The 1960s were an interesting time to begin the study of economics. Economics was becoming both more abstract and more mathematical. In macroeconomics, the Keynesian view was challenged by the monetarists, and this debate eventually elevated monetary policy to an equal billing with fiscal policy. The production function theory of Robert Solow was altering the thinking of economists about economic growth, and this analysis provided the foundation for modern growth theory. The theory of market failure was integrated into public finance, and it was widely perceived to provide a powerful justification for more activist government intervention. It was against this background that James Buchanan and Gordon Tullock authored *The Calculus of Consent* in 1962.

*The Calculus of Consent* focused on how political structures and collective decision-making rules influenced outcomes and the operation of the democratic political process. The book spawned a new body of literature that exerted an impact on a sizeable portion of the economics profession. In time the development of this literature became known as the “public choice revolution.” The work of Buchanan and Tullock was central to this new school of thought, and in 1986 Buchanan was awarded the Nobel Prize in Economics primarily for his groundbreaking work in the development of public choice analysis.

In essence, public choice applies the tools of economics to both the market and political processes. Without having knowledge about the operation of both, one is in a poor position to understand how alternative institutions and policies will affect outcomes. I fully expected the public choice approach to transform economic analysis and greatly expand its relevance.


“*I start my new life with you here today,*” Václav Klaus, former president of the Czech Republic, said at a Cato Policy Forum in the F.A. Hayek Auditorium. Klaus joined the Institute as a Distinguished Senior Fellow after concluding his presidential term on March 7.
The Federal Reserve’s Unsound Policies

The Federal Reserve is increasing the long-term risk in our financial system through both its monetary and regulatory policies. It is simultaneously redistributing wealth from moderate-income savers to high-income households and laying the foundation for another housing bubble.

From 1914 until 2007 the Fed’s balance sheet grew to $900 billion. Since 2007 the balance sheet has exploded to $3.2 trillion and is growing $80 billion per month. The Fed’s capital ratio is currently 1.3 percent, while the average capital ratio of the largest banks is 8.0 percent. The Fed fails its own stress test and should be forced to shrink by its own standards. The risk in the financial system is not large banks, but the Fed itself.

The Fed’s balance sheet has been radically expanded to hold down interest rates by buying Treasury and Freddie/Fannie bonds. This has significantly expanded the lending capacity of banks. Increasing the level of bank reserves has the same effect as “printing money.” If the economy starts to grow, either inflation will increase as money velocity accelerates or the Fed will have to withdraw the excess reserves, which will result in rapidly rising interest rates and major losses for bond holders. If the Fed does not shrink its balance sheet, the economy could be stuck in very slow growth as the government consumes an increasing share of the economy, as has happened in Japan.

Since the U.S. dollar is the world’s reserve currency, these actions have created a global currency trade war. This currency trade war causes misallocation of capital and lowers the global standard of living just like a trade war based on raising tariffs. Instead of production being driven by real competitive advantages and efficiencies, fluctuating currency values are causing a sub-optimization of resources. Every country wants the “cheapest” currency to make its export industries more competitive.

The only reason the U.S. dollar has held its relative value is its status as the world’s reserve currency. Unfortunately, this creates a huge temptation to over-leverage and create an unsustainable level of debt.

The Federal Reserve’s low interest rate strategy is the U.S. government, the world’s largest debtor. The federal government’s annual deficit is at least $250 billion less than it would be if interest rates were normalized. It appears that the real purpose of the Fed is to obtain favorable financing for the U.S. government, at the expense of private savers.

The primary beneficiary of the Fed’s low interest rate strategy is the U.S. government, the world’s largest debtor. The federal government’s annual deficit is at least $250 billion less than it would be if interest rates were normalized. It appears that the real purpose of the Fed is to obtain favorable financing for the U.S. government, at the expense of private savers.

The good news is that the United States is experiencing an economic recovery. However, it is the slowest recovery in our history, and we still have three million fewer jobs than in 2007. If markets had been allowed to correct, if the Fed had maintained sound money, and if fiscal and regulatory policies were rational, our growth rate would be significantly faster and the U.S. government’s financial position much sounder. At Cato we are working hard to encourage less regulation, lower taxes, less debt, and sound money.
Exhmining the right to bear arms

The Truth about Gun Control

The laws which forbid men to bear arms... only disarm those who are neither inclined nor determined to commit crimes,” Cesare Beccaria, an Italian scholar and founder of the modern science of criminology, wrote in his 1764 treatise on the subject. “These laws make the victims of attack worse off and improve the position of the assailant.”

In a new pamphlet from Encounter Books’ Broadside series, Cato associate policy analyst David B. Kopel expounds upon Beccaria’s classic insight to investigate why the right to keep and bear arms has always been central to the American identity.

Kopel begins by exploring the history behind our right to bear arms. Self-defense, he argues, is the most fundamental of all natural rights—an inherent human claim that predates the Constitution itself. Starting with the colonies, Kopel traces the social and legal foundations of this 400-year-old practice—uncovering everything from the racist origins of gun control, to the founding of the National Rifle Association, to the modern debate surrounding firearms. “The right to keep and bear arms is not a 1791 anachronism,” he explains. “It is alive in the hearts and minds of the American people.”

Turning next to the philosophy behind gun bans, Kopel directs his attention to what he calls “pacifist-aggressives”—people who use the power of law to push their own beliefs against initiating defensive force. “The gun prohibition movement is ultimately based on an authoritarian wish,” he writes, “where gun ownership is a sporting privilege for a few and not a right of the people.” This ideology has little basis in the Second Amendment.

“In much of the world, the armed masses symbolize lawlessness; in America, the armed masses are the law,” Kopel continues. Although some nations treat law as a vehicle of the state, the American tradition views law as the servant of the people—locating the power of enforcement in the citizens themselves and thereby granting less power to the government. As such, “dispersion of physical power in society is both a cause and an affirmation of dispersion of political power.”

Kopel concludes by reducing this critical issue to its root. “What is ultimately at stake is the same question that precipitated the American Revolution: whether the American people are the sovereigns in their own country or whether they should be ruled from above, for their own good, according to the supposedly benevolent commands of the elitist rulers of a top-down, European-style society.”

Visit www.cato.org/store or call 800-767-1241 to get your copy of The Truth about Gun Control today; $5.99 pamphlet.

Cato News Notes

PRAISE FOR POLICY REPORT

The last installment of Cato Policy Report drew accolades from Caroline Baum in her column for Bloomberg News. In particular, Baum noted the late Nobel laureate James Buchanan’s lead essay—which stressed the importance of developing “an animating principle, an ideal” for classical liberalism—and related Buchanan’s insights to the lack of vision in today’s Republican Party. “It’s not every day that a piece of mail in the inbox is so inspiring,” Baum concluded.

