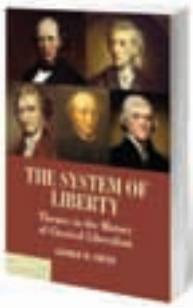
FRED SMITH
The impact of OPEC on oil markets
PAGE 5

AMITY SHLAES
Tax reform lessons from Coolidge
PAGE 4



THE SYSTEM OF LIBERTY
A new history of classical liberalism
PAGE 13

Cato Policy Report

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Why Capitalism Is Awesome

BY CHRIS BERG

Each year the glossy business magazine *FastCompany* releases a list of what it considers to be the "World's 50 Most Innovative Companies." This list is populated much as you would expect.

In 2012 the leader was Apple, followed by Facebook, Google, and Amazon.com. Spot a theme? In the top 10, there are only two companies that are not primarily digital companies. One, Life Technologies, works in genetic engineering. (The other—try not to laugh—is the Occupy Movement. *FastCompany* describes them as "Transparent. Tech savvy. Design savvy. Local and global. Nimble.") Not only are most of them digital firms, but they're all flashy and unique, and they're almost all household names.

Everybody from *Forbes* to *BusinessWeek* hands out most innovative company awards. They're all pretty similar and predictable. But these lists have a perverse effect. They suggest that the great success of capitalism and the market economy is inventing cutting edge technology and that if we want to observe capitalist progress, we should be looking for sleek design and popular fashion. Innovation, the media tells us, is inventing cures for cancer, solar panels, and social networking.

But the true genius of the market economy isn't that it produces prominent, highly publicized goods to inspire retail queues, or the medical breakthroughs that make the nightly news. No, the genius of capitalism is found in the tiny things—the things that nobody notices.

A market economy is characterized by an infinite succession of imperceptible, iterative changes and adjustments. Free market economists have long talked about the unplanned and uncoordinated nature of capitalist innovation. They've neglected to emphasize just how invisible it is.

One exception is the great Adam Smith. In his *Wealth of Nations*, the example he used to illustrate the division of labor was a pin factory. He described carefully the complex process by which a pin is made. Producing the head of the pin "requires two to three distinct operations." To place the head on

Continued on page 6

CHRIS BERG *is a research fellow with the Institute of Public Affairs in Melbourne, Australia. He is the author of* In Defence of Freedom of Speech: From Ancient Greece to Andrew Bolt *and the coeditor of* 100 Great Books of Liberty.

"We live today in a world where we have utterly unsound money, courtesy of a rogue bank that has basically destroyed financial markets," said DAVID STOCKMAN, former budget director under President Ronald Reagan, at a forum in the F. A. Hayek Auditorium, where he discussed his new book, *The Great Deformation*, in April.

BY DAVID BOAZ

Editorial

Trust in Government?

> "'Confidence is everywhere the parent of despotism. Free government is founded in jealousy, and not in confidence.'"

Amid concerns over IRS abuses, spying on journalists, and a cover-up of the disaster in Benghazi, new problems arose for the Obama administration. Newspapers reported that the National Security Agency is collecting the telephone records of millions of Americans under a top secret court order, and then that the NSA and the FBI are scooping up emails, audio, and other data directly from the servers of such Internet companies as Microsoft, Yahoo, Google, Facebook, and AOL. Under mounting pressure, President Obama said:

> If people can't trust not only the executive branch, but also don't trust Congress, and don't trust federal judges, to make sure that we're abiding by the Constitution with due process and rule of law, then we're going to have some problems here.

That didn't stop the criticisms. The president learned that distrust of government is in America's DNA. It turned out that Americans aren't entirely persuaded by the explanation that the executive branch, a few members of Congress, and a few unknown federal judges have secretly assured one another that a secret program is being pursued properly.

The president assures us that the people with access to all this data "take this work very seriously. They cherish our Constitution." Of course, the Senate's Church Committee in 1975 found evidence that the CIA had secretly opened more than 200,000 pieces of mail. In 1992 it was discovered that State Department officials had searched Bill Clinton's passport files and travel records, looking for evidence that might discredit his presidential candidacy. Reporter David Burnham wrote in his 1980 book *A Law Unto Itself: The IRS and the Abuse of Power*, "In almost every administration since the IRS's inception the information and power of the tax agency have been mobilized for explicitly political purposes."

So Americans might be forgiven for not entirely trusting the political class.

The political class doesn't like to be doubted.

Think of President Obama a month earlier at Ohio State University denouncing those who would encourage distrust of government: "Unfortunately, you've grown up hearing voices that incessantly warn of government as nothing more than some separate, sinister entity that's at the root of all our problems; some of these same voices also doing their best to gum up the works. They'll warn that tyranny is always lurking just around the corner. You should reject these voices."

He sounded a lot like Attorney General John Ashcroft in 2001: "To those who scare peace-loving people with phantoms of lost liberty; my message is this: Your tactics only aid terrorists—for they erode our national unity and diminish our resolve. They give ammunition to America's enemies."

At the belated congressional hearings on the NSA spying, House Intelligence Committee chairman Mike Rogers (R-MI) echoed Joe McCarthy in denouncing the whistleblowers as "enemies within" who are "almost as damaging as our enemies on the outside."

New York Times columnist David Brooks fretted that the revelations about how our government spies on us reflected a distressing "deep suspicion of authority" and would corrode the "invisible bonds" that hold us together. Yes, it's entirely possible that making those bonds visible will make people suspicious of those who fastened them around us.

Why shouldn't we trust the government, as President Obama and Chairman Rogers urge us? Because we know who and what government is. Government is force. We need some minimal government to constrain and punish evildoers. But that doesn't eliminate our skepticism about the dangers of empowering some people to use force over others. And government is people. It isn't some Platonic form. The power that government holds is wielded by people, and people are imperfect. Some are corrupt, some are even evil. Some of the worst are actually attracted to state power.

That's why Americans have always distrusted government. As Thomas Jefferson wrote in the Kentucky Resolution of 1798 condemning the Alien and Sedition Acts:

> Confidence is everywhere the parent of despotism. Free government is founded in jealousy, and not in confidence; it is jealousy, and not confidence, which prescribes limited constitutions to bind down those whom we are obliged to trust with power. . . . In questions of power, then, let no more be heard of confidence in man, but bind him down from mischief by the chains of the Constitution.

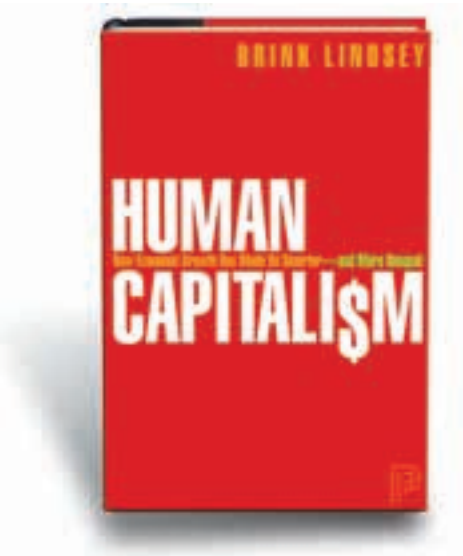
Constitutions don't enforce themselves. The people still have to maintain eternal vigilance; to do that, we must always remain suspicious and distrustful. Given the behavior of governments, it's not that difficult.

How growth has made us smarter—and more unequal

The Dynamics behind Human Capitalism

Over the past generation, the rise of inequality has become a hot-button issue. The growing divide between those enjoying economic prosperity and those struggling to make ends meet fosters debate among politicians, pundits, scholars, journalists, and economists alike. And yet, the means for narrowing that gap have proven elusive.

In *Human Capitalism* (Princeton University Press, 2013)—published last fall as an ebook and just released in hardcover form—author Brink Lindsey, a senior fellow at the Cato Institute, explains the swelling class divide as primarily a function of our most important asset: the one we carry around in our heads.



In short, Lindsey argues that economic growth has left us with a highly complex world. We are constantly faced with intricate tasks at work, varied social circumstances, and numerous choices throughout the day. That complexity has in turn imposed heavier and heavier demands on our mental capabilities. As a result, some have responded by making greater investments in the valuable knowledge and skills—the human capital—needed to navigate this increasingly complicated environment. "We are rich today not simply because our superior technology and organization have made us more productive," he writes. "Our minds have become more productive as well."

