levy, chairman of the Cato Institute; John Allison, president of the Cato Institute; Mary Anastasia O'Grady, *Wall Street Journal*; Jeffrey Miron, Harvard University; Robert McDonald, United States Military Academy at West Point; and, Tom G. Palmer, Cato Institute.



NO PRICE INCREASE FOR 2013 | To make this wonderful program as accessible to as many people as possible, we've kept the cost of Cato University at $995. This price covers all meals, receptions, lectures, materials, books, and evening events, but not overnight room charges. However, we've arranged low room rates for Cato University participants at a nearby hotel. We hope you will be able to join us for this one-of-a-kind program.

For more details and registration, visit www.cato-university.org

Innovative, original research from the Great Depression to U.S. incarceration

Cato Papers on Public Policy: Second Annual Volume

In an era of sound bites and microblogs, in-depth scholarly analysis is more critical than ever.

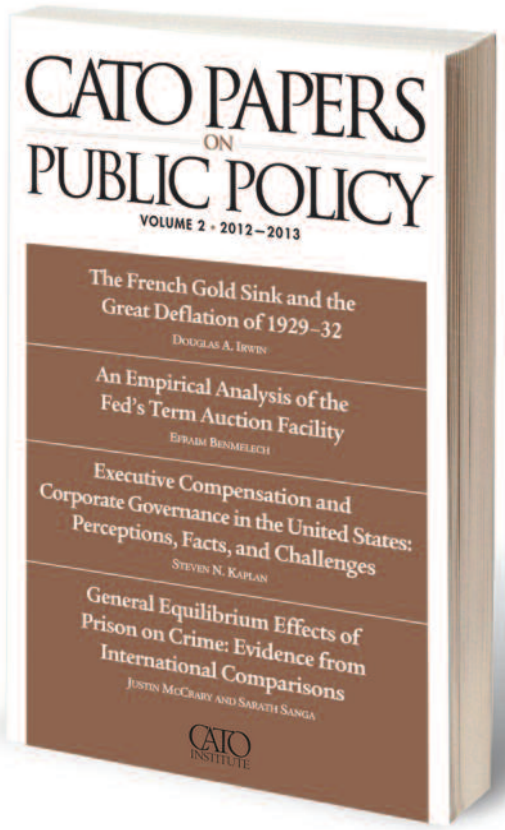
This January marked the release of the second installment of *Cato Papers on Public Policy*, an annual volume of innovative, original articles on critical economic policy issues. The overarching goal of the publication is to provide imaginative new analysis from nationally recognized experts across different fields. "In a nutshell, the papers aim to produce research that employs modern economic methodology but that is firmly focused on what policies are beneficial for the economy and society," writes Jeffrey Miron, director of undergraduate economics studies at Harvard University, a Cato senior fellow, and editor of the *Papers*. The second volume spans a wide range of issues.

The gold standard was a key factor behind the Great Depression, but why did it produce such an intense worldwide deflation and associated economic contraction? The conventional account of the onset of the Depression usually begins with the tightening of U.S. monetary policy in 1928. However, according to Douglas A. Irwin, professor of economics at Dartmouth College, the rapid accumulation and effective neutralization of gold reserves by France is frequently overlooked. "The impact of the gold accumulation by each of the two countries was almost equally significant in producing deflationary pressure from 1929 to 1931," he writes. In tracing these forces, Irwin helps show how the international monetary system produced such a monumental economic catastrophe.

During the recent financial crisis, the Term Auction Facility (TAF) program was one of the main tools used by the U.S. fiscal authorities to intervene in the interbank money markets. According to the U.S. Federal Reeserve, the purpose of the TAF was to inject funds through a broader range of counterparties and against a broader range of collateral than open market operations. In short, it was implemented to ease the liquidity problems plaguing banks at the time. Using TAF micro-level loan data, Efraim Benmelech, associate professor of finance at Northwestern University, finds that foreign banks accounted for about 60 percent of TAF lending. His analysis illustrates the major role that foreign—in particular, European—banks currently play in the U.S. financial system. "The main reason for the large number of loans made to foreign banks was the currency mismatch in European banks' balance sheets," Benmelech concludes.

CEOs are routinely perceived to be overpaid, and corporate boards of directors are perceived to provide poor or limited oversight of CEOs. Yet Steven N. Kaplan, professor of entrepreneurship and finance at the University of Chicago, finds that the evidence is somewhat different from the perceptions. While average CEO pay increased substantially through the 1990s, it has declined since then. "CEO pay levels relative to other highly paid groups today are comparable to their average levels in the early 1990s," he writes. In addition, CEOs on average are paid for performance and penalized for poor results, given that there is "a large fraction of stock options and restricted stock in the typical CEO pay package." Finally, boards do monitor CEOs, and that monitoring appears to have increased over time. "CEO tenures in the 2000s are lower than in the 1980s and 1990s" and furthermore, that turnover "is tied to poor stock performance." In short, the perception that executive pay is high and the current lackluster economy are two of the factors creating political pressure to reward people at the top with less.