BATTLING THE BEHEMOTH

In a recent “Economic Beat” column from Barron’s, editor Gene Epstein examined a well-known problem: “the high-probability risk that the aging baby boomers will render the federal government unable to meet its promises to its creditors and to the elderly.” Noting that no solutions “should be off the table,” Epstein pointed readers to Cato’s DownsizingGovernment.org in particular. “It offers a treasure-trove of statistics and other information on the federal budget, including a department-by-department guide to cutting the fat,” he concluded.

REGULATION MAGAZINE: SPRING 2013

In the latest issue of Regulation magazine, M. Todd Henderson reviews last year’s brouhaha over health insurance and birth control. According to Henderson, lost in the firestorm about religion and feminism were larger lessons about health care policy and regulation. Also in this issue, Richard L. Gordon argues that recent efforts to cut emissions are nothing new, Jonathan A. Lesser discusses the failure of subsidized wind power when it is most needed, and two articles look at the looming insolvency of Social Security Disability Insurance.
In March, Maurice “Hank” Greenberg, chairman and CEO of C.V. Starr & Co., headlined the Cato Institute Policy Perspectives event in New York City to present his book, *The AIG Story*. As the former chairman and CEO of the insurance giant, Greenberg explained how the company faltered after adopting a one-size-fits-all corporate governance structure.

In discussing his new book, *Accidental Occidental*, former Hungarian finance minister Lajos Bokros reviewed the successful transition to market democracy that has taken place throughout most of Central Europe.

At a Cato Policy Forum in February, Guillermo A. Cochez, former Panamanian ambassador to the Organization of American States, discussed his concerns about the direction of the organization and its silence in the face of attacks on the region’s democratic institutions.

John Mackey, cofounder of Whole Foods Market, sat down with *Daily Caller* editor-in-chief and Cato senior fellow Tucker Carlson to discuss his book, *Conscious Capitalism*, in which he seeks a better understanding of capitalism, “the most powerful system for social cooperation and human progress ever conceived.”
Julie Stewart, founder and president of Families against Mandatory Minimums, examined Montana’s marijuana policy debate and the many issues raised in the new film, Code of the West, at a special premiere in March.

At the Institute’s 2013 Benefactor Summit, Cato president John A. Allison (left) talks with Nobel laureate and Cato senior fellow Vernon L. Smith, who spoke that evening about the mortgage market boom and bust.

At the start of the 113th Congress, the Institute held a series of breakfasts to introduce the incoming congressmen to Cato president and CEO John Allison, as well as our various scholars. The discussions centered around entitlement programs, immigration, tax reform, financial regulations, and more. Rep. Thomas Massie (R-KY), pictured above, enjoyed his first briefing so much that he came back a second time.

Timothy Sandefur (at podium), principal attorney at the Pacific Legal Foundation, discussed his organization’s current lawsuit in the ongoing challenges to Obamacare. He was joined by Michael F. Cannon, Cato’s director of health policy studies, and Ilya Shapiro, senior fellow at the Institute.
Students are often puzzled by the gulf between the ideal theoretical ‘solutions’ of economists and the events of the real world. The economics of public choice explains this gulf.

To evaluate market outcomes, we introduce into our analysis a new, hypothetical character called the benevolent social planner. The benevolent social planner is an all-knowing, all-powerful, well-intentioned dictator. The planner wants to maximize the economic well-being of everyone in society.

Mankiw then asks what the benevolent social planner should do and goes on to consider the ideal solutions that might be imposed through the political process. The other leading mainstream texts follow this same approach. Implicitly, this methodology treats the political process as if it is a corrective device available to impose ideal social outcomes, something like a pinch hitter that always delivers the game-winning hit. But this is a fantasy. A choice between the real world of markets and the hypothetical ideal of government intervention is not an option. The relevant choice is always between the real-world operation of markets and the real-world operation of the political process.

As the public choice revolution developed, other authors also sought to integrate the analysis of political decisionmaking and the comparative approach into principles courses. After Buchanan won the Nobel Prize in 1986, I expected that public choice and the systematic analysis of political decisionmaking would be incorporated into other texts much like, for example, monetarism and rational expectations were integrated into principles texts during the 1970s and 1980s. But, this happened only to a modest degree. Clearly, the public choice revolution is incomplete; it has not altered what is taught in the typical principles course.

The exclusion of public choice analysis is particularly strong at elite schools like those of the Ivy League and the University of California, Berkeley. Buchanan is exceptional among American Nobel prize-winners in that he has never held a teaching or research appointment at an elite school.

The underrepresentation of elite schools among public choice economists is readily observable at the annual meeting of the Public Choice Society, the professional organization of public choice scholars. For example, 296 public choice scholars presented papers at the March 2012 international meeting of the Public Choice Society held in Miami. Only 5 of the presenters were from either an Ivy League school or the University of California, Berkeley. Among the 5, only 1 was a faculty member with an appointment in an economics department.

Underrepresentation of public choice in the economics departments of elite schools has been a major deterrent to the dissemination of the analysis. These departments supply a substantial share of the new faculty members at other departments throughout the nation. They also command prestige, and faculty at other schools often follow their lead. Thus, it is quite difficult for a new theory or methodology to exert widespread impact without attracting support from the top tier of schools.

WHY DOES PUBLIC CHOICE MATTER?

Why does the exclusion of public choice analysis from mainstream economics make any difference? The asymmetric treatment of the political process relative to markets diminishes the relevance of economics and leaves students with a romantic, and highly misleading, view of government and the operation of the democratic political process. There are three major reasons why this is the case:

1. The omission of public choice from mainstream economics creates a central planning mentality. For the mainstream economist, economics is about deriving ideal solutions under restrictive assumptions. Essential information such as consumer preferences, costs of production, rate of return for alter-
nate investments, and size of spillover effects, are generally assumed to be known. For the proponents of this approach, economic analysis involves the derivation of “optimal” levels of taxation, subsidies, distribution of income, budget deficits, government spending, and dozens of other key variables within models containing known information. In this fantasy world, economics is about deriving ideal solutions to multi-equation mathematical models. This approach makes economics look highly sophisticated and its practitioners appear to be engineering geniuses. No doubt, the sophistication of such models is a contributing factor to their popularity at elite schools.

But, there are numerous problems with this approach. The information incorporated into the models is generally unavailable to any central authority. The supposed “ideal” solutions often alter incentives and generate secondary effects that undermine the validity of the models. Most importantly, as public choice analysis reveals, the real world political decisionmakers will be more interested in votes and winning the next election than the adoption of supposed ideal solutions. As a result, there will often be a conflict between “good politics” and economic efficiency.

The bottom line is straightforward: the real world is dynamic and more complicated than the models, and therefore the potential of centralized government planning is far more limited than mainstream analysis implies. Moreover, even when the models are largely correct, the political incentive structure will often undermine the adoption of productive policies. Real world political decisionmakers are neither saints nor omniscient social planners. Instead, they are motivated primarily by the winning of the next election, and when pursuit of this goal conflicts with idealized efficiency, the former will dominate the latter. Nonetheless, mainstream economics continues to ignore public choice analysis, and therefore it leaves students with a false impression about the political process and its potential to promote the efficient use of resources.