The rise in complexity has therefore been "a mighty engine of human progress," Lindsey writes, but the problem is that not everyone is thriving in this new economic landscape. Despite the unprecedented prosperity our system generates, millions remain trapped on the margins of society. "Complexity has opened a great divide between those who have mastered its requirements and those who haven't," he continues—and the main factor dividing the haves from the have-nots in today's knowledge economy is the possession of human capital. The demand for these skills has continued to grow, in other words, but the supply has stalled.

Ultimately, this increasingly lopsided state of affairs is unsustainable, Lindsey argues. How can the benefits of economic growth be spread beyond those who already enjoy its rewards?

The solution, he says, is to restore the connection between increasing complexity and rising human capital across the socioeconomic spectrum. Offering policy prescriptions that range from increased competition in education to reform of land-use regulation, Lindsey explains how exposure to, and participation in, the complex tasks of modern life can be broadened—and ultimately, how the vitality of human capitalism can be restored.■

Visit bookstores nationwide to get your copy of *Human Capitalism* today; $14.95 hardback

Cato News Notes

"GRADUATES, YOUR AMBITION IS THE PROBLEM"

At his commencement address at Ohio State University in May, President Obama encouraged the assembled graduates "to reject a country in which only a lucky few prosper." Roger Pilon, vice president for legal affairs at the Cato Institute, wrote a response in the *Wall Street Journal* arguing that the Founding Fathers would have been "perplexed" by such sentiments.

"A more inspiring message might have urged graduates not to reject their own country, where for two centuries far more than a lucky few have prospered under limited constitutional government—and even more would today if that form of government were restored," Pilon concluded. His piece—also the focus of a video interview on *Opinion Journal*, which highlights content from the newspaper's editorial pages—topped the *Journal*'s "Trending Now" list that day.

APOCALYPSE WHEN?

Writing in the *Washington Post* in May, Rep. Lamar Smith (R-TX), chairman of the House Committee on Science, Space, and Technology, lamented the "hyped rhetoric" surrounding climate change. Citing the research of Chip Knappenberger, assistant director of Cato's Center for the Study of Science, Smith noted that even if the United States eliminated all carbon dioxide emissions, the impact on global temperatures would be only 0.08 degrees Celsius by 2050.

"Instead of pursuing heavy-handed regulations that imperil U.S. jobs and send jobs (and their emissions) overseas, we should take a step back from the unfounded claims of impending catastrophe and think critically about the challenge before us," he concluded.

MOAR NAMED DIRECTOR OF SPONSOR SERVICES

After having completed a successful tenure in Cato's defense and foreign policy department, Harrison Moar has been named director of sponsor services at the Institute. In his new role, Moar will be focused exclusively on Sponsor outreach, with the goal of effectively communicating the latest developments at the Institute to those of you who make our efforts possible. Working closely with Lesley Albanese, vice president of development, Moar will serve as a direct liaison between our Sponsors and our senior policy staff. Cato is pleased to welcome Harrison to his new position.

Cato president JOHN A. ALLISON autographed copies of his book, *The Financial Crisis and the Free-Market Cure: Why Pure Capitalism Is the World Economy's Only Hope*, for professors from Wake Forest University, who visited Cato for a day of briefings in April.

At a Cato Policy Forum on tax reform, AMITY SHLAES, author of the new biography *Coolidge*, explored the lessons of the Coolidge administration.

Cato adjunct scholar JONATHAN MACEY of Yale Law School (at podium), author of *The Death of Corporate Reputation*, joined HARVEY PITT (left), former chairman of the Securities and Exchange Commission, and DAMON SILVERS, associate general counsel for the AFL-CIO, to discuss the book and why regulation undermines trust within the marketplace.

In April, C. BOYDEN GRAY, former White House Counsel and U.S. Ambassador to the European Union, examined the troubling creation of "super-legislatures," tasked with overseeing new laws under both Obamacare and Dodd-Frank.

What are the constitutional issues surrounding targeted killings, given their secrecy and the lack of reliable data? At a Cato Policy Forum held in the Institute's new George M. Yeager Conference Center, a packed crowd gathered to hear a discussion on drones and the discernible shift in the way America now wages war.

At a Cato Policy Forum in April, Jim Bacchus, former member of Congress and former high-ranking official for both the U.S. Trade Representative and the World Trade Organization, commented on the threat of regulatory protectionism and how the United States might avoid future trade disputes.

At a Cato Policy Forum in April, Frederick W. Smith, chairman and CEO of FedEx Corporation and a former member of Cato's Board of Directors, discussed the nature of OPEC's influence on oil markets, arguing that much of the volatility that characterizes world crude oil markets can be laid at the cartel's doorstep. Three economists joined the panel discussion.

In May, BuzzFeed held a special summit to address immigration issues that included (from left) editor-in-chief Ben Smith; Clarissa Martinez, director of immigration for National Council of La Raza; Mario Lopez, president of the Hispanic Leadership Fund; Alex Nowrasteh, immigration policy analyst at the Cato Institute; and Mickey Kaus, journalist and author of *The End of Equality*.

Continued from page 1

the wire is a "peculiar business." Then the pins have to be whitened. The production of a pin, Smith concluded, is an 18-step task.

Smith was making an argument about specialization, but just as important was his choice of example. It would be hard to think of something less impressive, less consequential than a pin. Smith wanted his contemporaries to think about the economy not by observing it from the lofty heights of the palace or the lecture hall, but by seeing it from the bottom up—to recognise how a market economy is the aggregate of millions of little tasks. It's a lesson many have not yet learned. We should try to recognise the subtleties of the apparently mundane.

CAPITALISM MEANS EFFICIENCY

Ikea's Billy bookshelf is a common, almost disposable, piece of household furniture that has been produced continuously since 1979. It looks exactly the same as it did more than three decades ago. But it's much cheaper. The standard model—more than six feet tall—costs $59.99. And from an engineering perspective the Billy bookshelf is hugely different from its ancestors.

In those 30 years the Billy has changed minutely but importantly. The structure of the back wall has changed over and over, as the company has tried to reduce the weight of the back (weight costs money) but increase its strength. Even the studs that hold up the removable book shelves have undergone dramatic changes. The studs were until recently simple metal cylinders. Now they are sophisticated shapes, tapering into a cup at one end on which the shelf rests. The brackets that hold the frame together are also complex pieces of engineering.

Ikea is a massive company. Tiny changes—even to metal studs—are magnified when those products are produced in bulk. There is no doubt somebody, somewhere in the Ikea product design hierarchy whose singular focus has been reducing the weight and increasing the strength of those studs. They went to sleep thinking about studs and metals and the trade-offs between strength and weight. Their seemingly inconsequential

> "The genius of capitalism is found in the tiny things—the things that nobody notices."

work helps keep Ikea's prices down and its profits high. With each minute change to the shape of the Billy's metal studs they earn their salary many times over.

Being massive, however, Ikea has an advantage: it is able to hire specialists whose job is solely to obsess about simple things like studs. Ikea is well-known for its more prominent innovations—for instance, flat-packing, which can reduce to one-sixth the cost of shipping—and the extremely low staffing of its retail stores.

For big-box retailers, innovation is about efficiency, not invention. Extremely resilient supply chains may not win glossy innovation awards but they are the source of much of our modern prosperity. But Ikea is big and famous. So let me suggest another icon of capitalist innovation and dynamism: pizza.

CAPITALISM TASTES BETTER, CHEAPER

Pizza is one of our most mundane and simple foods. It would be the last place most people would look for innovation and engineering. It is, at its most basic, a thin bread topped by tomatoes and cheese—a food of the poor of Naples exported, which is endlessly interpreted by the rest of the world.

Forty-one percent of Americans eat pizza at least once a week, whether purchased frozen and reheated in home ovens, delivered, taken away, or cooked from scratch at home. All of these choices are more complicated than they seem. Keeping a pizza crisp long out of the oven so that it can be delivered, or making sure it will crisp up in a variable home oven after having been frozen for weeks is anything but simple.

Moisture is the enemy. For frozen pizzas, this means that toppings have to be precooked precisely to avoid some ingredients being burned while others are still heating through. Frozen pizza takes a lot of abuse—it is partially thawed each time it is transferred from manufacturer to supermarket to home freezer. So the dough has to be precisely regulated to manage its water content. Cheese freezes poorly, and consumers expect it to melt evenly across the base, so manufacturers obsess about cheese's pH range and its water and salt content. And of course all these decisions are made with an eye on the customer's budget and the manufacturer's profitability. The consumers of family-sized frozen pizzas tend to be extremely price sensitive. The opportunities for innovation in processes, equipment, automation, and chemistry are virtually endless.

