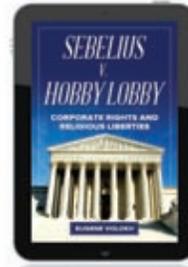




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# Cato Policy Report

MAY/JUNE 2014

VOL. XXXVI NO. 3

## Woodrow Wilson's Great Mistake

BY JIM POWELL

For a long time, Americans have been branded as “isolationists” guilty of “appeasement” when they question the wisdom of starting or entering another foreign war.

The terms “isolationist” and “appeasement” are used to link today’s noninterventionists to the political leaders who, during the 1930s, did nothing to stop Hitler early on, when that might have been easy. Ever since then, starting or entering wars has been justified by claiming that the present situation is analogous to the threat from Nazi Germany and requires force.

The first problem with such a scenario is that Hitler’s rise to power owed much to a prior war: World War I, which was supposed to end war. That famous phrase appears to have originated with *The War That Will End War* (1914), a book by the British socialist author H. G. Wells. His dubious claim inspired cynicism early on. British prime minister David Lloyd George reportedly remarked, “This war, like the next war, is a war to end war.” Journalist Walter Lippmann said “the delusion is that whatever war we are fighting is the war to end war.”

Precisely because France and Britain

entered World War I and were devastated—which none of the political leaders seem to have anticipated—people in those countries lacked the will for another war. They had also been lied to repeatedly by their political leaders, and they weren’t interested in going through that again. As far as Americans were concerned, the greed and hypocrisy of World War I belligerents discredited the idea of doing good by going to war, which is why Americans wanted nothing to do with another

foreign war. It was because pro-war people lost their credibility during World War I that nobody responded when alarms were sounded about Hitler during the 1930s.

If popular sentiment now generally opposes starting or entering foreign wars, the people who deserve considerable credit are those “internationalists” who promote participation in wars that go wrong. Often there are terrible unintended consequences, because wars are

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“The universe is an inherently uncertain place,” MEGAN MCARDLE said in February at a Cato Book Forum for *The Up Side of Down*. “We tend to think we can somehow engineer failure out of the system, but we can’t.” A columnist for *Bloomberg View*, MCARDLE stresses the importance of harnessing the power of unavoidable setbacks.

**JIM POWELL**, a senior fellow at the Cato Institute, is the author of *FDR's Folly*, *Wilson's War*, *Bully Boy*, *Greatest Emancipations*, and other books.



BY JOHN A. ALLISON

PRESIDENT'S MESSAGE

# Opportunity Cost

**T**he Cato Institute's mission is to expand the understanding of public policies based on the principles of limited government, free markets, individual liberty, and peace. One difficulty in making our case for policy change is helping the public understand a fundamental concept called opportunity cost. Opportunity cost is the potential return one could earn if you were doing something different. As a simple example, if a business has a product line that produces a 6 percent return on investment and there is a different product line that produces a 10 percent return on investment, the business should shift resources to the higher-returning product line (other things being equal).

In fact, every decision in life has an opportunity cost. If you choose to go to a movie, you may be losing the opportunity to take a walk in the park. While opportunity cost is an easily understood idea, in many decisions individuals choose to ignore it. This occurs often in a business where employees have a vested interest in an existing low-return activity despite the fact that a higher-return investment is clearly available. Businesses struggle or fail by ignoring opportunity cost.

At the societal level, opportunity cost is a very important issue. The current economic recovery is a classic example. It is very difficult for most people to understand the radical difference in economic well-being between 2 percent growth and 5 percent growth compounded even over just five years. Many people assume the stimulus package, increased regulations, and the Federal Reserve's quantitative easing are critical to a recovery. They do not understand that a normal recovery is 5 percent growth and not 2 percent, and that these government interventions radically slowed growth. Cato senior fellow Alan Reynolds recently wrote an excellent article on this issue in the *Wall Street Journal*, "Demand-Side Policy Gave Us the Big Economic Fizzle."

It is difficult for individuals to understand the damage the FDA does when it delays or stops drug development. It is easy to see when someone dies from the misuse of a medicine, but many cannot visualize the loss of life from bureaucratic delays. It is hard to grasp that the market would develop a rational quality control alternative (like Underwriters Laboratories, in electrical products) if the FDA did not exist. People have an emotional reaction to a single death from an unexpected effect of a drug, while it takes a conceptual leap—or an econom-

ics class—to see all the lives that could be saved without the FDA.

Parents who send children to very poor schools are sometimes aware of the opportunity cost of government schools and thus support charter schools. Middle-class parents who send their children to mediocre schools are often unaware of the opportunity cost that their children are paying. We are then surprised that a poorly educated middle class has relatively declining income.