2. The democratic political process is shortsighted and, if unconstrained, will lead to excessive debt. As public choice analysis indicates, there will be a strong incentive for political officials to favor policies that generate highly visible current benefits at the expense of costs that are less visible and observable mostly in the future. This incentive structure explains why politicians will find debt financing and unfunded promises highly attractive. Policies of this type will make it possible for them to provide voters with visible benefits that will enhance their chances of winning the next election, while concealing the cost and pushing its most observable components into the future.

As the dominance of Keynesian economics undermined the balanced budget paradigm during the 1960s and 1970s, James Buchanan and Richard Wagner used the tools of public choice to explain in Democracy and Deficit that this approach would lead to perpetual budget deficits. While politicians have a strong incentive to spend money providing “goodies” to voters, they will be reluctant to levy taxes because this imposes a more visible cost. Borrowing provides politicians with an alternative: it allows them to spend now, and push the visible taxes into the future. This is also the case with unfunded promises of future benefits like those of Social Security and Medicare. Like borrowing, unfunded promises of future benefits make it possible for politicians to take credit for the promised benefits now without having to levy the equivalent current taxes.

The historical record is consistent with the Buchanan-Wagner view. During the past 52 years, the federal government of the United States has run 47 budget deficits. During fiscal years 2009 through 2012, nearly 40 percent of federal expenditures were financed by borrowing. The federal debt has grown to levels not seen since World War II. Unless the incentive structure is changed—for example, by requiring a two-thirds or three-fourths majority to approve spending measures or additional borrowing—the experience of Greece indicates that politicians are unlikely to bring spending under control until the situation reaches crisis proportions.

Currently, budget deficits are pushing government debt to dangerously high levels in several countries. Public choice analysis explains why this is happening and what might be done about it. In contrast, because it ignores the shortsighted nature of the unconstrained political process, mainstream economics sheds little or no light on the forces underlying budget deficits, growth of government debt, and the presence of unsustainable transfer programs. Hence, the omission of public choice from the mainstream perspective renders it largely irrelevant for the understanding of the major economic issues confronting countries throughout the world.

3. Like markets, unconstrained political democracy has deficiencies. The special interest effect and rent-seeking are particularly important sources of political inefficiency. Political officials have a strong incentive to deliver concentrated benefits to well-organized interest groups at the expense of the vast majority of voters. Typical voters have little incentive to invest the time and effort necessary to inform themselves on many issues because they recognize that their vote will not be decisive. In contrast, organized interest groups often feel strongly about policies that serve their interests and are therefore willing to provide supportive politicians with campaign contributions and other political resources. As a result, elected political officials have a strong incentive to support the position of special interests, acquire political resources from them, and then use the resources to solicit the support of the largely uninformed electorate. This will be the case even if the programs favored by the special interests are counterproductive. The empirical evidence is highly consistent with this analysis.
Tariffs, quotas, business and agricultural subsidies, ethanol mandates, targeted tax breaks, and bailouts of specific industries and highly unionized firms are largely a reflection of the special interest effect.

Favoritism provides politicians with something they can trade for political support. In turn, businesses and other interest groups will seek to obtain more government favoritism via lobbying, campaign contributions and other forms of schmoozing political decisionmakers. Economists use the term “rent-seeking” to describe such actions designed to secure the windfall gains and above normal profits generated by government favoritism. Rent-seeking is a natural outgrowth of government activism. When the government is heavily involved in the granting of contracts, subsidies, tax credits, low-interest loans, regulatory favors, and other forms of government intervention, business firms, labor organizations, and other well-organized interests will compete for the government favors. The result will be a shift of resources away from productive activities and into rent-seeking. Economic inefficiency will increase and growth and prosperity will slow. Rather than the ideal outcomes of the naïve mainstream models, rent-seeking, crony capitalism, and political corruption will emerge.

**IMPLICATIONS OF THE IMBALANCED MAINSTREAM VIEW**

The tools of economics enhance our understanding of both the market and political processes. They indicate that both have various types of shortcomings— that there is both market failure and government failure. Most mainstream principles courses cover market failure in the form of economic instability, monopoly, externalities, and public goods. Potential ideal solutions to market failures are also provided. But coverage of government failure is absent. Government failures resulting from the shortsightedness effect, the special interest effect, and rent-seeking are ignored. Instead, government action is treated as a corrective device. The real world of markets is always compared with idealized government action. In the world of mainstream economics, market failure is a likely possibility, but there is no such thing as government failure. This asymmetric and imbalanced coverage leaves students with an unrealistic view of how the political process works and the potential of government activism to allocate resources efficiently.

The imbalance of the mainstream approach also deters understanding of the current economic situation. Economics provides considerable insight on the structure of the institutional and policy environment consistent with growth and prosperity. Stable and predictable policies, rule of law, and economic freedom establish the foundation for gains from trade, private investment, and innovation, which are the key sources of the growth process. In contrast, persistent policy changes, temporary tax-and-spending policies, and discretionary regulatory action generate uncertainty and play into the hands of the rent-seeking special interests. Public choice analysis highlights both of these points. However, because of its omission of public choice, mainstream economics misses the fundamental causal forces underlying the excessive debt, constant policy changes, and crony capitalism that are undermining prosperity throughout the world.

**CONCLUSION**

The public choice revolution is incomplete. It has exerted an impact on a segment of the economics profession and provided insight about how the political process works. It explains the forces underlying today’s major economic issues: budget deficits, unsustainable growth of government debt, unfunded pension and transfer programs, political favoritism and inefficient special interest spending, and movement of resources away from productive activities into rent-seeking. It also provides insight concerning structural changes that would help address these problems. In contrast, mainstream economics provides neither understanding nor direction concerning how to avoid the troubled waters ahead. As a result, the mainstream approach is leaving both current students and the general public with a misleading, false, and romantic view of government and the operation of the democratic political process.

Public choice analysis and the work of scholars like Buchanan and Tullock are just as relevant today as they were four decades ago. Hopefully, a new generation of economists will grasp this point and complete the public choice revolution. There are a couple of reasons for cautious optimism. First, a set of 20 Voluntary National Content Standards for Economics has been developed by the Council for Economic Education, the National Association of Economic Educators, and the Committee on Economic Education of the American Economic Association. These standards are designed to reflect the current status of scholarship in the discipline, covering the role of property rights, entrepreneurship, and dynamic competition—topics that often receive little attention in principles courses. More important from a public choice perspective, the standards cover market failure, as well as government failure and special interest politics. This indicates that when economists think seriously about the content of a balanced course in modern principles of economics, they recognize that sound analysis requires examination of the operation of both markets and the political process.