From 1920 through 1970, the rate of incarceration in the United States was roughly constant, hovering around 100 per 100,000. Today, the rate is five times that level. According to the most recent data, the United States accounts for about 5 percent of the global population, yet it puts away 23 percent of prisoners worldwide. By comparing crime and incarceration rates over time for the United States, Canada, and England and Wales, Justin McCrary of the University of California, Berkeley, and Sarath Sanga of Yale Law School find that shifts in U.S. punishment policy led to the increase. Moreover, they conclude that "the large shifts in U.S. punishment policy do not seem to have caused commensurately large improvements in public safety." On the contrary, an increase today in the sentence length confronting a potential offender will not have a positive influence on the probability that a nonincarcerated criminal will commit an offense.



This installment of *Cato Papers on Public Policy* marks the second volume of the Institute's most recent collection of timely, in-depth research publications. ■

Visit www.cato.org/store or call 800-767-1241 to order *Cato Papers on Public Policy* today.

Cemeteries, pedophiles, and patent reform in the latest Regulation

How the Supreme Court Doomed the ACA

On June 28, 2012, the U.S. Supreme Court interpreted the Patient Protection and Affordable Care Act (ACA) not as imposing a strict mandate, but instead as levying a constitutionally valid tax for failure to purchase health insurance. In the new issue of *Regulation* magazine, Thomas A. Lambert of the University of Missouri Law School summarizes the justification underlying this ruling before considering what lies ahead for medical care in the United States. "Be warned: the picture isn't pretty," Lambert writes.

In considering the spate of recent reports on child molestation convictions, Kathryn Shelton and Richard B. McKenzie examine the unintended consequences behind one of the most recent movements in protective policymaking: restrictive care. "Prohibitions and limits on hugs can extend the harm done by pedophiles to literally millions of children, especially those who are disadvantaged," they write. The better road forward, Shelton and McKenzie continue, is for institutions to screen prospective staff members carefully and then monitor their contact with children.

Elsewhere in the issue, Timothy Sandefur explores the many workers who feel themselves silenced by the monopolistic power of politically privileged unions, while David E. Harrington and Jaret Treber find that state laws banning the combination of cemeteries and funeral homes harm consumers by reducing variety and raising costs.

Other contributors include Dan L. Burk on "Patent Reform in the United States: Lessons Learned," as well as G. Stuart Mendenhall and Mark Schmidhofer on "Screening Tests for Terrorists."

The Winter 2012–2013 issue also features reviews of books on the Transportation Security Administration and the fight for American security, the pitfalls of industrial policy, and the arguments behind a progressive consumption tax. As always, it wraps up with Peter Van Doren's survey of recent academic papers. ■

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

Electricity, school choice, and economic freedom in the latest Cato Journal

The Role of China in the U.S. Debt Crisis

In the latest issue of the *Cato Journal*, Cato scholar James A. Dorn examines the impact of China's tightly controlled capital markets on the United States. "While one cannot blame China for the U.S. debt crisis, which is due to profligate government spending, one can point to an unintended consequence of China's policy of financial repression—expanding the size and scope of the U.S. government." Dorn goes on to lay out the reforms that need to occur in both countries to achieve lasting peace and prosperity.

Thomas Grennes looks at the diminishing quality of fiscal institutions in the United States and Europe. While the United States has deviated from a fiscal policy that had been successful over a long period, the current European fiscal problem is related to violating more recent rules that followed the adoption of the euro in 1999. "Not all government borrowing is harmful," Grennes continues, "but there is increasing evidence that excessive government debt can decrease the rate of economic growth."

Melissa Yeoh and Dean Stansel offer the first examination of the relationship between public expenditures and labor productivity that focuses on municipalities rather than states or nations. By examining the Edgewood Voucher Program in San Antonio, Texas, John D. Merrifield and Nathan L. Gray find that privately funded tuition vouchers have an immediate impact on economic development, including business formation, the property tax base, and housing growth and values.

Other contributors include George Selgin on "Incredible Commitments: Why the EMU Is Destroying Both Europe and Itself," Paul Ballonoff on "Providing Access to Electricity for the Unserved: A Free-Market Solution," and R. W. Hafer on "Economic Freedom and Financial Development: International Evidence."

The Winter 2013 issue concludes with reviews of books on President Obama and the war on terror, the complexity of knowledge used in coordinating human actions, and the case for polarized politics. ■

All of these articles are available online at www.cato.org.

Reuters

DAVID KOPEL (center left), associate policy analyst at the Cato Institute, explained at a Senate Judiciary Committee hearing on gun violence that many are exploring ways to realistically reduce gun violence—by, for instance, addressing mental illness better and allowing teachers to carry concealed handguns. "Unfortunately, others are promoting repressive laws which would have done nothing to prevent Sandy Hook," he pointed out in his testimony. Kopel was joined by (from left) retired Navy captain MARK KELLY, Baltimore County chief of police JAMES JOHNSON, attorney GAYLE TROTTER, and WAYNE LAPIERRE, executive vice president and CEO of the National Rifle Association.