Good teachers in government schools support their unions' efforts to stop school competition. They fail to grasp the opportunity cost to them from the lack of competition. In a competitive education market, good teachers would be in strong demand and would be paid more. Public school unions protect mediocre and poor teachers.

People see the benefits paid from Social Security. They have a hard time understanding that a like amount of savings properly invested would have created dramatically more income and more capital, driving faster economic growth. Underfunding is a critical issue for Social Security; however, it is only one symptom of the problem. Social Security proceeds have been spent by government. The opportunity cost of incentivizing government spending through governmental Social Security instead of incentivizing private savings is tremendous. If Social Security had allowed private savings, American taxpayers wouldn't be facing trillions of dollars in unfunded liabilities.

People often see the world through the lens of the status quo. They cannot grasp how much better things could be if different opportunities were pursued. Fortunately, in private markets, entrepreneurs who do see the opportunities make them visible to the rest of us—Steve Jobs, Sam Walton, and Bill Gates are examples. This is one reason free markets radically outperform statism. Unfortunately, the average voter has difficulty seeing what is possible—seeing the opportunities. And the average voter elects the politicians who set government policy. One of our tasks at Cato is to help individuals understand the opportunity cost of government interference in both economic markets and in the denial of civil liberties.

“People often see the world through the lens of the status quo. They cannot grasp how much better things could be if different opportunities were pursued.”

# Delivering Government Transparency

“**T**he history of liberty has been in no small measure the struggle between diffuse and encompassing interests, on the one hand, and special interests, on the other,” John McGinnis of Northwestern University has written. Before the printing press was invented, these interests included both rulers and aristocrats. But the mass dissemination of information “allowed the middle class to discover and organize around their common interests to sustain a democratic system that limited the exactions of the oligarchs.”

Today, the Internet is the new printing press. With the launch of Cato’s Deepbills Project, the Institute is generating data that will allow the information superhighway to have its salutary effects for liberty.

“Democracy in America is not working; the formalities are strong, but the substance is hollowed out,” says Jim Harper, a senior fellow at the Cato Institute specializing in information policy. While there is quite a bit of public-sector information online, it is buried in archaic practices and unusable formats. In effect, the government is beyond the reach of the people. The Internet has remade old industries and created new ones, yet it has barely touched the federal government. The solution to this information problem, Harper argues, is detailed accessible information about the government’s deliberations, management, and results.

To this end, Cato’s Deepbills project gathers the XML versions of legislation, annotating 99 percent of the bills introduced in the current Congress in order to make key elements of their content easily readable by computer. This data allows automatic discovery of the laws that pending bills amend, the agencies they affect, and the spending they authorize. Not content to merely advocate for transparency, Cato has shown the way by producing data that makes the government more transparent.

The data is already beginning to see use. The *New York Times* began employing Deepbills data to flesh out information about bills in Congress that it publishes on its website. On Wikipedia, the Institute has initiated an automated system for generating article skeletons that include the pros and cons of legislation in Congress. Bit by bit, a community of editors is starting to grow.

The project is currently developing open-source markup software that will add this data to bills automatically. Publishing well-structured data will allow search engines, websites, researchers, reporters, political scientists, and the public to discover, process, and use government information in any way they choose. Cato’s work will set public expectations that government data is available, making government’s improvement in this area a political imperative. “By adding data sets to what’s available about government deliberations, we’re beginning to lift the fog that allows Washington, D.C., to work the way it does—or, more accurately, to fail the way it does,” Harper concludes.

**MORE INFORMATION ON THE INSTITUTE’S DEEPBILLS PROJECT CAN BE FOUND AT [CATO.ORG/RESOURCES/DATA](http://CATO.ORG/RESOURCES/DATA).**

## CATO NEWS NOTES

### IN DEFENSE OF TRUTHINESS

**B**elieve it or not, it’s illegal in Ohio to lie about politicians. In *Susan B. Anthony List v. Driehaus*, the Supreme Court is weighing the state’s election law that



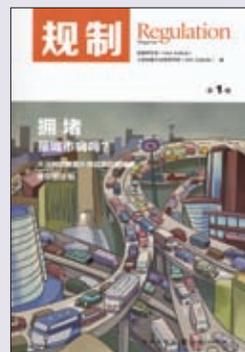
makes it a crime to “disseminate a false statement concerning a candidate.” Joined by the Institute’s H. L. Mencken Research Fellow P. J. O’Rourke,

Cato filed an amicus brief reminding the Court of the importance of “truthiness”—facts you feel in your heart, not in your head—in American politics, as well as the role of satire and spin more broadly.

Ilya Shapiro, a senior fellow in Cato’s Center for Constitutional Studies, writes, “We ask the Court a simple yet profound question: Doesn’t the First Amendment’s guarantee of free speech protect one man’s truth even if it happens to be another man’s lie? And who’s to judge—and on what scale—when a statement slides ‘too far’ into the realm of falsehood?”