Second, there has been a virtual explosion of literature that is now referred to as the new institutional economics during the past two decades. In contrast with the derivation of optimal conditions under restrictive assumptions that characterizes so much of modern economics, the new institutional approach focuses on comparative analysis. Building on the work of Nobel laureates Friedrich Hayek and Douglass North, the methodology of the new institutional economics examines how alternative forms of economic, 

**Continued on page 12**
Using Technology to Understand Mexico’s Epidemic of Violence

In Mexico’s deadly war on drugs, the use of information technology has become widespread. Once journalists became targets of the cartels and reduced their reporting in traditional media, information began flowing from Facebook pages, Twitter accounts, and YouTube videos. After the Mexican government decided to stop publishing information about the number of people killed by organized crime, websites started using Google Maps to track patterns of violence. At a Cato Policy Forum in March, Jared Cohen, director of Google Ideas, discussed the unique opportunity that Mexico’s network connectivity provides. Karla Zabludovsky, a reporter for the New York Times, commented on the role that alternative media has played in covering the war on drugs. Andrés Monroy-Hernández, a social computing expert at Microsoft Research, highlighted the empowering effect this phenomenon has had in the face of failing institutional institutions—both public and private.

JARED COHEN: You may find it surprising that a company like Google is here engaging in a conversation about violence in Mexico. My response to that is that you shouldn’t be surprised at all. Five billion new people will connect to the Internet in just the next decade. And those five billion people, for the most part, live in parts of the world ridden with the greatest number of challenges—where conflict is prevalent, where instability is rampant, and where repression is all too familiar.

This means that in the future, technology is going to be relevant to every single challenge in the world. In short, there is a space between philanthropy and business that is currently unoccupied, and we need more technological expertise involved in understanding the tools that people in these environments are going to use. Google Ideas was founded to anticipate the unique sets of challenges that the vast majority of our future users are going to encounter in these environments. Our aim is twofold. First, we are attempting to play a translation role by bridging the gap between those who understand the tools and those who understand the geopolitical problems playing out across the globe. Second, we try to actively build products that can help address the thorniest challenges faced by those next five billion.

We don’t need to look any further than south of our own border to see that Mexico is a case in point. One of our main focus areas is identifying ways to use technology to map, expose, and disrupt illicit networks—everything from narco-traffickers to the illegal arms trade. All of these networks are deeply intertwined. They’re part of the same illicit chain making its way around countries throughout the world.

Last year, Google’s executive chairman and I had an opportunity to visit Ciudad Juárez. For most of my career, I’ve spent time in radicalization hotbeds in the Middle East, South Asia, and parts of Latin America. To my mind, there were three idiosyncrasies that stood out, distinguishing Juárez from some of these other violent environments.

For starters, the police that escorted us around—as well as those that patrolled the streets of the city—were wearing facemasks. There was no greater illustration of how deeply embedded fear is in that society. It’s difficult to imagine what this does to stifle people’s enthusiasm for engaging with law enforcement.

Second, it was fascinating to stand in Juárez and look across the border to El Paso. It was clear that it’s really just the same city with a wall passing through it—reinforcing the notion that this problem is so deeply intertwined between our two societies. The conflict has spilled over into our own backyard.

Finally, the most interesting, the most surprising, and probably the most prescriptive observation was the invisibility of the problem to somebody like me coming from the outside. There was no equivalent, for instance, to the gang graffiti you see in other places. I asked one of the police officers driving around with us if he could point to some indicator of the presence of the drug cartels, and he said that the only way to know they’re here is to talk to members of the community. There’s no real visual representation of them.

We did talk to people, and what we learned is that all the information about where the cartels operate, where the drugs
are moving, and where the activity is taking place exists within the community. There’s no shortage of data. The problem is how to actually make that data public. Unfortunately, individuals are hesitant to report crimes for fear of retaliation, they have little incentive to trust the police, and they have even less reason to believe that whistleblowing will lead to action. So why take the risk?

This immediately got me thinking about free expression. In my industry, when we think of suppressing free speech, we think of countries like North Korea, Iran, Cuba, Syria—countries that actively censor their population’s access to information. But this was different. Mexico is a democratic society with a free and open Internet. Nevertheless, individuals are self-censoring out of fear of nonstate actors. This begs the question: What is the benefit of open access if you don’t have freedom from fear?

Five years ago, the challenges that we see south of our border were largely irrelevant to the type of expertise that you find at any technology company. It’s easy to be pessimistic about Mexico—most of what I’ve said so far has been—but believe it or not I’m actually an optimist. The challenge of self-censorship is one in which technology can play an enormous role. The wild card in Mexico is the immense growth of connectivity, the rapid spread of mobile access, and the increased transparency, growing accountability, and expanded avenues through which ordinary citizens can intervene and help.

**KARLA ZABLUDOVSKY:** This past Sunday night, locals in Reynosa, Tamaulipas—a city near the United States border with Mexico—were going about their business. There were people walking around in public areas, while others were enjoying Sunday night films at the local cinema. And just like that, a shootout began at 7:30 p.m.—or so it seems.

Apparently, those walking around ran for cover, terrified. Supposedly, those in the theater were asked to remain there until 11:00 at night. Allegedly, when the gunpowder settled, there were 40 dead on the ground.

Now as a journalist, of course, I hate using words like “apparently,” “supposedly,” and “allegedly.” But 12 hours after the shootout, this was still all the information I had to go by. There were tweets posted overnight. A 15-minute YouTube video of the shootout was floating around the blogosphere. And someone had taken photographs of burned cars. None of these reports, however, were verifiable.

On Monday morning, I called the Tamaulipas Police Department to inquire about the supposed shootout and was told that they would not give out any information or confirm anything, officially or unofficially. I checked local papers and couldn’t find anything even mentioning the tragedy—although the local paper did have a story on the Harlem Shake.

Finally, by Monday afternoon, the state attorney’s office released a vague statement, saying that there was in fact a shootout. There were two collateral victims and seven detainees. They gave no explanation of the event and certainly no final body count.

More and more, this is becoming the norm in many parts of Mexico. Unconfirmed information—flowing from online outlets such as Twitter, Facebook, and blogs—is increasingly replacing official news sources in the first critical hours, and sometimes well beyond that. And it is no surprise why.

According to the Committee to Protect Journalists, 48 journalists have been killed or have disappeared in Mexico since December 2006. In an attempt to curb this aggression, newspapers have toned down or eliminated their coverage of drug-related violence. A study by the Fundacion Mepi, an independent investigative journalism center, found, for example, that El Mañana newspaper, based in Nuevo Laredo, published three stories related to drug trafficking in June 2010. That month, 98 people were killed in cartel-related murders.

In March the Saltillo-based newspaper El Zocalo announced in an editorial, “By virtue that there are no guarantees of security in the full exercise of journalism, the Editorial Council of the Zocalo newspapers has decided to abstain from publishing all information related to organized crime.” To fill this information vacuum, journalists and citizens alike have taken to social media.