It gets even more complicated when we factor in changing consumer tastes. The modern pizza customer doesn't just want cheese, tomato, and pepperoni. As food tastes grow more sophisticated they look for more sophisticated flavors, even in frozen pizza. It's one thing to master how cheddar or mozzarella melts. Dealing with more flavorful brie or smoked Gouda is another thing entirely. Like Ikea's stud specialist, there are hundreds of people across the world obsessed with how frozen cheese melts in a home oven. These sorts of complications are replicated across every ingredient in this simple product. (How does one adapt an automated pepperoni dispenser to dispense feta instead?)

Customers demand aesthetic qualities too. Frozen products have to look authentic. Customers like their pizza crusts to have slight burn marks, even if home ovens won't naturally produce them. So manufacturers experiment with all sorts of heating techniques to replicate the visual result of a wood-fired oven.

Takeout pizza seems easier but has almost as many complexities. Some large pizza chains are slowly integrating the sort of sauce and topping applicators used by frozen goods manufacturers. Cheese is costly and hard to spread evenly. The pizza chain Dominos uses a proprietary "auto-cheese," which takes standardized blocks of cheese and, with a push of a button, shreds them evenly across a base.

Moisture problems are even more endemic in takeout pizza. The cooked pizza has to survive, hot and crispy and undamaged, for

some time before it is consumed. If the box is closed, the steam from the hot pizza seeps through the bread, making it soft and unappealing. But an open box will lose heat too quickly. Engineers have struck a balance. Vents in the box and plastic tripods in the centre of the pizza encourage airflow. Deliverers carry the pizzas in large insulated sleeves to keep the heat in but reduce risk of steam damage.

We could easily replicate this analysis for almost every processed or manufactured food in the typical supermarket. Then we could reflect on the complexity of serving food, not in a home kitchen, but on an airplane flying more than 600 miles per hour and 37,000 feet in the air, cooked in a tiny galley for hundreds of people at a time.

Some of the most extraordinary logistical accomplishments of the modern world are entirely unnoticed. Some—like airline food—we actively disparage, without recognizing the true effort behind them.

CAPITALISM IS ABOUT INNOVATION, AS WELL AS INVENTION

One of the great essays in the free market tradition is Leonard Read's "I, Pencil." Read was the founder of the influential American think tank the Foundation for Economic Education. In his essay, he adopts the perspective of an ordinary wooden lead pencil and purports to write his genealogy. He began as a cedar tree from North California or Oregon, was chopped down and harvested and shipped on a train to a mill in San Leandro, California, and there cut down into "small, pencil-length slats less than one-fourth of an inch in thickness."

Read's point: "Not a single person on the face of this earth" knows how to make a pencil on their own. The construction of a pencil is entirely dispersed among "millions of human beings," from the Italians who mine pumice for the eraser to the coffee manufacturers who supply their drinks to the cedar loggers in Oregon.

Read was vividly illustrating a famous point of Friedrich Hayek's—these separate people manage, through nothing but the price system, to make something extraordinarily complex. None of the pumice miners intend to make a pencil. They simply want to trade their labor for wages. Adam Smith's invisible hand does the rest.

> "The millions of people involved in pencil production aren't merely performing their market-allocated tasks but are trying to find new ways to make their tiny segment easier, cheaper, and more profitable."

Read published his essay in 1958. The chemical formula for the eraser, known as the "plug," has changed repeatedly over the half century since. The production is highly automated, and the supply lines are tighter. Chemicals are added to keep the eraser from splitting. Synthetic rubber production in 2012 is much different than it was in 1958. These tiny plugs look pretty much the same but have evolved in a dozen different ways.

"I, Pencil" magnificently captures the complexity of markets, but it doesn't quite capture their dynamism. The millions of people involved in pencil production aren't merely performing their market-allocated tasks but are trying to find new ways to make their tiny segment easier, cheaper, and more profitable. The pencil market—as far from a cutting-edge firm like Facebook as you could imagine—is still full of entrepreneurs trying to break apart established business models to shave costs and rationalize supply chains. In 1991 a gross of 144 simple, Chinese-made wood pencils sold on the wholesale market for $6.91. In 2004 that price had dropped to $4.48.

And this is before we consider the variety of pencils available to consumers—not just wooden ones of different shapes, sizes, colors, and densities, but mechanical pencils, jumbo sized children's pencils, rectangular carpenters' pencils (rectangular pencils can't roll away) and on, and on, and on.

It is to capitalism's great disadvantage that there's nothing inherently exciting about pencils. Humans like novelty. We like invention. We like high-technology breakthroughs that will change the world.

I, PORK

The most insightful book about capitalism published in the last decade isn't a treatise on economics or philosophy but an art project. In *Pig 05049*, the Dutch artist Christien Meindertsma starkly shows photographs of the 185 separate products that are made from a single pig.

Every part of a slaughtered pig is sold and repurposed. Obviously, we're familiar with pork and ham but how many people realise that pig bones are converted into a glue that holds sandpaper together? Or that pig fat is a constituent part of paint, helping its spread and giving it a glossy sheen? Pig parts are found in everything from yogurt to train brakes to photography paper to matches—even in bullets.

One response to Meindertsma's book is to see it as simply a modern-day reworking of Leonard Read's pencil. But it's more than that. *Pig 05049* reveals what a market economy tries to obscure: the deep complexities of individual products.

That single pig was stripped down and shipped to factories and markets across the world. It went into matches and copper and crayons and floor wax. These products are as mundane as can be imagined—what consumer spends more than a moment's thought on which crayon to purchase, let alone how those crayons are produced? But as Meindertsma points out, the distinctive smell of many crayons comes from fatty acids, which in turn come from pig bone fat, used as a hardening agent.

Pig 05049 was published in 2007. The oleochemical industry—that is, the industry that derives chemicals from natural oils and fats—is one of the most innovative in the world. Like any industry experiencing rapid technological and scientific change, it is restructuring as well, moving production from Western Europe and the United States to China, Malaysia, and Indonesia.

Six years is a long time in a competitive

marketplace. As simple as they seem, those crayons are changing: costs of production have been shaved down, raw materials are being utilized more efficiently, and supply lines are being tightened. Amazon now lists 2,259 separate products in the children's drawing crayon category alone.

> "We ought to be more aware of the continuous, slow, and imperceptible creative destruction of the market economy."

GOVERNMENT DOESN'T UNDERSTAND INNOVATION

If *FastCompany* has a warped view about the nature of innovation in a market economy, it is not alone. Governments do, too.

The Australian federal government has its very own minister for innovation, and his Department of Industry, Innovation, Science, Research and Tertiary Education doles out grants for inventions and start-ups. Its Commercialisation Australia program sponsors inventors who "have transformed an innovative idea into reality." Innovation Australia funds grant-seekers to turn their "ground-breaking ideas into commercial products." This is the invention fetish—the idea that technological progress occurs when dreamers have great ideas. All society needs to do is subsidize dreams into reality.

But ideas are the easy part. Getting things done is hard. Setting up a business, paring down costs, acquiring and retaining market share: those are the fields in a market economy where firms win or lose. The brilliance of the market economy is found in small innovations made to polish and enhance existing products and services. Invention is a wonderful thing. But we should not pretend that it is invention that has made us rich.