### REGULATION IN CHINA

**T**he Cato Institute has long stressed the importance of bringing the ideas of individual liberty, free mar-



kets, and peace to China. With that in mind, we are pleased to report that *Regulation* magazine is now being published in Chinese by the Shanghai Institute of Finance and Law. For close to four decades, this quarterly publication has examined virtually every market—from

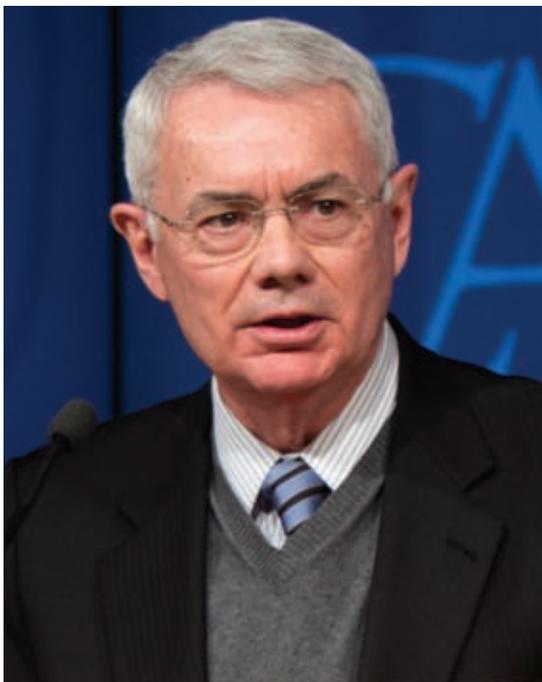
agriculture to health and transportation—and nearly every government intervention—from interstate commerce to labor law and price controls. With easy-to-understand insights anchored in microeconomic analysis, *Regulation* will continue to make the case for those policy instruments that are more effective, and less intrusive, both here at home and across the world.



**A**t a Cato Policy Forum, MARGOT KAMINSKI, executive director of Yale University's Information Society Project, argued that, as a result of private capture, intellectual property law tends to favor vested interests.



**I**n February, the Cato Institute hosted the 26th Annual Benefactor Summit at the gorgeous Ritz-Carlton in Sarasota, Florida, with over 170 friends and supporters of the Institute attending to hear talks by Rep. Justin Amash (R-MI), Professor Glenn Reynolds, and an award-winning Thomas Jefferson impersonator, among many others.



**I**n the F. A. Hayek Auditorium, JAMES BACCHUS, former chairman of the Appellate Body of the World Trade Organization, discussed how export restrictions from the 1970s are imperiling America's oil and gas markets.



**A**t a Cato Policy Forum in March, (from left) SHIKHA DALMIA, a senior analyst at the Reason Foundation; ALEX NOWRASTEH, Cato's immigration policy analyst; and REIHAN SALAM, a columnist for *National Review*, assessed the costs and benefits of state-based guest-worker visas.



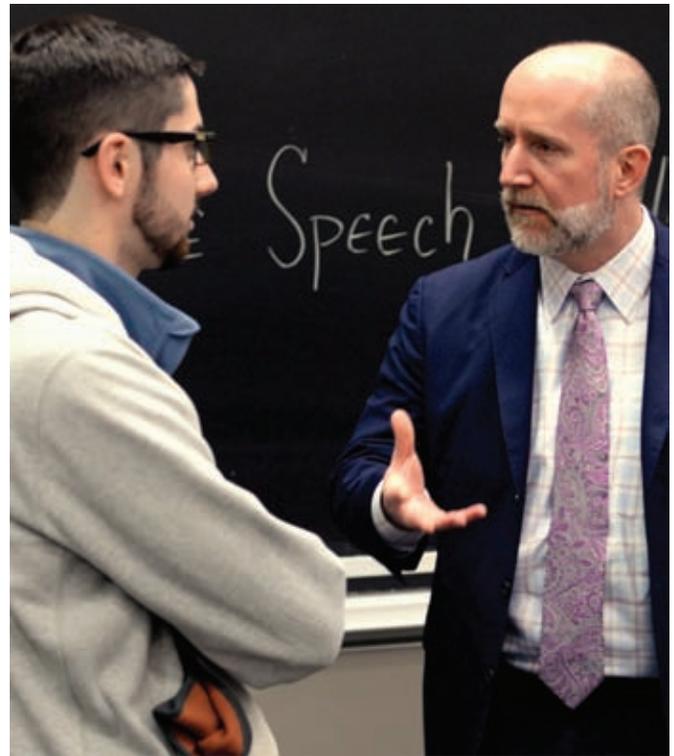
**B**ETTY MEDSGER, a former *Washington Post* reporter, discussed her latest book, *The Burglary: The Discovery of J. Edgar Hoover's Secret FBI* at a Cato Book Forum.