The latest Reynosa shooting is a great example of how news begins to spread online in the absence of formal or official sources. Using the hashtag #ReynosaFollow, information began flowing in real-time as the shootout unfolded. But it also underscores the limits of these outlets. One of the tweets, for instance, was sent by @Baboonmd, and read, “Clean up of bodies and burned vehicles is hastily carried out by armed civilian/official bodies. An official body count will never be known.”

Perhaps. What I have found reporting in Mexico during the past year and a half is that, more often than not, you hit a brick wall. Information is hard to come by; verified data even more so.

Like #ReynosaFollow in Tamaulipas, there is a small, online army that has made it its mission to supply a constant stream of updates on security situations in Mexico.
The problem is that it is hard to verify any of these reports, precisely because of what makes these services so attractive in the first place. Anonymity means that it is nearly impossible to verify who the sources are, if they are indeed at the site where they claim to be reporting from, and what their agenda is.

Which brings us to another problem. How many journalists and citizen reporters are even remotely trained in online security? How many, for example, use virtual private networks when they post sensitive information? Given the current security situation in Mexico, there are notable risks to anonymity is also the best reason to approach these news sources with healthy caution.

This highly participatory, citizen-driven activity is beginning to fill in the gaps where traditional institutions fail.

Andrés Monroy-Hernández: The Mexican drug war is not simply a rhetorical war on an inanimate object. It is an actual armed conflict between drug cartels and law enforcement. It has taken the lives of more than 60,000 people since 2006 alone, and it’s a conflict that affects the everyday lives of Mexico’s citizens, dramatically changing the way people in that country interact with each other.

But the Mexican drug war is not just a conflict involving bullets, either. It is also an information war. Typically, when there is an emergency in the United States, there are two main entities in charge of the flow of information: the government—which often gives an official account of the transpiring events—and the media—which broadcasts that account and fills in the details. In Mexico, those two entities are no longer fulfilling that role.

“Fearing for their lives and the safety of their families, journalists are adhering to a near complete news-blackout, under strict orders of drug smuggling organizations and their enforcers, who dictate—via daily telephone calls, e-mails and news releases—what can and cannot be printed or aired,” the Washington Post has reported.

These censorship challenges extend to government officials as well. “In Nuevo Laredo, [for instance,] the mayor mysteriously disappears for days and refuses to discuss drug violence,” the Post continues.

“The military general who presides over the soldiers patrolling the city does not hold news conferences, issue statements or answer questions from the media. Neither do local representatives of the federal police and prosecutors.”

You can imagine what this does to a person in this type of environment, who witnesses this stark escalation of violence juxtaposed with a virtual blackout of news information on the subject.

Yet, this also creates an opportunity, as the emergence of new technologies circumvents some of the censorship problems seen in Mexican society. To provide some context of the level of activity, Internet usage has doubled in the past 10 years. Of those surfing the Internet, about 61 percent use social media tools. In fact, Mexico is the fifth largest user of Twitter in the world.

At the intersection of weakened institutions, escalating violence, and increased adoption of social media is a new phenomenon. Consider, for instance, the following tweet (translated from Spanish) from a user named Angela: “Caution on Gonzalez Ave. by the big supermarket, people report a recent risk situation!”

Nearly every city in Mexico affected by the drug war violence has organically developed such mechanisms whereby useful information can be aggregated and utilized. This information ecosystem is being mediated by many of the different technologies already described. But the crucial point here is that this is a highly participatory, citizen-driven activity—a kind of model of altruistic community service—that’s beginning to fill in the gaps where traditional institutions increasingly fail.
A new history of the Supreme Court’s monetary decisions

The Devolution of the Dollar

For more than 100 years, from roughly 1800 to 1912, the purchasing power value of the dollar under the gold-and-silver standard was essentially constant. With the creation of the Federal Reserve and its discretionary policies of the last century, however, the dollar’s value has declined by more than 95 percent.

“That comparison is difficult to ignore,” leading economic historian Richard H. Timberlake writes. In fact, “it amounts to a 50 percent decline in the value of the money-unit every generation.” In his new book, Constitutional Money: A Review of the Supreme Court’s Monetary Decisions (Cambridge University Press, 2013), Timberlake, emeritus professor of economics at the University of Georgia and an adjunct scholar of the Cato Institute, delves into the legal and historical events that underpin today’s monetary framework.

Timberlake organizes his analysis around the nine Supreme Court cases that markedly affected the U.S. monetary system, focusing not only on the Court’s evolving interpretations of the Constitution, but also on the operations of both the gold standard and the Fed. By grounding these court cases within the context of the government’s monetary policies over time, he is able to explain how the Federal Reserve System “has interacted with the later Court decisions to undermine the Framer’s monetary constitution.” In doing so, he illustrates why this system has promoted continuous inflation and ongoing public uncertainty about the future value of money.

“Prior to the Civil War,” Timberlake writes, “no one ever imagined that anything other than gold or silver could be constitutional money. The precious metals were the limited dietary nutrients of the monetary system.” Through a series of misguided decisions, the Supreme Court paved the way for fiat money to displace gold—and for central banks to undermine market-based monetary arrangements. The rest, as they say, is history.

“Federal Reserve policies in the twenty-first century have exhibited the complete power over the monetary system that the decisions of the tragically mis-argued legal tender cases sanctioned,” he writes. In fact, the system now in place operates without any effective congressional oversight or control. With no exclusive rule to promote price level stability, the Fed’s monetary omnipotence is guided by little more than a vague “smorgasbord” of policy goals, according to Timberlake—“in spite of the fact that it cannot produce a toothpick.”

The answer to the current regime, he suggests, is to counter the all-powerful banks of the present day with a rules-based system that limits human discretion. This would allow for a framework, Timberlake notes, that “would feature thousands of people and hundreds of institutions spontaneously making millions of decisions for its operation in an unbounded system of markets.”

The constraints that accompany a gold standard, for instance, would radiate out into many areas of public policy. They would discourage wars. They would confine fiscal extravagance. “Most to the point,” Timberlake writes, they would “provide a constrained—and thus constitutional—monetary system.” However, Timberlake is careful to note that a transition forward requires genuine resolve.

“For its re-vitalization, a gold standard must have a serious consensus, a general commitment to its discipline, a public ethos, and a practical program for its workings,” he concludes. Constitutional Money marks an important step toward realizing those preconditions.

Visit www.cato.org/store or call 800-767-1241 to get your copy of Constitutional Money today.

Continued from page 8

Fiscal analysis is equally applicable to market and political decisionmaking. It indicates that there is both market failure and government failure. It is long past time that this realism be incorporated into mainstream economics. George Stigler once remarked that a person who considers only market failure is like the judge of a singing contest who immediately declares the second contestant the winner after hearing the performance of the first. This is precisely what happens when mainstream economists treats government as a corrective device and continues to exclude public choice analysis. It is time for the profession to consider the second singer.
In many parts of the world, the last two decades have seen the largest reduction of poverty in human history, with two emerging giants—China and India—having increasingly adopted market-based economic policies. Yet, despite lifting billions out of poverty, this transformation has often been met with pessimism.