We have higher living standards than our ancestors because of the little things. We ought to be more aware of the continuous, slow, and imperceptible creative destruction of the market economy, the refiners who are always imperceptibly bettering our frozen pizzas, our bookshelves, our pencils, and our crayons. ■

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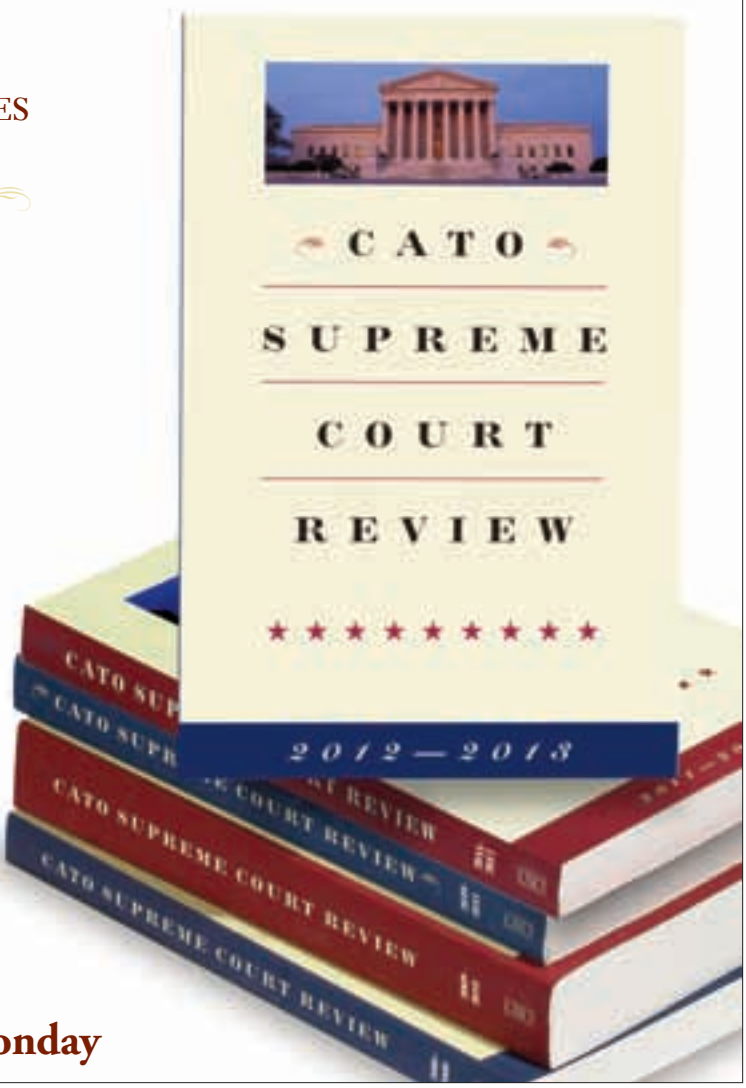


The Implications of the Expanding U.S. Drone Program

On February 4, 2013, NBC News obtained a confidential Justice Department white paper detailing the Obama administration's legal justification for the targeted killing of American citizens abroad. The leak called attention to the use of unmanned aerial vehicles and a discernible shift in how the "War on Terror" is being waged. As the United States continues this practice overseas, the potential for increased domestic drone use is raising serious concerns, and the public is beginning to ask important questions concerning the implications of this technology for civil liberties and individual privacy. At a Capitol Hill Briefing in May, Benjamin H. Friedman, research fellow in defense and homeland security studies at the Cato Institute surveyed the current state of U.S. drone policy. Spencer Ackerman, a senior writer at *Wired*, examined the technology behind these remotely piloted aircraft. Julian Sanchez, research fellow at the Cato Institute, discussed what the future of drone use might look like.

BENJAMIN H. FRIEDMAN: Whether or not this president's vast expansion of war powers is legal, Congress should make it illegal by exercising its war powers to restrain the president further.

That said, it's worth noting that the absence of legal restraint on the president's ability to order drone strikes is a consequence of good fortune. Our power, safety, and technological prowess that allow us to fight wars—particularly from the air—at almost no cost to ourselves is a good problem to have. But it's still a problem. Democracy functions poorly without obvious costs. It prevents conflict and debate, which allows ill-conceived policies to fly under the radar.

Unfortunately, because this problem is a product of our good fortune, safety, and power, there's no solution to it. But we can improve matters by pushing for these wars to end, resisting the threat inflation that justifies them, and encouraging Congress to more jealously guard its war powers. Ultimately, making the cost of wars more evident will hopefully encourage the formation of more antiwar interests.

Through the authorization of military force that Congress passed in 2001, the president was empowered to use "all necessary and appropriate force against those nations, organizations, or persons that he determines planned, authorized, committed, or aided the terrorist attacks that occurred on September 11, 2001, or harbored such organizations or persons." In practice, that—along with the constitutionally based self-defense power that the executive branch has—has become a warrant to detain or kill whomever is in their midst across south Asia, the Middle East, North Africa, and beyond.

In theory, it justifies even more. The last two administrations have adopted almost limitless interpretations of the powers this law grants. It's hard to say exactly how limitless these claims are. The administration refuses to share its reasoning, even its legal reasoning, with most of Congress—let alone those of us in the public.

Besides that, the rules aren't law. They're bureaucratic procedure. The administration says that they don't need any more legal guidance from Congress. They want the courts to stay out of these matters. As such, there's nothing stopping this administration from changing the rules in secret tomorrow—or for the next president to just ignore them entirely.

That's not a great situation for democracy—where we can't even figure out what the rules are governing where we can strike. We don't know exactly what countries the administration claims it now has the power to strike. But the real culprit for this overly broad and unrestricted war on terror—of which drone strikes are just the most visible part—is not the president. It's not the lawyers who tell him he can do whatever he wants. It is the Congress that lets him. Congress has abdicated its foreign policy powers.

But it's difficult to say that Congress ought to do this or that without giving any thought to why there's been this abdication of power. And there are a variety of explanations for why this has happened.

Many blame partisanship. But to me, the real explanation again is our power and safety, which makes promiscuous use of force abroad costless, or at least seemingly so. Power restrains power. As Thucydides has the Athenians saying in the Peloponnesian War, "The strong do what they will, and the weak suffer what they must." As the United States, we do what we will, and we invent legal rationales once we've done it.

For the Greek city-states that Thucydides was writing about, war was incredibly consequential. If they lost, their city might be overrun, sacked, the women enslaved, and the men killed. But today, even foreign policy disasters like the War in Iraq brought little worse than marginally higher tax rates and unsettling images on television for most of us in the United States. In fact, the volunteer military itself has a norm that says they don't complain about war in public, which also serves to keep the perceived costs of conflict low. Therefore, foreign policy issues tend to rank low among voter concerns. They contribute little to voting decisions. Therefore, politicians have little incentive to cater to voters' foreign policy views until costs in every sense start to mount.

Drones simply exacerbate that problem. They lower the costs even more. People enthusiastic about drone strikes like to say that it beats invasion. "Would you rather put troops in there?" they ask. That's the wrong

question, because *the alternative to drone strikes should be peace*. We're currently waging bombing campaigns that we otherwise wouldn't have.

We need to nurse the antiwar and anti-militarism ideology back to health in this country, institutionalizing it now while the time is ripe. More generally, we need to spread the idea that war is something that should be difficult to start.

SPENCER ACKERMAN: Let's talk about the technology behind these flying robots of death. The conventional wisdom out there is that drones are machines that fly around without pilots. They spy on you according to algorithms that determine where they should go, how they should get there, and for what duration they should stay. And finally, when they see a bad person, they kill them.

None of that is really true. These are a bunch of either poorly understood observations or badly articulated experiences.

To begin with, drones are not synonymous with the technology they carry—the sensor packages, the cameras, and the weapons that strike people. Drones are simply airframes, and nearly all of them are in use currently in the military. In fact, as of January 2012, nearly one in every three U.S war planes is a robot.

Nearly all of them have a pilot somewhere. Whether that pilot is a few hundreds of miles away or 7,000 miles away, when you go into the ground control station of a predator or a reaper drone, what you see is something that's not entirely unfamiliar in the history of manned aviation. You have someone sitting in a dark, freezing cold box, usually with a contractor from the company that manufactures the airframe next to them, with lots of computer screens. There they chat with one another in what looks like Internet Relay Chat, looking over to their chains of command amidst a room littered with lots of energy drink cans due to the fact that they're on duty for between eight and eleven hours at a time.

Right next to them is a throttle, allowing them to physically control the aircraft in real time. They stay on station as long as the drone is in operation. What that means is that we shouldn't think of these things as autonomous creatures. There's a human being controlling them.

That doesn't mean, however, that new technologies aren't on the horizon. In May, I was on the deck of the U.S.S. George H. W. Bush for the launch of the X-47B, a demonstrator aircraft with an enormous 62-foot wingspan. Unlike any drone before it, it's capable of launching off an aircraft carrier, which is one of the hardest maneuvers in aviation. It's basically a robotic Top Gun.

Benjamin H. Friedman

> "We need to spread the idea that war is something that should be difficult to start."

The Navy's upcoming drones, called the Unmanned Carrier Launched Airborne Surveillance and Strike System (UCLASS), will likely be the most advanced drones in the U.S. fleet, entering the Navy, it hopes, sometime between 2018 and 2020. Instead of being controlled by a human being at all times, these drones use lines of code. They run off software programs which, through algorithms and interactions with GPS, program in a flight plan for the drone to follow. When they need it to come back down, another program is entered, and the robot executes it.