**A**t a Cato Policy Forum in February, THOMAS CUSHMAN (left), director of the Freedom Project at Wellesley College, and XIA YELIANG, a visiting fellow at Cato's Center for Global Liberty and Prosperity, considered the practical and ethical issues involved in scholarly collaborations between U.S. and Chinese universities.



**B**OB BOWDON, director of the new documentary *The Ticket: The Many Faces of School Choice*, sat down with NEAL MCCLUSKEY, associate director of Cato's Center for Educational Freedom, to explain why parents deserve the freedom to choose their children's education and to present scenes from the film.



**C**ato senior fellow JIM HARPER explored the relationship between free speech and privacy at a colloquium at the University of Texas at Austin.

*Continued from page 1*

the most costly, volatile, unpredictable, and destructive human events.

### THE HAZARDS OF THE UNFORESEEN

World War I was probably history's worst catastrophe, and U.S. President Woodrow Wilson was substantially responsible for unintended consequences of the war that played out in Germany and Russia, contributing to the rise of totalitarian regimes and another world war. American "isolationism"—armed neutrality would be a more accurate term—developed as a sensible reaction to his policies.

After Germany's initial advances into the Low Countries and France, the adversaries in World War I dug trenches and seldom advanced or retreated much from those lines. German soldiers were generally outnumbered on the Western Front, but the Germans had smarter generals and more guns. The British navy enforced an effective blockade that made it difficult for the Germans to obtain many vital supplies, including food. Germany responded by building a submarine fleet, but it didn't give them a way to invade Britain or the United States. By 1918, the war had been stalemated for more than three years, neither side able to force vindictive terms on the other. One of the last German offensives ground to a halt in the French countryside when German commanders couldn't prevent their starving soldiers, amazed by the abundance of food, from gorging themselves on cheeses, sausages, and wine.

If the U.S. had stayed out of the war, it seems likely there would have been some kind of negotiated settlement. Neither the Allied Powers (France, Britain, Russia, Italy, Japan, and several smaller states) nor the Central Powers (Germany, Austria-Hungary, the Ottoman Empire, and Bulgaria) would have gained everything they wanted from a negotiated settlement. Both sides would have complained. But a catastrophe would have been less likely after a negotiated settlement than after vindictive terms were forced on the losers.

“Nothing Wilson did could compensate for the colossal blunder of entering World War I.”

Apparently Wilson wanted to demonstrate the global influence of the U.S. by presiding at postwar negotiations, but he figured he could do that only if the U.S. were a belligerent. He had offered his services as a mediator, but his prospective allies, the French and British, weren't interested. As historian Barbara Tuchman reported, "It was not mediation they wanted from America but her great, untapped strength."

French and British generals squandered the youth of their countries by ordering them to charge into German machine-gun fire, and they wanted to command American soldiers the same way. Those generals repeatedly demanded that Americans reinforce their depleted ranks and fight under French and British flags. America's first great struggle in the war was with the French and British, who feared that if American soldiers went into battle as an independent force under American command, they—not the French and British—would get the credit for success.

On April 2, 1917, when Wilson went before Congress to seek a declaration of war, he wasn't trying to protect the United States from an attack or imminent attack, although there had been provocations. His stated aim was to destroy German autocracy. He urged "the crushing of the Central Powers." He famously promised that the world "would be made safe for democracy."

The U.S. played a significant military role only during the last six months of the war, but that was enough to change history—for the worse. By entering the war on the side of the French and British, Wilson put them in a position to break the stalemate, win a decisive victory, and—most important—force vindictive surrender terms on the losers.

### THE FRONTIERS OF CONTROL

Wilson seemed unaware of two critical limits of his power. First, since he represented the largest and richest belligerent, he assumed he would be able to control what his allies did, but he couldn't, and they hijacked the postwar negotiations. French Prime Minister Georges Clemenceau was determined to avenge Germany's humiliating defeat of France in 1870—a war that France had started. Clemenceau wasn't to be denied, since most of the fighting during World War I took place on French soil and the French suffered some 6 million casualties. He made sure the Versailles Treaty obligated Germany to pay huge reparations and surrender a long list of assets including coal, trucks, guns, and ships—private property as well as property of the German government.

Despite Wilson's professed ideals about the self-determination of peoples who had been in multinational European empires, he didn't stop the Allies from dividing German colonies among themselves. British Prime Minister David Lloyd George expanded the British Empire by seizing the former German colonies of Tanganyika and part of Togoland and the Cameroons. The French and British each gained authority over some territories of the defunct Ottoman Empire.