“In the younger generation’s proclaimed quest to end poverty, it has recycled old, discredited ideas and policies, seemingly freshened up with new theoretical and empirical bells and whistles,” Cato senior fellow and UCLA professor Deepak Lal writes. In his new book, Poverty and Progress: Realities and Myths about Global Poverty, Lal systematically critiques the research that has come forth on the subject since the 1990s.

“Instead of rejoicing in what has been one of mankind’s most amazing achievements over the last three decades,” he writes, “we hear wails of doom and gloom in the West.” The same people who have charted a path to progress, in other words, seem determined to adopt misguided policies that will erode that prosperity. “The world is at a strange pass,” he continues.

Lal begins by surveying how the West rapidly ascended the economic ladder—and how “the Rest” are now climbing out of the conditions of mass poverty. “There is nothing miraculous about the policies that have led to these turnarounds: free trade, Gladstonian finance, and stable money,” he writes. Such policies, based on classical-liberal economics, are nothing new—having been pioneered in 19th century Britain, Lal adds. “The resulting economic environment led to the unleashing of entrepreneurial drive not least among the poor, which transformed the high savings associated with the demographic transition into efficient investments, fostering poverty-alleviating growth.”

The failure of many leading academics to acknowledge this, Lal continues, is a result of “their insistence on seeking a new fix to some theoretically determined poverty trap, validated by statistical snake oil.” Most international organizations, for instance, play a “numbers game” in which they exaggerate the extent of world poverty and minimize the magnitude of its alleviation. These statistics have been reinforced by a flurry of “theoretical curiosities”—from a new industry claiming to give “scientific” policy advice to the current fashion to see microfinance as a panacea—trends which Lal systematically discredits one by one.

But the latest twist comes from a peripheral debate that is becoming increasingly heated. “The most dangerous of these moralizing western agents,” Lal writes, “are those who have created the global warming scare. This poses the greatest threat to the prospects of the poor in the Third World, for the great ascent from poverty...was based, first in the West and now increasingly in the Rest, on the transformation” of agricultural economies to industrial economies.

Simply put, economic growth is the only means to alleviate the structural poverty of the Third World. “Of course that transformation is incomplete, and it would be Panglossian to say that poverty has been eliminated,” Lal writes. Nevertheless, ensuring the continued transformation of the world’s poor relies on clarifying the facts and exposing the myths surrounding the challenges of economic development. Poverty and Progress provides an indispensable guide toward achieving that end.

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**On the challenges of economic development**

**How Can the World’s Poor Lift Themselves Up?**

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A joint conference sponsored by the Japan Economic Foundation and the Cato Institute’s Herbert A. Stiefel Center for Trade Policy Studies, experts came together to discuss the two countries’ economic relations during an era of political uncertainty, sluggish growth, and shifting demographics. LEFT: WENDY CUTLER (speaking), assistant U.S. trade representative, considered the major challenges that Japan faces in joining the Trans-Pacific Partnership as DANIEL J. IKENSON, Cato’s director of trade policy studies, facilitated the discussion. RIGHT: NOBORU HATAKEYAMA (speaking), chairman and CEO of the Japan Economic Foundation, assessed several proposals for enhancing global economic growth, while Ambassador CLAYTON YEUTTER, former U.S. trade representative under President Ronald Reagan, looked on.

SHIKHA DALMIA of the Reason Foundation argued at a Capitol Hill Briefing in March that low-skilled immigrants, far from overburdening the social-welfare system, are as vital to the economy as high-skilled foreigners.

At a Cato Book Forum for *The Insurgents: David Petraeus and the Plot to Change the American Way of War*, author FRED KAPLAN (at podium) told the story of how a small group of soldier-scholars revolutionized the U.S. military. SPENCER ACKERMAN of *Wired* and JANINE DAVIDSON of George Mason University offered praise for the book’s gripping accounts and cautionary lessons.
May/June 2013

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 Sen. Rand Paul, 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

CATO INSTITUTE POLICY PERSPECTIVES
New York • Waldorf-Astoria • October 31, 2013

MARCH 15: Accidental Occidental:
Economics and Culture of Transition in Mitteleuropa, the Baltic and the Balkan Area

MARCH 18: The Insurgents: David Petraeus and the Plot to Change the American Way of War

MARCH 19: The Growing Conservative Shift on Gay Issues

MARCH 19: The Future of Freedom in Cuba

MARCH 20: Laws of Creation: Property Rights in the World of Ideas

MARCH 21: Economic Benefits of Immigration

MARCH 21: A Looming Scientific Revolution in Environmental Regulation?

MARCH 27: Law, Politics, and Same-Sex Marriage

Audio and video for all Cato events dating back to 1990, 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.

FEBRUARY 4: Conscious Capitalism: Liberating the Heroic Spirit of Business

FEBRUARY 6: Reining in the Nanny State

FEBRUARY 6: Immigration Reform for a Free Society

FEBRUARY 7: In Search of the City on a Hill: The Making and Unmaking of an American Myth

FEBRUARY 7: Beyond the Individual Mandate: The Ongoing Legal Challenges to Obamacare

FEBRUARY 8: The Euro Crisis: Can Deeper Integration Save the European Union and the Common Currency?

FEBRUARY 15: Taxes and Economic Growth: Understanding the Effects

FEBRUARY 19: A Populist Capture of the Organization of American States?

FEBRUARY 21—FEBRUARY 24: 25th Annual Benefactor Summit (Scottsdale, AZ)

FEBRUARY 27: US-EU Free Trade Agreement: Recipe for Growth or Road to Nowhere?

FEBRUARY 28: E-Verify’s Many Perils

MARCH 7: EPA’s Shaky “Endangerment Finding”

MARCH 11: The European Crisis Continues: No Solution on the Horizon

MARCH 12: Understanding Mexico’s Epidemic of Violence: Telling Stories with New Media, Technology, and Big Data

MARCH 12: Code of the West

MARCH 13: Would a Financial Transaction Tax Affect Financial Market Activity?


MARCH 14: Cry the Beloved Country: South Africa’s Future under the ANC

MARCH 15: Cato Institute Policy Perspectives 2013 (New York City)
On March 26 and 27, the U.S. Supreme Court heard oral argument in two potential landmark cases on the rights of same-sex couples. *U.S. v. Windsor*—a challenge to the constitutionality of the Defense of Marriage Act (DOMA)—involves the case of one woman required to pay $363,053 in federal estate taxes after her partner died, due to the fact that the Internal Revenue Service does not recognize her as a surviving spouse. *Hollingsworth v. Perry* represents a state-level challenge to California’s Proposition 8 ban on gay marriage.

Is the United States moving toward legal equality between gay and straight couples? The Cato Institute has joined the Constitutional Accountability Center in filing joint amicus briefs in both *Windsor* and *Perry*, highlighting that such laws deny certain citizens “ordinary civic life in a free society.”