Keep in mind, however, that no one in the military is envisioning automating these protocols for weapons strikes. In fact, that is something that the military takes exceptionally seriously and something international law takes even more seriously. Is it technologically possible? Yes. But as of right now, there's a determination inside the military that this will be crossing a Rubicon, and they don't want to do that.

The history of the development of this weapons technology, as well as the development of all civilian technology, is the encroachment of automation by very subtle degrees.

One of the things you can do with a robot that can stay aloft for so long, is strap on its belly cameras and sensors of increasing sophistication. The term the military likes to use for this is "persistent surveillance." The advanced drones stay overhead for a period of up to 36 hours and stare at what will eventually be called pattern of life activity. It can see, for instance, who goes to the market and when, what their patterns and routines are, and who they interact with. From 5,000 or 10,000 feet—and sometimes as much as 25,000 to 30,000 feet—the cameras are good enough to see down to people's faces fairly clearly, depending on factors such as cloud cover.

Those are some of the capabilities of these things. What are their weaknesses? In short, these are really terrible aircraft. They fly extremely slowly. They can't maneuver very well. In fact, the engine used for a prototype of a predator is the descendant of a snow-mobile engine that was put together in someone's garage. The United States is just starting to put jet engines in them now. Finally, because many of these drones are GPS reliant, they are very easy to spoof. It's also very easy to install malware in them. It is somewhat telling that the countries where drones are most often deployed—Afghanistan, Somalia, Yemen, tribal Pakistan, Libya after the initial aerial barrage—are countries that don't have sophisticated air defense systems.

The drone budget in the U.S. military is declining, meaning that with some exceptions, they've bought as many airframes as they need. Where does the drone market go

next? It comes home to the United States. The Federal Aviation Administration has said that it will not allow the use of weaponized drones for civilian law enforcement. But by 2015 the FAA is committed to vastly opening up its licensing for the use of unmanned aerial vehicles in U.S. airspace. Drone manufacturers have a lobby, called the Association for Unmanned Vehicle Systems International , which is working hard to push the rapid acceleration of these drone licenses. Moving forward, this is an issue that will be worth paying attention to.

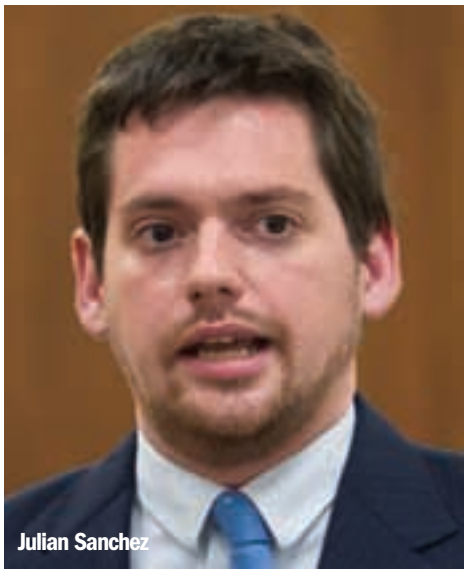
JULIAN SANCHEZ: The domestic use of drones is probably not going to mean, as Sen. Rand Paul worried, that a Hellfire missile will interrupt your café experience. Nevertheless, it is clear that drones are coming home. The FAA predicts a rapid expansion in the presence of drones over U.S. airspace in the near future, projecting that 10,000 will be in our skies within five years and 30,000 by 2030. More than 220 public agencies have already expressed interest in the use of drones for various applications. And both cities and states are already beginning to contemplate legislation to limit their use.

This is a pattern we've seen throughout the history of technology. A platform is developed with military funding for military applications—but then, as war winds down, it finds its way into a variety of civilian and commercial uses. There is a whole array of mostly benign surveillance applications—from search-and-rescue missions, to traffic and weather monitoring, to hostage interventions—that drones can help revolutionize. But even with these cases in mind, the prospect of widespread drone use raises a number of serious privacy concerns.

Perhaps unusually, this is a case in which I recommend a preemptive federal regulation to address these concerns. I believe this is an appropriate course of action for several reasons.

First, if these privacy concerns remain unresolved, it will be difficult to predict which applications of drones will be illegal in the future. As such, both public and private investment may be limited, thereby preventing us from taking advantage of some of the more benign uses of drones. Clarifying the rules in advance is likely to steer investment in more efficient directions.

Second, legally speaking, the extent to which a specific technology is in general public use is a critical factor in determining whether its use is considered a search when


Julian Sanchez

> "Drones are small, silent, and have the ability to hover outside of your bedroom window in ways that other aerial surveillance technologies never have."

it's in the hands of law enforcement officials. In other words, if there are current civilian uses of drones that make us uncomfortable, it is important to clarify this in advance—before it becomes so common that the court is less likely to impose its own limitations.

Finally, remedies at the local level are not going to be as effective in protecting privacy. To begin with, this is inherently an interstate phenomenon. These are flying objects with extraordinarily powerful sensors—and photons have little reason to respect state boundaries. A patchwork of state laws for drone privacy is likely to be unwieldy and unworkable. At the private level, tort remedies are going to be less effective in redressing private harms. Why? When dealing with quiet, high-flying objects carrying powerful sensors, identifying and attributing a privacy violation is likely to be extremely difficult.

These factors all suggest preemptive action on a federal level. But as we think about establishing rules around the domestic use of drones, we may want to approach that task by breaking up the issue into different dimensions.

One dimension is the sensors themselves. Taking into account the height at which these drones are expected to fly, it's important to consider whether the strength of the sensor is proportionate to its use. So, for traffic monitoring, it's probably unnecessary to have a sensor powerful enough to look through your bedroom window and count the freckles on your back.

Another dimension is duration. If a drone is tasked with monitoring a particular person or group, rather than simply conducting general aerial surveillance, it may be appropriate to establish some period of time after which a warrant would be required to continue such surveillance.

The retention of data is another dimension to consider. The aggregation of information about us—even when we're in public—as well as the degree to which that information is searchable has direct implications for the level of privacy we enjoy. For example, if drones are used to monitor real-time traffic, it may be important to have certain constraints on the amount of time that information is retained. Without these constraints, we run the potential of creating enormous databases that record public activity over long periods of time—databases that could later be searched.

A final dimension to consider—though there are undoubtedly countless more—is the issue of access. As the Associated Press recently discovered, there is a very low threshold legal standard when it comes to subpoenaing records held by third parties. We may want to silo drone data in some fashion so that it cannot be easily aggregated, thereby imposing additional constraints on government access to that data.

Continued on page 13

The incurable ills of "cradle-to-grave" protections

The European Welfare State and Its Lessons for America

In the years following World War II, a massive expansion of the welfare state has taken place throughout Europe. As government has taken responsibility for more and more areas of our lives—from retirement and health care to guaranteeing a minimum level of income—it has grown bigger, more intrusive, and increasingly unaffordable. More recently, the United States seems to be headed down the same path.

In this special issue of the *Cato Journal* (made possible by the Carthage Foundation and the Lynde and Harry Bradley Foundation), various leading academics, economists, and politicians examine the central role of the welfare state in Europe's economic crisis, the reforms necessary to end that crisis, and the lessons America can learn from it.

In their lead article, Jagadeesh Gokhale, senior fellow at the Cato Institute, and research assistant Erin Partin examine the true size of the fiscal challenges facing Europe and the United States. "Demographics appear to be destiny in many European nations and in the United States," they write. As such, Gokhale and Partin warn that unless growth of welfare programs is curbed—and health care costs checked—higher fiscal burdens on today's young workers and future generations appear inevitable.

Comparing the American debt problem directly to that of Europe, Cato senior fellow Michael Tanner asks whether the United States is on the road to a similar crisis. It is clear, he writes, that the United States faces a massively growing fiscal burden. "But as bad as that debt is, it is merely a symptom of a larger disease: a rapidly growing government that is consuming an ever larger share of our national economy," Tanner writes. As a result, we are well down the road toward a crisis similar in scope to Europe's. It is only the size of the U.S. economy and the dollar's status as the world's reserve currency that has staved off a major crisis. "But that will not protect us forever," he concludes.