At a Cato Book Forum for *Madmen, Intellectuals and Academic Scribblers,* FRED SMITH (speaking), chairman of the Competitive Enterprise Institute, praised the book as an accessible account of "why political economy is a much more important way of thinking through political change than the old supply-and-demand diagrams." He was joined by EDWARD LOPEZ (center), one of the book's coauthors, and moderator IAN VÁSQUEZ of the Cato Institute.

In January, Singapore's *Business Times* ran an article on MAO YUSHI, "China's best-known liberal thinker" and the recipient of the Cato Institute's 2012 Milton Friedman Prize for Advancing Liberty. "Indeed," the article noted, "Mr. Mao is known and respected far beyond China's shores." Mao runs the Unirule Institute, the country's only independent think tank, which he founded in1993.

John A. Allison chatted with Rep. Paul Ryan (R-WI), right before the congressman addressed a crowd of State Health Policy Summit attendees in the F. A. Hayek Auditorium. Ryan looked at the current condition of state health care policy and explored the benefits of free market approaches.

At the Cato Institute's 2013 Policy Perspectives in Naples, Florida, Cato chairman Robert A. Levy welcomed more than 450 guests before introducing Cato president John A. Allison, Cato H. L. Mencken research fellow P. J. O'Rourke, and American Enterprise Institute scholar Charles Murray.

DECEMBER 5: Lessons from Colombia's War on Drugs

DECEMBER 6: *Copyright Unbalanced: From Incentive to Excess*

DECEMBER 11: *Unlearning Liberty: Campus Censorship and the End of American Debate*

DECEMBER 12: Cato Club Naples—Fighting a Federal Takeover: From Health Care to Banking

DECEMBER 12: The Law and Politics of Marijuana Legalization

DECEMBER 13: Taxes, Spending, and the Fiscal Cliff

DECEMBER 13: Is the Federal Housing Administration the Next Bailout?

JANUARY 9: *Living with Guns: A Liberal's Case for the Second Amendment*

JANUARY 16: Policy Events in the Digital Age

JANUARY 16: *Failing Law Schools*

JANUARY 17: *Madmen, Intellectuals, and Academic Scribblers*

JANUARY 23: Campaign Finance after *Citizens United*: What Happened? What Now?

JANUARY 23: A Rational Response to the Privacy "Crisis"

JANUARY 24: Obama, Sandy Hook, and Gun Control

JANUARY 25: The Pivot to Asia and the Future of U.S.-China Relations

JANUARY 29: The Libertarian State of the Union

JANUARY 30: Cato Institute Policy Perspectives 2013 (Naples, FL)

JANUARY 31: How Should Schools Respond to America's Growing Diversity?

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

Cato Calendar

CATO PAPERS ON PUBLIC POLICY CONFERENCE

Washington • Cato Institute • June 6–7, 2013

Speakers include James Hamilton, Giovanni Peri, and Jeffrey Miron.

CATO UNIVERSITY SUMMER SEMINAR

Washington • Cato Institute
July 28–August 2, 2013

Speakers include Robert A. Levy, John Allison, David Boaz, Tom G. Palmer, Roger Pilon, Jeffrey Miron, Robert McDonald, and Mary Anastasia O'Grady.

CONSTITUTION DAY

Washington • Cato Institute • September 17, 2013

CATO CLUB 200 RETREAT

Laguna Beach, CA • Montage Laguna Beach
September 26–29, 2013

WAS THE FED A GOOD IDEA? 31ST ANNUAL MONETARY CONFERENCE

Washington • Cato Institute • November 14, 2013

Speakers include Charles Plosser, Jerry Jordan, Lewis Lehrman, Leszek Balcerowicz, Scott Sumner, George Selgin, and John Allison.

A Cato Institute Conference on the impact of election spending

Campaign Finance after *Citizens United*

Three years ago, the U.S. Supreme Court handed down its decision in the landmark case of *Citizens United v. Federal Election Commission*. The decision found that Congress had no power to prohibit funding speech undertaken by corporations or labor unions. Later, lower courts followed the case in deciding *SpeechNow v. Federal Election Commission*, which established the legal foundation for a type of political action committee known as the Super PAC.

The nation has now experienced both mid-term and presidential elections that were governed by the outcomes of these cases. At a Cato Institute Conference in January, two panels of experts came together to examine the consequences of these decisions over the last several years and whether or not anything has in fact changed.