The French and British bribed Italy to enter the war on their side by signing the secret Treaty of London (April 26, 1915) that promised Italy war spoils in Austria-Hungary, the Balkans, Asia Minor, and elsewhere—and the Italians wanted it all. They were outraged to find that the French and British planned on giving them little. The Japanese demanded Chinese territory and a statement affirming racial equality, and while they didn't get those things, they ended up receiving German assets in China's Shantung province, including a port, railroads, mines, and submarine cables.

The second critical limit of Wilson's power was that he couldn't control what the losers did. For a while this didn't seem to matter, since the Germans had been decisively

defeated, their weapons were taken away, and they were broke.

The vindictive surrender terms, made possible by American entry in the war and enshrined in the Treaty of Versailles, triggered a dangerous nationalist reaction. Hitler was able to recruit several thousand Nazis. Allied demands for reparations gave Germans incentives to inflate their currency and pay the Allies with worthless marks. The runaway inflation wiped out Germany's middle class, and Hitler recruited tens of thousands more Nazis by appealing to those bitter people whom he referred to as "starving billionaires"—they might have had billions of paper marks, but they couldn't afford a loaf of bread.

#### WHAT MIGHT HAVE BEEN

Suppose, for a moment, that the United States had stayed out of World War I, and instead of a negotiated settlement there was a German victory on the Western Front. How bad might that have been? The Germans showed how harsh they could be in the Treaty of Brest-Litovsk (March 3, 1918) in which, as a condition for ending the war on the Eastern Front, they gained large chunks of territory including Ukraine, Georgia, Finland, and the Baltic states. If Germany had won on the Western Front, it would have acquired some French territory and maybe Belgium.

The Germans probably wouldn't have been able to enjoy their victory for long. Britain would have retained its independence, protected by its navy that might have continued the hunger blockade against Germany. In all likelihood, Germany would have become bogged down in endemic conflicts along the frontier with Russia, complicated by nationalist rebellions in the wreckage of Germany's ally, Austria-Hungary. Such problems might have proven to be too much for the German army that was already struggling to put down mutinies. Bad as this would have been, even it was preferable to what did happen: the rise of Hitler, World War II, and the Holocaust.

American entry in World War I helped produce another terrible consequence: the

“The vindictive surrender terms, made possible by American entry in the war and enshrined in the Treaty of Versailles, triggered a dangerous nationalist reaction in Germany.”

November 1917 Bolshevik coup in Russia. The country had been deteriorating ever since Czar Nicholas II entered the war in 1914. It led to millions of Russian casualties, drained the country's finances, generated devastating inflation, caused pervasive shortages, and discredited the government and the army.

France and Britain had to know they were playing with fire when they pressured the Russians to stay in the war so that German forces would continue to be tied up on the Eastern Front. The last thing France and Britain wanted was for Russia to make a separate peace with Germany and thereby enable the Germans to transfer forces to the Western Front. Allied pressure assured that the deterioration of Russia would continue or even accelerate.

Following the spontaneous revolution and abdication of the czar in March 1917, Wilson authorized David Francis, his ambassador to Russia, to offer the Provisional Government \$325 million of credits—equivalent to perhaps \$3.9 billion today—if Russia stayed in the war. The Provisional Government was broke, and it accepted Wilson's terms: “No fight, no loans.”

Wilson was oblivious to the fact that ordinary Russians had nothing to gain from whatever happened on the Western Front, which was his sole concern. The Bolsheviks exploited deteriorating conditions brought on or aggravated by the war. They were the

only ones on the Russian political scene who advocated withdrawal. Lenin's slogan was “Peace, land, and bread.”

For a while, despite all of Russia's problems, the Bolsheviks weren't able to make much headway. In elections for the Constituent Assembly, they never received more than a quarter of the votes. Lenin failed three times to seize power during the summer of 1917. It wasn't until the fall of 1917, when the Russian army collapsed, that the Bolsheviks were able to seize power.

The diplomat and historian George F. Kennan observed, “it may be questioned whether the United States government, in company with other western Allies, did not actually hasten and facilitate the failure of the Provisional Government by insisting that Russia should continue the war effort, and by making this demand the criterion for its support. In asking the leaders of the Provisional Government simultaneously to consolidate their political power and to revive and continue participation in the war, the Allies were asking the impossible.”

What might have happened in Russia if the United States had stayed out of World War I? Russia almost certainly would have quit the war earlier, with the Russian Army still intact and capable of defending the Provisional Government from a Bolshevik coup.

#### CONCLUSION

Thanks to Wilson's misguided policies, the Bolshevik coup led to seven decades of Soviet communism. Historian R. J. Rummel estimated that almost 62 million people were killed by the Soviet government. He estimated that all 20th-century communist regimes killed between 110 million and 260 million people.