Conventional wisdom has it that the American welfare state is fundamentally distinct from the European variety. But Pierre Lemieux, author of *The Public Debt Problem*, argues that the American and European welfare states differ only in degree, not in type. Taking into account social protection, health care, and education, Lemieux finds that these functions make up 57 percent of total U.S. government expenditures, compared to 63 percent for the typical Eurozone country. As the American economy becomes further Europeanized, he writes, there will be slower growth combined with higher spending and a more developed welfare state. Desmond Lachman, resident fellow at the American Enterprise Institute, points out that while the crisis in Europe has contributed to low U.S. interest rates, America should not be lulled into a false sense of security, and should instead enact a serious deficit reduction program.

Other contributors include Mark Hallerberg on "Challenges for the German Welfare State before and after the Global Financial Crisis," Juhan Parts on "Estonia and the European Debt Crisis," and Pedro Schwartz on "The Welfare State as an Underlying Cause of Spain's Debt Crisis."

Should countries therefore respond to the debt crisis with austerity measures? Two authors offer somewhat different perspectives on this question. Veronique de Rugy, a senior research fellow at the Mercatus Center and an adjunct scholar at the Cato Institute, emphasizes the fact that most European governments have implemented private-sector measures, such as tax hikes, rather than public-sector ones, such as restraints. Therefore, despite the recent emphasis on European "austerity," few countries have truly reduced spending or reformed the structural problems of their welfare states. Pascal Salin, former president of the Mont Pelerin Society, argues that much of the current debate has been stuck between two false choices: Keynesian stimulus or austerity. A better approach, he suggests, would be a policy mix composed of real cuts to public expenditures, welfare payments, and tax rates. This would help solve the long-run "eurosclerosis" problem and ultimately boost economic growth, he concludes.

European welfare states have tentatively begun taking steps to cut back the entitlements that are strangling their economies. But they may well be doing too little, too late. This special issue of the *Cato Journal* comes at a time when it is not too late for the United States to avoid the same fate. ■

All of these articles, as well as the three book reviews in this issue of the *Cato Journal*, are available online at www.cato.org.

The debates that led to modern libertarianism

A New Intellectual History of Classical Liberalism

One of the critical stages often reached in the evolution of a political movement is the onslaught of infighting. After a common rival is defeated, the ideological victors tend to turn their sights inward, developing their own philosophy systematically by coming to terms with its animating principles. The resulting internecine conflicts are the mark of a movement that has achieved a certain measure of success.

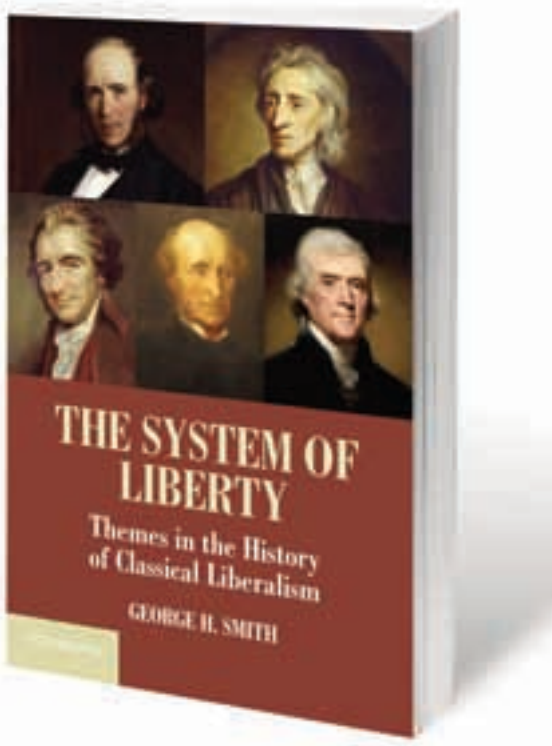
Classical liberalism, according to the scholar George H. Smith, did not begin to take shape as a coherent political theory until the 17th century. In his new book from the Cato Institute and the Cambridge University Press, *The System of Liberty*, Smith covers some of the themes that run throughout the history of liberalism since that time, highlighting in particular those controversies that divided liberals into different camps.

Smith begins his book with the "defining characteristic of classical liberalism," which is the value placed on individual freedom. The true liberal treats liberty not simply as a means, he notes, but also as an end in and of itself. In the words of historian Lord Acton, a liberal is a person "whose polar star is liberty—who deems those things right in politics which, taken all round, promote, increase, perpetuate freedom, and those things wrong which impede it." This focus on freedom, according to Smith, was formulated over time—ultimately culminating in the belief that individuals have "the natural right to use their bodies, labor, and justly acquired property as they see fit, so long as they respect the equal freedom of others."

This notion was revolutionary. "Just as the authority of religious institutions had previously been undermined by Protestant Reformers," Smith writes, "so the authority of political institutions now faced a serious challenge from liberal individualists." The emphasis on liberty was a radical position, one that undercut the widespread belief that government was necessary—indeed, divinely mandated—for maintaining social order. But classical liberalism was not monolithic, and several important debates arose within the movement over the foundation and proper application of liberal principles.

Smith details the emergence of these splits with characteristic insight. Consider two of the debates in particular. The first, that between Benthamite utilitarianism and an older school of natural-rights liberalism, had profound implications for the future of liberalism. Natural-rights theory was the revolutionary doctrine of the seventeenth and eighteenth centuries, Smith argues, being used to justify both resistance to unjust laws and revolution against tyrannical governments. However, "a case can be made," he continues, "that the triumph of Benthamism, having reduced the value of freedom to calculations of social utility, ripped the moral heart from liberalism and thereby ensured its demise within decades."

The second conflict centers around the debate between those liberals who advocated a role for the state in education and the "voluntaryists" who called for a complete separation of the two. The relation between school and state has a checkered past in American liberal thought, which Smith details in full. "Only rarely has the voluntaryist wing of liberalism received attention from historians," he continues, "despite the fact that it was for decades a vibrant movement whose proponents called upon an older form of Lockean liberalism to support their arguments."



Despite the many challenges throughout the history of classical liberalism, it has experienced a remarkable revival in recent decades. Smith concludes that this is due in part to its ideological predecessors and their efforts to explain and justify individual freedom. In their search for answers to difficult questions, the classical liberals may not have been successful in every respect. But they did have many successes—both theoretical and practical—and, Smith writes, "we owe them an incalculable debt for many of the freedoms we enjoy today." ■

Visit www.cato.org/store or call 800-767-1241 to get your copy of *The System of Liberty* today; $24.95 paperback.

Continued from page 11

The important thing to remember is that these questions on privacy are in some ways different in kind, rather than degree, from the questions that have emerged from previous technologies. Drones are relatively cheap. They are small, silent, and have the ability to hover outside of your bedroom window in ways that other aerial surveillance technologies never have. The assumption of reciprocity—your ability to lower your voice, for instance, if you don't want to broadcast your cell phone conversation in public—is inherently diminished when it comes to drones.

What precise standards should be implemented to address these issues is not entirely clear. But what is clear is that we should think about each of these dimensions and how they interrelate when establishing rules for privacy. And we should do it before the drones get up there. ■

At a Cato Book Forum in April, RICHARD H. TIMBERLAKE, JR. (at podium), professor emeritus of economics at the University of Georgia, joined JIM DORN, vice president for academic affairs at the Cato Institute, to present his new book, *Constitutional Money: A Review of the Supreme Court's Monetary Decisions*, a few weeks before his 91st birthday.

An Ecuadorian student eagerly asks questions during Cato University held in Lima, Peru, in April. At the three-day event, participants traveled from nearly a dozen Latin American countries to attend lectures given by, among others, Peruvian Nobel Laureate Mario Vargas Llosa and Argentina's former minister of economy Ricardo López-Murphy.

At a screening for the new documentary *Juche Strong*, director ROB MONTZ (right) joined CALEB BROWN (left), Cato's director of multimedia, and DOUG BANDOW, a senior fellow at the Institute, to uncover the propaganda apparatus that exists in North Korea, as well as the pivotal role it plays in sustaining the secretive country.

Rep. SCOTT GARRETT (R-NJ), chairman of the House Subcommittee on Capital Markets and Government-Sponsored Enterprises, argued at a Capitol Hill Briefing in April that Dodd-Frank "is without question unconstitutional."

At a Capitol Hill Briefing in May, JOHN MUELLER, a professor of political science at Ohio State University and senior fellow at the Cato Institute, offered a nontechnical primer on risk and cost-benefit analysis with applications to policies ranging from homeland security to climate change.