The first panel focused on what happened in *Citizens United*: How did elections in particular and politics more generally change as a result? Bradley Smith, a professor of law at Capital University and the former chairman of the Federal Election Commission (FEC), argued that a campaign of disinformation has led many to misinterpret the impact of these decisions. "The fact is that these cases did not change nearly as much as some people have been led to believe," he explained. The reason for the alarmism, Smith continued, is that many campaign finance reformers hope to silence their political opponents.

Robert F. Bauer, a partner at Perkins Coie and former counsel to President Obama, agreed that *Citizens United* "has come to represent something larger than itself," adding that it's too soon to know whether it has really transformed the election landscape. Ray LaRaja, associate professor of political science at the University of Massachusetts, Amherst, argued that these two cases have accelerated the amount of money directed at groups, but also stressed that the direct impact on election outcomes is unclear. "Normatively, I think more money should flow through political parties rather than groups because, at least in theory, parties are more accountable, they have broader coalitions, they tend to use their money to help challengers, and they're less inclined to support extremists."

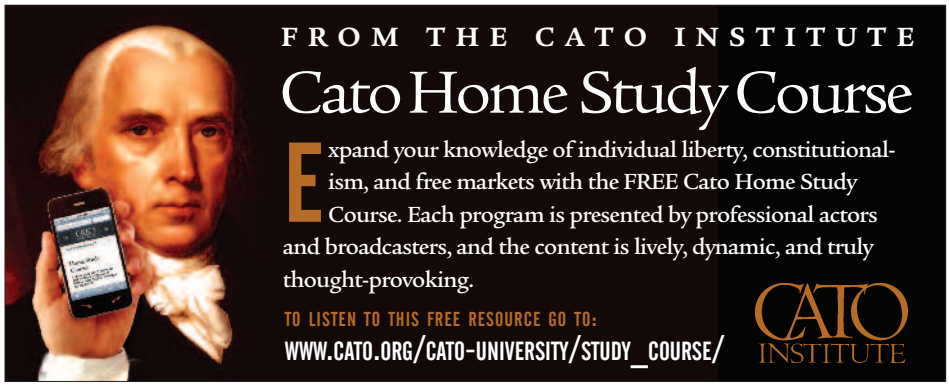
At a Cato Institute Conference in January, LAWRENCE LESSIG (at podium) of Harvard Law School decried "the corrupting influence of money in politics." He was joined by (from left) DON MCGAHN, former chair of the Federal Election Commission; JOHN SAMPLES, director of Cato's Center for Representative Government; and MICHAEL MALBIN, executive director of the Campaign Finance Institute.

Don McGahn, a member and former chair of the FEC, weighed in on the second panel by examining both the current state of campaign finance and which policy prescriptions decisionmakers should consider moving forward. He began by defending the current framework. "How can you silence *Citizens United* from saying things about Hillary Clinton when the nightly news says that and more about everyone?" McGahn asked. "You're selecting different speakers for regulation." Looking ahead, he noted that some in Congress will be pushing for more disclosure, while others make no bones about their desire to reverse precedent and silence certain kinds of speech.

Other speakers throughout the day included Lawrence Lessig, a professor of law and leadership at Harvard Law School, and John Samples, director of the Center for Representative Government at the Cato Institute.

Throughout the day, several experts hit upon a reoccurring theme: the regulation of campaign finance cannot exist without government control of the message's content. Ultimately, the future of campaign finance remains difficult to predict. But at least for now, the Court has determined firmly that there are limits on the ability of government to contain the political speech of its citizens. ■

Video and audio of this conference, like most Cato events, is available at www.cato.org.



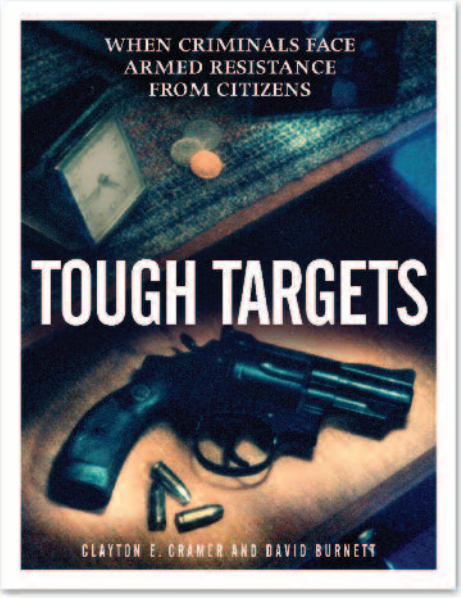
Gun control, immigration, and the fiscal crisis

The Institute's Scholars Weigh In on January's Hot-Button Issues

Last year, the Cato Institute dedicated considerable resources to enlarging our footprint through a successful capital campaign. Now, with that expanded platform, our scholars are tackling the issues that matter most with a flurry of op-eds, broadcast appearances, and studies. Here is a small sample of what we focused on in January:

GUN CONTROL

In the wake of the tragedy at Newtown, a growing number of policy proposals for stricter gun control began circulating. Testifying before the Senate Judiciary Committee, associate policy analyst David Kopel said that "the demands for symbolic but useless anti-gun laws are accompanied by an aggressive culture war against dissenters." In the short run, he added, more concealed carry laws are the best way to save lives. In forums from NPR and Fox to Univision and the *National Law Journal*, Cato scholars explained the meaning of the Second Amendment and the results of previous gun control measures.