Nothing Wilson did could compensate for the colossal blunder of entering World War I. He claimed his League of Nations would help prevent future wars, but charter members of the League of Nations were most of the winners of the war and their friends—countries that hadn't been fighting

each other. They vowed to continue not fighting each other. Member nations agreed to join in defending any of them that might be attacked, which meant that the league was another alliance. An attack on one member nation would lead to a wider war. The World War I losers weren't members.

Wilson's admirers tend to blame postwar troubles on Republicans in Congress who refused to support his beloved League of Nations. Wilson's arrogance toward Congress and his refusal to compromise had a lot to do with that. He failed to recognize that he couldn't control his allies, he couldn't control

the losers, and he couldn't control Congress.

World War I should remind us that the consequences of war are extremely difficult to predict and often impossible to control. The world would have been better off if America had stayed out of that war and pursued a policy of armed neutrality. ■

# Cato University

## SUMMER SEMINAR ON POLITICAL ECONOMY

JULY 27–AUGUST 1, 2014 • RANCHO BERNARDO INN • SAN DIEGO

**C**ato University is the Cato Institute's premier educational event of the year. This annual program brings together outstanding faculty and participants from around the world to examine the roots of our commitment to liberty and limited government and explore the ideas and values on which the American republic was founded. This year's program will be held at the magnificent Rancho Bernardo Inn, which is just a few miles north of San Diego. Its world-class facilities, resort amenities, spa, and immediate access to the best of San Diego make this special learning experience a tremendous vacation.

**NO PRICE INCREASE FOR 2014**—To make the program as accessible as possible, we are keeping the cost at \$995. This includes all meals, receptions, lectures, materials, books, and evening events, but not overnight room charges. However, we have arranged for low room rates at the Rancho Bernardo Inn for participants. We hope you will be able to join us for this one-of-a-kind program.



FOR ADDITIONAL DETAILS AND REGISTRATION VISIT [WWW.CATO-UNIVERSITY.ORG](http://WWW.CATO-UNIVERSITY.ORG).

# Why Government Fails So Often

**F**rom the doctor's office to the workplace, the federal government is taking on ever more responsibility for managing our lives. At the same time, Americans have never been more disaffected with Washington, seeing it as an intrusive, incompetent, wasteful giant. At a Cato Book Forum for *Why Government Fails So Often—and How It Can Do Better*, author Peter Schuck, the Simeon E. Baldwin Professor Emeritus at Yale Law School, examined an enormous body of evidence to explain why so many domestic policies go awry. But can the state get better results by pursuing more thoughtfully conceived policies designed to compensate for its structural flaws? Schuck believes that it can. Arnold Kling, an adjunct scholar at the Cato Institute, offered his comments on why Schuck's confidence is misplaced—and why government ineffectiveness is likely to continue.

**PETER SCHUCK:** I'm delighted to be here to present a book that I fear may seem from its title like I'm bringing coals to Newcastle. This is after all the Cato Institute, so I think this message will be affirming to you. If I have a contribution to make to the scholarship here, it will be to enrich the evidence behind those conclusions for which you probably need no more fortification.

Every book, of course, is trying to sell the idea that there's a crisis, and mine is no different. I have a lot of data on the decline in public confidence in the federal government. In 2013, 41 percent of Democrats had favorable views of the federal government in 2013. That's down 10 percent in one year. According to the Brookings Institution, 56 percent of Democrats believe that the federal government is mostly or completely broken—and this was before Obamacare launched.

What's the biggest threat to America's future? According to the public, 64 percent says it's big government, while only 26 percent says it's big business. Keep in mind that this is only a few years after the Great Recession began in 2009. In fact, in 2011, 79 percent of those polled were frustrated or angry with the federal government. Before the recession, in 2007, 74 percent said the same thing.

What are the reasons for this decline in public confidence? I propose several explanations, but the one I'm going to concen-

trate on is the one that constitutes the bulk of my analysis. And it's very straightforward: the federal government performs very, very poorly.

There are a variety of theories out there as to why the government performs so poorly. One of the most common is partisan bickering that leads to congressional paralysis. The Democrats blame the Republicans—and vice versa—for any failures either side is prepared to concede. I emphatically disagree with this theory. If you examine our history of political discourse, it has been tendentious, uncivil, and furiously partisan from the very beginning. Some of the greatest achievements, including the intercontinental railroad, the Hoover Dam, and the interstate highway system, were accomplished only fitfully and after a protracted disagreement by policymakers. Polarization, I argue, is not the cause of our problems. It's the consequence.

What is clear is that the federal and state governments have grown steadily. The former is now more than five times as large as it was in 1960, in real terms, and the latter's growth during this period is even greater. Per capita spending in the United States is now greater than in France, Germany, and the United Kingdom. That growth occurs in both good times and bad. And it doesn't depend on whether

Republicans or Democrats are in control. At this stage, our debt-to-GDP ratio exceeds not only that of most European democracies, but also the average for Latin America. Furthermore, there's a remarkable correlation that I think confirms the general disaffection with government. These policy ambitions, as measured by the growth in federal expenditures, have almost perfectly paralleled the growth of public contempt for government.