Cato Calendar

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
Speakers include David B. Sentelle, Ilya Somin, and Gail Heriot.

CATO CLUB 200 RETREAT
Laguna Beach, CA • Montage Laguna Beach
September 26–29, 2013
Speakers include Vaclav Klaus and Andy Kessler.

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

CATO INSTITUTE POLICY PERSPECTIVES
Chicago • The Drake • December 4, 2013

CATO CLUB NAPLES
Naples, Fla. • Grey Oaks Country Club
December 12, 2013

26TH ANNUAL BENEFACTOR SUMMIT
Sarasota, FL • Ritz-Carlton
February 20–23, 2014

CATO UNIVERSITY
San Diego • Rancho Bernardo Inn
July 27–August 1, 2014

CATO CLUB 200 RETREAT
Middleburg, VA • Salamander Resort and Spa
September 18–21, 2014

APRIL 1: Super-Legislatures: Evaluating Dodd-Frank's CFPB and OLA Provisions and Obamacare's IPAB

APRIL 2: Travel Surveillance, Traveler Intrusion

APRIL 3: *The Great Deformation: The Corruption of Capitalism in America* with David Stockman.

APRIL 5: The War in Afghanistan: What Went Wrong?

APRIL 9: The Questionable Constitutionality of Dodd-Frank

APRIL 10: The Sequester and Other Possible Victories in the Battle to Restrain Leviathan (Cato Club Naples)

APRIL 11: Tax-Cutting and Economic Growth: Lessons from the Coolidge Tax Reform

APRIL 11: *Juche Strong*: A Dialogue on the Posturing and Propaganda of North Korea

APRIL 12: After the Arguments: What's Next for Marriage Equality?

APRIL 18: Regulatory Protectionism: A Hidden Threat to Free Trade

APRIL 19: *At the Brink: Will Obama Push Us Over the Edge?*

APRIL 22: Drones and the New Way of War

APRIL 23: Switzerland: A Free-Market Model for Europe?

APRIL 24: *Constitutional Money: A Review of the Supreme Court's Monetary Decisions*

APRIL 24: Fixing Guest Worker Visas

APRIL 25: The Impact of Cartel Behavior on Global Oil Prices and the Challenge to Free Markets

MAY 3: How Safe Are We? Balancing Risks, Benefits, and Costs

MAY 8: Buzzfeed Politics: Lessons from the Intersection of Journalism and the Viral Web

MAY 16: The Federal Reserve, the Centennial Monetary Commission, and the Sound Dollar Act

MAY 17: The Implications of the Expanding U.S. Drone Program

MAY 22: *The Death of Corporate Reputation: How Integrity Has Been Destroyed on Wall Street*

MAY 23: *The End Is Near and It's Going to Be Awesome: How Going Broke Will Leave America Richer, Happier, and More Secure*

MAY 30: The 2013 Farm Bill: Reducing the Economic and Environmental Costs

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.

How Chris Edwards launched the federal pay freeze

Cato Saves Taxpayers $90 Billion

A modest victory for spending restraint has been the ongoing freeze in federal worker salaries. Since its enactment in 2010, the "freeze" has not fully stopped federal pay increases, but it has slowed the growth to save taxpayers about $90 billion.

The original idea for the pay freeze was an August 2006 op-ed in the *Washington Post* by Cato scholar Chris Edwards. Edwards highlighted overlooked data that revealed rapid increases in federal wages and benefits under President George W. Bush. The op-ed was followed two days later by a *Wall Street Journal* editorial based on Edwards's work, which called the government "Club Fed" for its overly generous pay.

For years, unions had argued that federal workers were underpaid compared to private-sector workers, but Edwards argued that the reverse was true. He wrote a series of blogs, opeds, and essays in subsequent years highlighting the federal pay advantage. The work was initially covered by inside-the-beltway news sources such as GovExec.com, *Federal Times*, and Fedsmith. Each story generated a flurry of angry responses by federal workers, their unions, and the head of the Office of Personnel Management, who didn't like being challenged.

The issue started to penetrate the broader media and the general public in 2009 and 2010. With the recession, struggling private-sector workers were angered by the unfairness of continuing government pay increases. And with Barack Obama in the White House, Republicans began putting more effort into spending restraint.

Edwards's finding that federal workers earned twice as much in total compensation as private sector workers, on average, was widely reported by the print media, TV news, and radio talk shows. Hundreds of news articles from 2009 to 2012 cited Cato's data and analysis of federal pay, including more than a dozen stories in the *Washington Post*.

One of the first federal politicians to highlight the issue was Scott Brown, who won a special election for U.S. Senate in Massachusetts in January 2010. He campaigned for a federal pay freeze and used Cato's information to buttress his case. That fall, many tea party candidates running for House and Senate—such as Rand Paul—pushed for a pay freeze and other reforms to the federal workforce.

AP Photo/Steven Senne

At a press conference in Boston in 2010, then-U.S. Senate candidate SCOTT BROWN called for a federal wage freeze, using a chart from Cato's Chris Edwards to highlight his point. "Lavish pay and benefit packages have unfortunately become a way of life for public employees," he said. "It's time to bring fiscal sanity to Washington."

Opinions polls were showing that a majority of Americans thought that federal workers were overpaid. Perhaps sensing the public mood and responding to the big tea party win in the 2010 elections, the president signed the pay freeze into law in December of that year.

One of the keys to this policy success was that Cato's work spurred veteran *USA Today* reporter Dennis Cauchon to study the issue. He penned a series of influential stories beginning in early 2010 comparing government pay to private pay. Cauchon—who is now retired—is a data expert, and he credits Edwards with convincing him to look at the federal pay issue.

Following the efforts of Edwards and Cauchon, scholars from the Heritage Foundation and American Enterprise Institute produced their own studies. Using sophisticated statistical techniques, they also concluded that federal workers were overpaid.

The Government Accountability Office examined the issue in a 2012 report, which featured Cato's work. And the annual budget from the Obama administration now includes a lengthy discussion of federal pay because of the "great deal of public scrutiny" the issue is now receiving.

Finding the right level of federal pay is a challenge, and no single study provides all the answers. But Cato's efforts were very successful in generating a national discussion about federal pay and providing a counterpoint to what had been an insider discussion dominated by the unions. ■

You can find an essay on federal pay and other spending cut ideas from Cato scholars at www.DownsizingGovernment.org.

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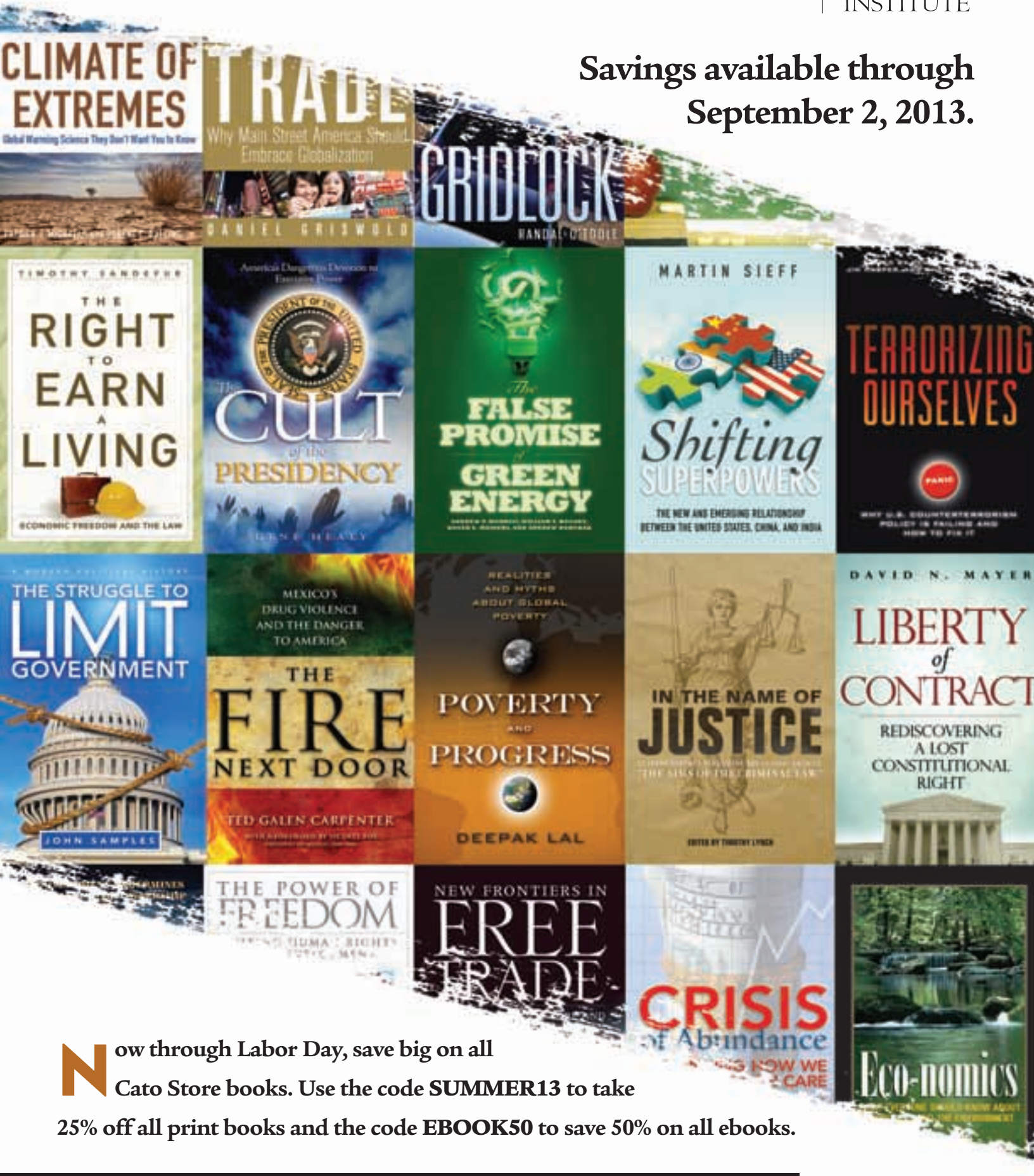