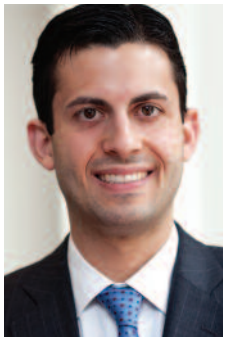


In their groundbreaking study called *Tough Targets*, Clayton Cramer and David Burnett gather dozens of stories of defensive gun use. While they acknowledged that arms are not always the solution, it is impossible to deny that "a great number of tragedies—murders, rapes, assaults, robberies—have been thwarted by self-defense gun uses." As such, the fundamental right to bear arms is especially crucial in times like these. "Robust policies to prevent legal gun ownership only translate to guns being overwhelmingly possessed by those willing to break the law," Cato senior fellow Ilya Shapiro wrote in the *Star-Ledger*.

IMMIGRATION

In January, the so-called "Gang of Eight" senators revealed a blueprint for a new immigration reform bill. Though the proposal wisely created a pathway to citizenship for immigrants already living in the country, Alex Nowrasteh, Cato's immigration policy analyst, explained in his most recent *Policy Analysis* that the current guest worker visa system is hampered by expensive regulations, restrictive laws, and an uncaring bureaucracy. "Only a timely, cheap, and lawful way to enter and work in the United States will stanch unauthorized immigration and grow our economy."

C-SPAN's *Washington Journal* cited Cato's research arguing that a program of mass deportation, on the other hand, would cost the economy $2.6 trillion. As Nowrasteh wrote in *Reuters*, "an immigration bill that does not create a vehicle for legal migrants to enter the country is not real reform." Bloomberg TV added that, according to the Institute's latest numbers, comprehensive reform would boost GDP by 0.84 percent a year, adding $1.5 trillion to the economy over 10 years.



THE FISCAL CRISIS

The United States faces two economic challenges: slow growth and ballooning debt. While many policymakers believe the solutions to these problems are at odds, Cato senior fellow Jeffrey Miron argues in his new policy analysis that they are a nondilemma. "The United States has a simple path to a brighter economic future: slash expenditures and keep tax rates low," he writes. As President Obama prepared to deliver his State of the Union Address, Cato's media team released two new studies on the efficacy of Keynesian stimulus and the burgeoning cost of entitlements programs.

For those serious about fiscal restraint, DownsizingGovernment.org continues to act as the go-to resource for major spending reforms. The website offers a department-by-department blueprint for specific cuts in an era of trillion-dollar deficits. In addition, our scholars made great strides in getting this message out. As a guest host on CNBC's *Squawk Box*, Cato CEO John Allison noted that, with regulatory costs, government expenditures now exceed 50 percent of GDP. "A country that operates at that level ends up with much slower growth rates," he said. "The compound effect of that is to radically reduce the quality of our lives in 15 or 20 years." ■

The Costs and Benefits of Guest Worker Visas

The U.S. government has struggled to enforce its restrictive immigration policy ever since it was created. But a real and long-term solution to unauthorized immigration requires less law enforcement and more opportunity for foreign workers to temporarily work in the United States. In **"How to Make Guest Worker Visas Work"** (Policy Analysis no. 719), Cato policy analyst Alex Nowrasteh argues that an expanded and lightly regulated guest worker visa program is an essential part of any immigration reform proposal. "The current guest worker visa system is hampered by expensive regulations, restrictive laws, and an uncaring bureaucracy that makes the system unworkable for most American employers and migrants who would like to work together," he writes. According to Nowrasteh, a guest worker visa program should efficiently link foreign workers with American employers and function with a minimum of government interference. Market forces as well as security, criminal, and health concerns should be the factors that determine which workers acquire visas. A successful program would also divert most unauthorized immigration into the legal system. It would shrink the informal economy, be easily enforceable, support economic growth in the United States, and narrow the government's role in immigration. "Only a timely, cheap, and lawful way to enter and work in the United States will stanch unauthorized immigration and grow our economy," Nowrasteh concludes.

Tackle Slow Growth or Debt?