At a Policy Forum held in the F. A. Hayek Auditorium in March, two of the nation’s best-known advocates on the issue came together to delve deeper into this continuing battle.

Evan Wolfson, widely seen as the master strategist behind the movement for same-sex marriage, argued that “the single best way” to achieve marriage equality is to “continue winning over hearts and minds.” He noted in particular that a substantive justification for DOMA was not offered once during oral arguments. “The strategy that has brought us to this moment of hope is the strategy that will bring us the freedom to marry nationwide,” he concluded.

As a key figure in Republican rethinking of the issue, former Republican national chairman Ken Mehlman added, “The whole reason we have a Constitution and courts is that some things are not polled and some things are not put up to a vote.” In explaining that certain rights are reserved to individuals and should be protected by the government, he added that large-scale change doesn’t happen linearly. “Nevertheless, history is on our side,” Mehlman concluded.

The two panelists were joined by Ilya Shapiro, senior fellow in constitutional studies at the Cato Institute, who said that the intricacies of the legal arguments make it difficult to predict what the Court will decide. “We’re in for a real cliffhanger of a ruling,” he noted.

The Cato Institute has long argued that gay couples should be entitled to the same rights, respect, and dignity accorded to all Americans. Cato chairman Robert A. Levy currently co-chairs the advisory board of the American Foundation for Equal Rights, the sole sponsor of the federal court challenge to California’s Proposition 8.

“One would hope, in the coming months and years,” Levy said in 2010, “that more enlightened federal and state legislators will have the courage and decency to resist morally abhorrent and constitutionally suspect restrictions based on sexual orientation.”

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The Supreme Court considers the equal rights of gay couples

The Law and Politics of Same-Sex Marriage

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The Castro dictatorship has clung to power in Cuba for more than five decades. But as the regime ages, the outside sources of finance that buttress it are being put in jeopardy. At the same time, a new generation of Cubans is using the Internet to protest the pervasive lack of freedom and opportunity in their country.

At a Cato Policy Forum in March, two prominent Cuban dissident writers—both recently given permission to travel outside of their country—described life in current-day Cuba. In doing so, they provided a window into the activities of the island’s dissident community—a group struggling to make an impact in the face of repression—and shared their vision of a pluralistic, tolerant society.

Yoani Sanchez, a dissident blogger referred to by the New York Times as “a cause célèbre for democracy on the island,” discussed the wave of repression that has been unleashed in Cuba, as well as “the effervescence of new movements, of new voices” challenging the state. She referred, in particular, to the metaphor of a wall. “The people in Berlin had their own wall made of cement and concrete,” Sanchez said. While this barrier was a very tangible one, the Cubans are dealing with the difficulties of trying to tear down a wall of censorship.

Following her remarks, Orlando Luis Pardo Lazo, photographer and editor of the independent e-zine Voces, assessed the extent of Raul Castro’s so-called reforms and offered his thoughts on the prospects of a free and open country. In short, he highlighted the crucial importance of dissent. “Ultimately, I am just another critical voice within the chorus of voices of an emerging civic society that has struggled for years … against the totalitarian nature of our state,” he said.

In a country where everyday citizens increasingly feel the indignities of a totalitarian regime, these exercises of personal freedom are a poignant reminder of the power of the individual.
The Looming Fiscal Train Wreck

U. S. fiscal policy, including the recently concluded “fiscal cliff” debt deal, is placing an enormous financial burden on today’s children and on future generations in order to deliver benefits to current middle-aged workers and their elders. Standard government accounting methods hide this “legacy debt” from the public, making it difficult to calculate how large the intergenerational transfer is. In “Spending Beyond Our Means: How We Are Bankrupting Future Generations” (White Paper), Jagadeesh Gokhale, a Cato senior fellow and a member of the Social Security Advisory Board, updates earlier calculations of fiscal and intergenerational imbalance measures in order to consider “which generations of citizens are made ‘winners’ and which are made ‘losers,’ and whether the sum total of those effects is equitable.” Using the Congressional Budget Office’s “Alternative Fiscal Scenario,” a measure more in line with past congressional practice, Gokhale finds that these policies would increase the fiscal imbalance to 9.0 percent of the present value of GDP, or 19.7 percent of the present value of payoffs. However, even under the baseline scenario, “today’s middle-aged workers would receive such large federal transfers by way of present-valued Social Security and Medicare benefits that their prospective lifetime net tax burdens are almost fully eliminated.” These imbalances must be resolved soon through tax increases and spending reductions in order to avoid calamity. Unfortunately, Gokhale concludes, these are precisely the policies that Congress is seeking to avoid in the short term.

A Dubious Defense of Stimulus

Passed in February 2009, the American Recovery and Reinvestment Act came with a price tag of $831 billion. Yet the economy has not returned to a path of robust economic growth, and unemployment has remained stubbornly high. As Andrew T. Young, associate professor of economics at West Virginia University, argues in “Why in the World Are We All Keynesians Again? The Flimsy Case for Stimulus Spending” (Policy Analysis no. 721), this has not stopped the Obama administration from pushing for further stimulus. Whether or not fiscal spending stimulus is effective hinges critically on the size of the spending multiplier. “If individuals anticipate the future tax liabilities associated with deficit spending and/or are ‘crowded out’ by the deficit...”
spending, then the multiplier is likely to be less than one,” he writes. Each dollar of stimulus, in other words, increases total spending in the economy by less than one dollar. “The net change in total expenditures, then, falls short of the fiscal stimulus itself,” Young adds. He continues by putting the fiscal stimulus in perspective relative to recent U.S. history, discusses the most plausible estimates of the multiplier, and notes that even advocates of fiscal stimulus acknowledge that the long-run consequences for the national debt are often dire. Ultimately, whether the government spending multiplier is less than or greater than one is an empirical question. While no one seriously debates the costs associated with exploding public debt, he concludes, the evidence suggesting significant short-run benefits of stimulus spending is weak.

**Education’s Online Revolution**

As with many other industries, higher education is becoming increasingly unmoored from its domestic roots. With leading institutions starting to offer courses online, we are entering a period of experimentation with new business models for higher education. In “Liberalizing Cross-Border Trade in Higher Education: The Coming Revolution of Online Universities” (Policy Analysis no. 720), Simon Lester, trade policy analyst at the Cato Institute, explores what it means when an online education industry will be tradable across borders in a way that it never has been before. He begins by acknowledging that, at this stage, it is not clear what the final higher education product will look like. But regardless of its specific form, there is likely to be more competition, lower costs, and higher quality. “This is great news for consumers of higher education,” Lester writes, yet it also points to a lurking problem. “This new trade will be extremely disruptive, and as foreign competition with traditionally domestic institutions grows, the conditions are ripe for protectionism,” he adds. Some existing institutions may fare badly in the transition and are likely to call for government support. Yet, it is imperative that we resist these calls for protection. The past few decades have seen great progress in bringing down tariffs and other barriers with the use of international trade agreements. As Lester concludes, “we must not let protectionism hinder what is almost certainly one of the greatest developments in history for education consumers, especially the poor.”