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Combating Regulatory Protectionism

Despite the impressive success of trade liberalization, domestic industries continue to find ways to use the power of government to protect themselves from foreign competition. The practice of using domestic environmental or consumer safety regulations as a way to disguise protectionist policy has become a serious and growing problem in the United States. "This regulatory protectionism harms the U.S. economy and violates our trade obligations," write K. William Watson and Sallie James, trade policy analysts at the Cato Institute's Herbert A. Stiefel Center for Trade Policy Studies, in **"Regulatory Protectionism: A Hidden Threat to Free Trade"** (Policy Analysis no. 723). According to the authors, a number of factors—including economic globalization and increased constraints on tariffs and quotas—have combined to explain the rise in regulatory protectionism. "The consequence is a perfect storm in which social welfare activists and special commercial interests join forces to promote regulatory regimes that unfairly and unnecessarily restrict imports," they write. At the same time, there is already a system of laws in place to prevent regulatory protectionism. The rules of the international trading system recognize that domestic laws can be just as protectionist as tariffs. "But the U.S. government must take its WTO obligations more seriously," Watson and James write. They review a number of recent examples of protectionism to show that policymakers should be skeptical of regulatory proposals backed by the target domestic industry. In the end, they conclude, "the enemies of regulatory protectionism are transparency and vigilance."

K. William Watson

Sallie James

Protecting Free Speech

Three years ago the U.S. Supreme Court decided the case of *Citizens United v. Federal Election Commission*, in which it found that Congress lacked the power to prohibit independent spending on electoral speech by corporations. A later lower-court decision, *SpeechNow v. Federal Election Commission*, applied *Citizens United* to such spending and related fundraising by individuals. Concerns about the putative political and electoral consequences of the *Citizens United* decision have fostered several proposals to amend the Consitution. In **"Move to Defend: The Case against the Constitu-**

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tional Amendments Seeking to Overturn Citizens United" (Policy Analysis no. 724), John Samples, director of Cato's Center for Representative Government and author of *The Fallacy of Campaign Finance Reform*, argues that both the new and old public purposes cited for such restrictions are not persuasive. In short, he says, they "do not justify the breadth of power granted under these amendments." Throughout his analysis, Samples seeks to answer the question of why Congress should or should not gain

such power over spending. He considers—but dismisses—the notion that perhaps the spending and speech at stake should not be protected by the Constitution. He then weighs whether or not Congress should have the power to pursue other values—such as minimizing political corruption or ensuring equal spending—at the cost of freedom of speech. Yet such rationales do not justify such "broad and risky powers," Samples writes. In the end, most justifications for amending the Constitution simply propose giving Congress unchecked power over political speech—"power that will be certainly abused." Ultimately, Samples concludes that Americans should defend—not amend away—the freedom of speech recognized by the First Amendment.■

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"To Be Governed..."

OK, THEN, NO HARM DONE

The Internal Revenue Service apologized Friday for what it acknowledged was "inappropriate" targeting of conservative political groups during the 2012 election to see if they were violating their tax-exempt status.

IRS agents singled out dozens of organizations for additional reviews because they included the words "tea party" or "patriot" in their exemption applications, said Lois Lerner, who heads the IRS division that oversees tax-exempt groups. . . . .

"Mistakes were made initially, but they were in no way due to any political or partisan rationale," the IRS said in a statement.

—**Associated Press,** May 10, 2013

NEW YORK IS OPEN FOR BUSINESS, CUOMO-STYLE

New York State's economic development agency created a new position last June, and then found a candidate to fill it: a young man named Willard Younger, who had just graduated from Colgate University with a degree in classics and religion. He became a special projects associate, at a salary of $45,000 a year, according to state personnel records.

His father, Stephen P. Younger, is a lawyer and power broker in legal circles who was a member of one of Gov. Andrew M. Cuomo's transition teams. He has also donated $26,000 to Mr. Cuomo's campaigns over the years, disclosure records show.

The next month, the agency hired 23-year-old Andrew Moelis, a University of Pennsylvania graduate, for another new position, strategic planning associate, at a salary of $75,000 a year.

Shortly before Mr. Moelis's first day of work, his father, Ron Moelis, a prominent real estate developer, gave $25,000 to Mr. Cuomo's re-election campaign, according to the records.

—***New York Times,*** April 28, 2013

THE TEA PARTY BEFORE THE TEA PARTY

Rather than propose a means of raising revenue that they deemed fair, the colonials were more than happy to direct their considerable energies toward opposing whatever plan the British ministry put forward.

—**Nathaniel Philbrick, *Bunker Hill: A City, a Siege, a Revolution,* quoted in the *Washington Post,*** April 25, 2013

WHEN THERE'S MONEY TO BE MADE IN WASHINGTON, BUSINESSES WILL MAKE IT

The Washington-based firm Height Securities is a small player in a burgeoning financial field where companies seek to acquire valuable information about even the most minor of federal actions and provide it to investors. . . .

[L]argely out of public view, the "political intelligence" industry has doubled in size over the past decade, by some estimates. What was once primarily a side business for law firms and lobby shops has grown so lucrative that it has spawned dozens of stand-alone firms that cater to hedge funds and other powerful corporate clients.

That has drawn escalating concern from the Obama administration and Congress. . . .

The appetite for this information—and the willingness to pay handsomely for it—is based on the realization among traders that decisions in Washington move markets and can shape entire industries for years. Understanding how Washington works has become so important for investors that it is hard for hedge funds and banks to do their research without stumbling upon some political angle.

—***Washington Post,*** May 2, 2013

QUESTIONING POWER ANNOYS THE POWERFUL

Unfortunately, you've grown up hearing voices that incessantly warn of government as nothing more than some separate, sinister entity that's at the root of all our problems; some of these same voices also doing their best to gum up the works. They'll warn that tyranny is always lurking just around the corner. You should reject these voices.

—**President Barack Obama,** May 5, 2013

To those who scare peace-loving people with phantoms of lost liberty; my message is this: Your tactics only aid terrorists—for they erode our national unity and diminish our resolve. They give ammunition to America's enemies.

—**Attorney General John Ashcroft,** December 6, 2001

BECAUSE HARASSERS DON'T BELONG IN, YOU KNOW, THE LEGISLATURE

Assemblyman Vito J. Lopez, the once-powerful Brooklyn Democratic leader who has been accused of sexual harassment by multiple women, infuriated elected officials in Albany and New York on Friday by suggesting that he would seek to remain in office through the remainder of this year's legislative session and would then pursue a new political life as a member of the New York City Council.

—***New York Times,*** May 17, 2013