The United States faces two economic challenges: slow growth and an ever-increasing ratio of debt to GDP. Many decisionmakers are under the impression that the policy solutions to the two problems are opposite. But Cato senior fellow Jeffrey A. Miron, argues in **"Should U.S. Fiscal Policy Address Slow Growth or the Debt?"** (Policy Analysis no. 718) that policymakers are wrong to view this as a dilemma. "The United States has a simple path to a brighter economic future: slash expenditures and keep tax rates low," he writes. Lower expenditures will improve the debt outlook and make the economy more productive. Keeping tax rates low will

improve the incentives for labor effort, savings, and entrepreneurship, which will also foster a more productive economy. Miron also pinpoints a number of additional policies to consider. A high deductible for Medicare, for instance, would save money and improve the efficiency of the health care market. With rising life expectancies, Social Security is more generous than necessary to accomplish any reasonable goal of the program. Much military spending goes to programs not related to the defense of the United States. Business subsidies, drug prohibition, and pork-barrel spending should be cut.

CATO POLICY REPORT is a bimonthly review published by the Cato Institute and sent to all contributors. It is indexed in PAIS Bulletin. Single issues are $2.00 a copy. ISSN: 0743-605X. ©2010 by the Cato Institute. • Correspondence should be addressed to *Cato Policy Report* 1000 Massachusetts Ave., N.W., Washington, D.C. 20001. • Website: www.cato.org, call 202-842-0200, or fax 202-842-3490.

CATO POLICY REPORT

David Boaz.....Editor
David Lampo.....Managing Editor
Dan Jackson.....Assistant Editor
Jon Meyers.....Art Director
Lauren Kessler, Sarah Gormley.....Photographers
Claudia Ringel.....Copyeditor
Mai Makled.....Graphic Designer

CATO INSTITUTE

John A. Allison.....President and CEO
Robert A. Levy.....Chairman
David Boaz.....Executive Vice President
Lesley Albanese.....Vice President
Khristine Brookes.....V.P., Communications
James A. Dorn.....V.P., Academic Affairs
William Erickson.....V.P., Finance and Administration
Gene Healy.....Vice President
Linda Ah-Sue.....V.P., Events and Conferences
Roger Pilon.....V.P., Legal Affairs
Christopher Preble.....V.P., Defense & Foreign Policy Studies
Edward H. Crane.....President Emeritus

Swaminathan Aiyar.....Research Fellow
Virginia Anderson.....Chief Information Officer
Doug Bandow.....Senior Fellow
Louise Bennetts.....Assoc. Director, Financial Regulation Studies
Trevor Burrus.....Research Fellow
Mark Calabria.....Director, Financial Regulation Studies
Michael F. Cannon.....Director, Health Policy Studies
Ted Galen Carpenter.....Senior Fellow
Andrew Coulson.....Director, Center for Educational Freedom
Tad DeHaven.....Budget Analyst
Chris Edwards.....Director, Fiscal Policy Studies
Benjamin H. Friedman.....Research Fellow
Robert Garber.....Director, Marketing
Karen Garvin.....Copyeditor
Jagadeesh Gokhale.....Senior Fellow
Jim Harper.....Director, Information Policy Studies
Nat Hentoff.....Senior Fellow
Juan Carlos Hidalgo.....Policy Analyst on Latin America
Daniel J. Ikenson.....Director, Trade Policy Studies
Andrei Illarionov.....Senior Fellow
Malou Innocent.....Foreign Policy Analyst
Sallie James.....Trade Policy Analyst
Jason Kuznicki.....Research Fellow
David Lampo.....Publications Director
Simon Lester.....Trade Policy Analyst
Brink Lindsey.....Senior Fellow
Trisha Line.....Controller
Justin Logan.....Director, Foreign Policy Studies
Timothy Lynch.....Director, Criminal Justice
Ashley March.....Director, Foundation Relations
Neal McCluskey.....Assoc. Director, Center for Educational Freedom
Jon Meyers.....Art Director
Patrick J. Michaels.....Director, Center for the Study of Science
Daniel J. Mitchell.....Senior Fellow
John Mueller.....Senior Fellow
Johan Norberg.....Senior Fellow
Alex Nowrasteh.....Immigration Policy Analyst
Walter Olson.....Senior Fellow
Randal O'Toole.....Senior Fellow
Tom G. Palmer.....Senior Fellow
Alan Peterson.....Director of MIS
Aaron Ross Powell.....Editor, Libertarianism.org
Alan Reynolds.....Senior Fellow
Claudia Ringel.....Manager, Editorial Services
John Samples.....Director, Ctr. for Representative Govt.
Julian Sanchez.....Research Fellow
Ilya Shapiro.....Senior Fellow
Michael Tanner.....Senior Fellow
Jerry Taylor.....Senior Fellow
Marian Tupy.....Policy Analyst
Peter Van Doren.....Editor, *Regulation*
Ian Vásquez.....Director, Ctr. for Global Liberty and Prosperity
K. William Watson.....Trade Policy Analyst

Vaclav Klaus.....Distinguished Senior Fellow
José Piñera.....Distinguished Senior Fellow