This growth is also obscured somewhat because it has largely taken the form of private contractors, nonprofit grant recipients, and state and local government implementers rather than federal employees per se. This fact probably explains why so many people, including many who should know better, still believe the antiquated notion that the United States has a relatively small public sector.

One way of understanding what's happened is summarized by political scientists John DiIulio and the late James Q. Wilson:

The Old System had a small agenda....When someone proposed adding a new issue to the public agenda, a major debate often arose over whether it was legitimate for the federal government to take action at all in the matter....For the government to take bold action under this system, the nation usually had to be facing a crisis....The New System is characterized by a large policy agenda, the end of the debate over the legitimacy of government action (except in the area of First Amendment freedoms), the diffusion and decentralization of power in Congress, and the multiplication of interest groups. Under the Old System, the checks and balances made it difficult for the government

to start a new program, and so the government remained relatively small. Under the New System, these checks and balances make it hard to change what the government is already doing, and so the government remains large.

The core idea in my book, then, is that federal domestic policy failures are caused by deep, recurrent, and endemic structural conditions. It doesn't matter which party is in power. It doesn't matter what the state of the economy is. And we all have an enormous stake in understanding the reasons why.

So what are the structural reasons for failure? Before I go through the six main ones, I should note that the main index of a program's performance should not be its durability or its enthusiastic defenders, but instead its cost-effectiveness. This is the indicator I use throughout my analysis.

To begin with, the most fundamental characteristics that shape the substance of public policy include the incentives that both policymakers and private actors face. I note that officials have powerful incentives to provide voters and interest groups with short-term benefits, while hiding the long-term costs of paying for them. In short, government officials design policy to advance their own self-interests, while ordinary citizens have little incentive to participate actively in political activity.

Second, our policy system also suffers from information deficiencies, inflexibility, a credibility problem, and mismanagement. Much government failure reflects the fact that information is costly to gather, assess, deploy, and keep up-to-date. Government is therefore especially ill equipped to adapt its goals and instruments to changing technological, economic, and political conditions. Many programs can succeed only if the federal government can assure others that the rules of the game are not going to change. However, federal mismanagement—including fraud, waste, and abuse—is

a chronic problem at the very time when the ambition of national policies has swelled.

Third, markets themselves also affect policy performance. The powerful incentives, logic, hydraulics, and political influences of markets are difficult to control and tend to undermine the effectiveness



PETER SCHUCK

“Federal domestic policy failures are caused by deep, recurrent, and endemic structural conditions.”

of many public policies, including those explicitly designed to correct market failures.

Fourth, I analyze the problem of implementation—the obstacles that invariably litter the path between policy designs and outcomes. These obstacles are important; they are not readily dispensed with and they are not easily circumvented. The real world consists of complex social, political, fiscal, market, and legal conditions that even the most seasoned policymakers in Washington cannot fully anticipate. Worse, even if policymakers could foresee

them, they would have relatively little control over them.

Fifth, there are certain inherent limits in using law as an instrument of public policy. These limits include its ubiquity, the inescapable tradeoffs between simplicity and complexity, its linguistic ambiguity, the discretion necessary for it to function, its costly procedural apparatus, and its inertia. Precisely because of law's powerful allure, policymakers must attend carefully to its constraints.

Sixth, every public policy is run through a bureaucracy. In the United States, the federal bureaucracy is not merely problematic. It is distinctively so. Despite generations of blue-ribbon commissions calling for fundamental reform of our civil service, it is increasingly a backwater. The consequences of this progressively demoralized, poorly equipped, marginalized, publicly scorned, and undisciplined workforce for government performance are deeply dismaying. These employees are, after all, the shock troops, the implementers, the ultimate instruments of our public policies. If they are not up to the job, then neither is our government.

All Americans have a strong stake in understanding why government's failures are so endemic, and what might be done to improve matters. If we do not do so—and soon—our great experiment in self-government may itself come to be seen as a failure. In an era of fiscal cliffs, pallid enforcement, special-interest pandering, and growing public disgust with politicians, this warning is not hyperbole. Reform is both essential and within our reach.

**ARNOLD KLING:** Peter Schuck describes himself as a militant moderate, a phrase that involves both alliteration and oxymoron. I might describe myself as a low-key libertarian, which includes alliteration as well and is, many would argue, also an oxymoron. But neither of us would have necessarily always described ourselves this way.

With that in mind, the word that kept coming to me as I read this book was “transitional.” This book could be profitably read, I think, by anyone who is in the process of reevaluating their views. If we split 40 random, ordinary, liberal college students into two groups—giving half of them a copy of this book and the other half a placebo—I suspect that in a few years the treatment group would have more libertarians in it.