**Zimbabwe: Growing Despite Itself**

Between 2009 and 2011, Zimbabwe’s GDP growth averaged an impressive 7.3 percent, making it one of the world’s fastest-growing countries. Given its stature as one of the world’s worst business environments, this rapid growth might seem like a puzzling reversal. But in “Zimbabwe: Why Is One of the World’s Least-Free Economies Growing So Fast?” (Policy Analysis no. 722), Craig J. Richardson, associate professor of economics at Winston-Salem State University, explains the dynamics behind this “curious outlier.” In 2009 Zimbabwe adopted the U.S. dollar and South African rand as its official currencies—replacing the country’s “largely worthless currency and swiftly quelling the rampant hyperinflation.” Yet the real reason for the country’s rapid growth, according to Richardson, is a series of unsustainable economic developments. First, the country has experienced a 12-fold increase in government expenditures since 2008. In addition, rich Western countries dramatically increased their infusions of “off-budget” grants to Zimbabwe. Finally, the country’s increasing reliance on exporting raw minerals—along with rapidly escalating, yet volatile, commodity prices—have left Zimbabwe in a vulnerable position. These artificial financial injections from outside have given its government little incentive to change. Nevertheless, Richardson concludes with cautious optimism: “Economic development is not far beyond Zimbabwe’s grasp, as it has the shell of a constitutional framework, a government originally organized along democratic structures, and a previous record of respecting property rights and rule of law.”

**Obamacare’s Vulnerability**

The Patient Protection and Affordable Care Act of 2010 (PPACA) depresses economic activity, eliminates jobs, increases health care costs, makes access to care less secure, increases the burden of government, and traps people in poverty. In the process, it also denies states the freedom to tailor health care reforms to their needs. In “50 Vetoes: How States Can Stop the Obama Health Care Law” (White Paper), Michael Cannon, director of health policy studies at the Cato Institute, reveals how states can push Congress to repeal this harmful, unstable, and unpopular law. As Cannon explains, the PPACA itself empowers states to block the employer mandate, to exempt many of their low- and middle-income taxpayers from the individual mandate, and to reduce federal deficit spending—“simply by not establishing a health insurance ‘exchange.’” To date, 34 states, accounting for roughly two-thirds of the U.S. population, have opted for this path. In addition, the PPACA’s Medicaid expansion is now optional for states, thanks to the Supreme Court’s ruling in NFIB v. Sebelius. In short, Obamacare “is weaker, and the path to repeal clearer, than it ever has been.” By refusing to establish Exchanges or expand Medicaid, states can collectively shield all employers and at least 12 million taxpayers from the law’s new taxes, and still reduce federal deficits by $1.7 trillion. According to Cannon, a critical mass of states exercising their veto power can force Congress to reconsider—and hopefully repeal—this counterproductive law. “Real health care reform is impossible until that happens,” he concludes.
THAT MIGHT MAKE THE SENTENCE LONGER
The prosecutors had accused [Rep. Jesse] Jackson of shipping a $43,350 men’s Rolex watch purchased with campaign funds to his Washington address. He also sent fur capes and parkas purchased with $5,150 in campaign funds from Beverly Hills to the home of an unnamed person, court documents said....

   One of Jackson’s lawyers, Reid Weingarten, told reporters afterward that the court should take Jackson’s years of public service into account when he is sentenced.
—Reuters, February 20, 2013

NOT SO TRIVIAL IF YOU’RE THE OFFICIAL
Citizens have been punished [in China] for crimes as trivial as writing an unflattering blog post about a local official.

AND YOU CAN’T SAY “FREEDOM” ON A D.C. LICENSE PLATE
According to the official list of banned D.C. plate combinations, it may take some extra creativity to get your idea accepted by the city’s meticulous censors. The capital city’s DMV has a 53-page list of 26,993 license plate no-no’s that prohibit everything from praising the local baseball team to expressing disgust with the Internal Revenue Service.
—Yahoo News, March 4, 2013

BUYING VOTES WITH TAXPAYERS’ MONEY
Trying to rekindle the fire of India’s economy, Finance Minister P. Chidambaram promised Thursday to rein in a runaway deficit even as he raised spending on welfare schemes that the government hopes will woo voters in elections scheduled for next year. ....

   “The finance minister faced two counter-veiling pressures: to present a populist, voter-friendly budget and also control the huge fiscal deficit,” said Vir Sanghvi, a political analyst. “What he presented was a ‘this-is-the-best-we-can-manage-under-the-circumstances’ kind of a budget. .... He is hoping that the economy will improve and prices will come down by the time of the election. That is a big political gamble.”

   Chidambaram promised to increase spending on rural welfare schemes, rural roads and jobs, food guarantees for the poor, women’s safety programs, tax breaks on loans for first-time home buyers and a women’s bank.

REMEMBER THAT $38 BILLION BUDGET CUT IN 2011?
But the bill also turned out to be an epic kind of Washington illusion. It was stuffed with gimmicks that made the cuts seem far bigger—and the politicians far bolder—than they actually were.

   In the real world, in fact, many of their “cuts” cut nothing at all. The Transportation Department got credit for “cutting” a $280 million tunnel that had been canceled six months earlier. It also “cut” a $375,000 road project that had been created by a legislative typo, on a road that did not exist.

   At the Census Bureau, officials got credit for a whopping $6 billion cut, simply for obeying the calendar. They promised not to hold the expensive 2010 census again in 2011.

   Today, an examination of 12 of the largest cuts shows that, thanks in part to these gimmicks, federal agencies absorbed $23 billion in reductions without losing a single employee.
—Washington Post, February 9, 2013

VIRGINIA MOVES INTO THE 20TH CENTURY
Soon unmarried couples in Virginia may be able to legally do something that has been outlawed since the late 19th century—live together.

   A state Senate panel voted unanimously Monday morning to advance the “Love Shack” bill, legislation brought forward by State Sen. Adam Ebbin (D-Alexandria) to strike an old cohabitation law from the books.

   The current cohabitation law prohibits “any persons, not married to each other, [to] lewdly and lasciviously associate and cohabit together.”

A PEEK INTO THE FUTURE
Spain has been quietly tapping the country’s richest piggy bank, the Social Security Reserve Fund, as a buyer of last resort for Spanish government bonds, raising questions about the fund’s role as guarantor of future pension payouts.

IMPERIAL PRESIDENT, SUPINE CONGRESS
Democratic leaders in the Senate on Friday urged President Obama to consider bypassing Congress to prevent the nation from defaulting on its spending obligations if lawmakers cannot agree to raise the nation’s $16.4 trillion debt ceiling next month.
—Washington Post, January 12, 2013