Randy E. Barnett.....Senior Fellow
Vladimir Bukovsky.....Senior Fellow
Tucker Carlson.....Senior Fellow
Emily Ekins.....Research Fellow
Lawrence Gasman.....Senior Fellow in Telecommunications
Steve H. Hanke.....Senior Fellow
John Hasnas.....Senior Fellow
Penn Jillette.....Mencken Research Fellow
David B. Kopel.....Associate Policy Analyst
Deepak Lal.....Senior Fellow
Christopher Layne.....Visiting Fellow, Foreign Policy 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
Nicholas Quinn Rosenkranz.....Senior Fellow
Teller.....Mencken Research Fellow
Cathy Young.....Research Associate

James M. Buchanan (1919–2013).....Distinguished Senior Fellow
F. A. Hayek (1899–1992).....Distinguished Senior Fellow
William A. Niskanen (1933–2011).....Chairman Emeritus

In short, as Miron concludes, "any set of policies that is grotesquely unaffordable over the long haul cannot possibly be sensible on cost-benefit grounds."

The Case for Pivoting Home

The most important international political developments in the coming years are likely to happen in Asia. The main factor driving Washington's interest in the region is the growing economic and military power of the People's Republic of China. According to Justin Logan, director of foreign policy studies at the Cato Institute, in **"China, America, and the Pivot to Asia"** (Policy Analysis no, 717), the implications of the country's growing power and influence are enormous. Logan begins by surveying the two main schools of thought about China's rise and examining the way in which Washington's China policy combines elements of those two theories. Ultimately, however, both theories are flawed. "The Beltway policy establishment supports an inherently contradictory approach, congagement, that borrows problems from both schools of thought and creates a new problem: free riding," he writes. Instead, Logan adds, the country ought to pivot home. "The new U.S. administration should revisit formal and informal U.S. security commitments in Asia," he writes, "with a clear eye trained on what it would actually be willing to fight a war with China over, and just how likely those scenarios are." If the current path persists, America will likely see a larger share of the national income dedicated to containing China. As such, Logan concludes, "the time to put the 'offshore' back into offshore balancing is now."

Indo-U.S. Interdependence

Foreign policy discussions tend to focus on government policies and diplomatic initiatives. But relations between India and the United States have been driven substantially by corporations and individuals, rather than just politicians, diplomats, and military brass. In **"India and the United States: How Individuals and Corporations Have Driven Indo-U.S. Relations"** (Policy Analysis no. 713), Swaminathan S. Anklesaria Aiyar, research fellow at the Cato Institute, shows that the political relations between the two governments have only caught up in the last two decades. During the Cold War, India's quasimilitary relationship with the Soviet Union led to cool Indo-U.S. governmental relations. After India's economic reforms in 1991, however, bilateral flows of individuals and corporate activity greatly accelerated. Indian politicians have historically worried about the "brain drain" of Indian emigrants and the supposed loss it imposes. Yet, according to Aiyar, "what initially looked like the brain drain has become brain circulation: the secret is to create conditions at home that attract returnees." Individuals and corporations have also taken the lead in expanding India's footprint in other countries across the globe. The lesson, he continues, is that good economic policy is good foreign policy. This means embracing globalization and emphasizing international exchanges in trade, investment, and the movement of people.

Privacy and American Culture

Although the stars are aligning for a market in privacy products and services, those who believe that rapidly evolving information technologies are eroding privacy regularly pitch their arguments in the direction of lawmakers, pushing for unspecified new rules that would cast a pall over innovation. In **"A Rational Response to the Privacy Crisis"** (Policy Analysis no. 716), Internet industry analyst Larry Downes maintains that these calls threaten the remarkable economic conditions that have fueled the Internet revolution thus far. "Americans are torn between two historical and cultural traditions about privacy," Downes writes. The Puritan vision of true information transparency, he argues, lives uncomfortably with the frontier's promise of anonymity and personal reinvention on the other. We cannot solve the privacy "crisis" by treating information as the personal property of those to whom it refers or by adapting the systems for protecting copyright, patent, and other intellectual property to personal information. But, according to Downes, the more flexible solution of information licensing recognizes that most information with economic value is the collaborative creation of multiple sources. Rather than establish enforceable title to property, it assumes joint ownership and licenses specific uses based on mutual exchange of value. Licensing is already implicit in most information exchanges on the Internet today. "With minor enhancement," Downes concludes, "it could resolve many of today's perceived crises without resorting to inflexible and overreaching legislation."

The War over Marijuana

In the event of a conflict between federal law and state law, the Supremacy Clause of the Constitution makes it clear that state policies are subordinate to federal policies. There are, however, at least two important limitations to the doctrine of federal supremacy. In **"On the Limits of Federal Supremacy: When States Relax (or Abandon) Marijuana Bans"** (Policy Analysis no. 714), Robert A. Mikos, director of the Program in Law and Government at Vanderbilt University Law School, holds that there must be a valid constitutional basis for the federal policy in question. Second, even in cases of legitimate federal authority, they may not use the states as instruments of federal governance. This "anti-commandeering limitation" is often overlooked, Mikos argues, but it is critical to maintaining the boundary lines created by the Constitution. Using a framework called the "state-of-nature benchmark," he shows that the states retain both de jure and de facto power to exempt medical marijuana from criminal sanctions. "States generally possess legal authority to enact permissive legislation governing such issues," Mikos writes, "in spite of contrary congressional policy." In fact, the federal government is "only a two-bit player" when it comes to marijuana enforcement, whereas states—by virtue of their greater law enforcement resources—hold the upper hand. As such, Mikos concludes that many states have, for all practical purposes, already made medical marijuana legal. "To be sure, more battles will be fought," he writes, "but they won't change the reality that the states—and not the federal government—have already won the war." ■

CATO POLICY REPORT
1000 Massachusetts Ave., N.W.
Washington, D.C. 20001

ADDRESS SERVICE REQUESTED

"To Be Governed..."

CHINA ENVY

CHARLIE ROSE: China is changing. The growth rate has gone from double digits to around 8 percent. It may be being stabilized as we speak. What does that mean for China and what does it mean for the United States? Should it change expectations?

JEFFREY IMMELT: It is good for China. To a certain extent, Charlie, 11 or 12 percent is unsustainable. You end up getting too much stimulus or a misallocation of resources. They are much better off working on a more consumer-based economy, less dependent on exports, driving technology harder. The one thing that actually works—state run communism may not be your cup of tea, but their government works.

ROSE: They get things done.

IMMELT: They have five-year plans. I always tell our team, read the twelfth five-year plan, which is the segment we're in. Typically, what they're doing makes sense in the Chinese context.

—GE Chairman Jeffrey Immelt on *Charlie Rose*, PBS, December 10, 2012

THE MONEY KEEPS ROLLING IN

It didn't look like a house anyone would pay $400,000 extra for.

Several walls inside the gray townhouse with blue trim were streaked with water stains. The first floor was noticeably uneven. And termites had dined in front.

The big pluses: It was 2,850 square feet, had off-street parking, and was in walking distance of Union Station [and thus of Capitol Hill]. . . .

Two weeks and 168 bids later, the house—in the 800 block of Fourth Street NE—was sold this month for $760,951 to an unidentified buyer. . . .

While much of the nation is still struggling to emerge from a historic housing-market meltdown, the District is reliving its boom days.

—Washington Post, December 20, 2012

THE INTENDED CONSEQUENCES OF GOVERNMENT ACTION

Democrats had expected to make major inroads in the Inland Empire [Riverside and San Bernardino counties] 10 years ago. [Former State Senate Republican leader Jim] Brulte said that was blunted by a deal cut by Republicans and Democrats in Sacramento to ensure that the 2001 redistricting process protected incumbents. (After that remapping, 264 of 265 congressional elections in California were won by the incumbent party.)

—Los Angeles Times, **November 11, 2012**

THE GOOD NEWS IN GREECE

Strikes, work slowdowns and protest marches have become so common in crisis-hit Greece that it can be hard to keep track of who is demonstrating when, where and against what. . . .

The Greek finance ministry this year has had to extend the deadline for filing personal income-tax returns three times, in part because of strikes by tax collectors.

—Wall Street Journal, December 20, 2012

GOVERNMENT AT WORK

Meet the Kulle family: mom Helen, daughter Ann Kulle-Helms, son-in-law Douglas Helms, son Albert, daughter-in-law Michele Kulle and Michele's brother, Jeffrey Thacker.

They all worked for the Metropolitan Washington Airports Authority. All at the same time. . . .

"There were no clear-cut guidelines," said MWAA board member H.R. Crawford, who will leave the board next month when his term expires.

Crawford, who has had at least three relatives, including a daughter-in-law, work at the agency, said family members are employed frequently, particularly among board members.

"If you ask a third of those folks, their relatives work there," he said. "I never thought that we were doing anything wrong.". . .

"This is a government town and an agency town," Crawford said. "If there's a possibility that you can hire a relative . . . it was the norm.". . .

MWAA's ethics code prohibits employees from hiring, supervising or working with relatives. They also cannot supervise family members—directly or indirectly—or "have influence over their work."

—Washington Post, December 9, 2012

A MAN WHO FOUGHT SLAVERY AND INEQUALITY

House Ways and Means Chairman Thaddeus Stevens (now enjoying a return to popular consciousness as Tommy Lee Jones's character in the movie "Lincoln") denounced the idea of a graduated rate structure as a "strange way to punish men because they are rich."

—Washington Post, December 21, 2012

AN INSIDE VIEW OF PUBLIC SCHOOLS

"With the academics, it was like a whole new world where they were speaking a different language," recalled [high school basketball player Josh] Hart, who had transferred from Wheaton [to Sidwell Friends]. "In public school, they were just happy you turned in your work. Here, on the second day, the teacher was talking about explicating poems and I remember thinking it was going to be a long year."

—Washington Post, December 25, 2012