I believe, in other words, that Schuck’s work could be an effective gateway drug. If you think of this book as a roadmap and you’re looking to climb the mountain of enlightenment that eventually leads to the state of higher consciousness that we call libertarianism, *Why Government Fails So Often* will help you take some important steps along that journey. I’d like to take a moment to discuss the steps that it does take, and perhaps a few more that it could take in order to reach the summit.

Schuck’s first step along the path is that he confronts the phenomenon of government failure in an extremely forthright manner. He doesn’t mince words or sugarcoat that message, nor does he say that public ineffectiveness is the exception rather than the rule. In fact, he makes it absolutely clear that these failures “are not just random, occasional, or partisan; they are large, recurrent, and systemic.”

The next step is that he quite clearly rejects what some of us call the intention heuristic for evaluating government programs. This is the notion that policies can be judged by their intentions rather than their outcomes. Schuck is forceful in his convictions that government programs need to be assessed in terms of their cost-effectiveness.

Now let me turn to some further steps that might be taken. First, I believe that Schuck’s criteria for what passes as government success need to be tightened up. He writes, for instance, that Social Security “has been both popular and effective since its inception in 1935...Indeed, it is the single

most popular federal program.” Yet the system is not on a financially sound basis. I think you need to be careful about calling it a success just because people are receiving checks when the program itself is fundamentally insecure. By this standard, we would have said, for many years, that Bernie Madoff was a success.



“The government is particularly inferior to the market when it comes to both experimentation and evolution.”

There are several additional successes that Schuck describes, which to me look more like officials backing away from a policy that was ill conceived to begin with. One example is the Immigration Act of 1965. The reform essentially repealed racially and ethnically biased national-origins quotas, which allowed discrimination in granting permanent admission to the United States to begin with. It was a positive development, but I’m not sure it’s accurate to describe that as a government success. The same is true of the Airline Deregulation Act of 1978, which abolished the system where-

by government fixed airline prices and restricted market entry. Calling this a successful public intervention is misleading, when in fact the achievement was backing away from a policy that was short-sighted to begin with.

Second, Schuck has an impressive grasp of neoclassical economics, but I think he gives it too much weight. Neoclassical economics is obsessed with the concept of equilibrium, and in turn it pays little attention to innovation. I believe that one of the biggest lessons of economics is the value of trial-and-error learning through entrepreneurial activity. Incidentally, that is one of the important ideas that is, for all practical purposes, outside mainstream economics. The process of innovation has three steps: introducing experiments, learning from experiments, and evolving as a result of those experiments. The government is particularly inferior to the market when it comes to both experimentation and evolution.

The government does not have the ability—or the will—to attempt as many experiments as private actors do. In the marketplace, when one organization won’t explore alternatives, another one often will. Furthermore, the market has the discipline of profit-and-loss, whereas the government relies simply on self-evaluation. But no organization will be able to self-evaluate with the rigor of the profit-and-loss system. The discipline that comes from it is absolutely essential to innovating and evolving.

The third step that will take us further up the mountain has to do with what I refer to as “HETE,” which stands for Highly Educated Technocratic Elite. My sense of this book is that Schuck would like to turn up the HETE—that is, he would like to give the highly educated technocratic elite more autonomy, more authority, and more running room to pursue their notion of what constitutes good policy. I, on the other hand, would like to turn down the HETE.

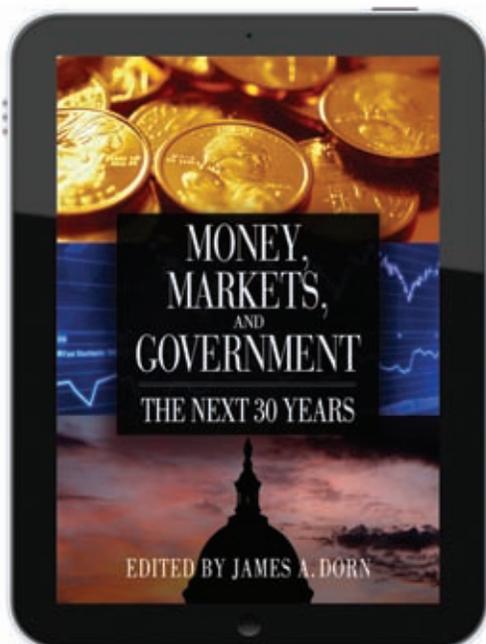
Now, I have nothing against people with impressive education credentials. But consider an analogy: the vast majority of teenage drivers have the self-restraint not to go barhopping and then pile in their car to get back home. But because a small minority are reckless, you need both social norms and legal restraints to discourage that behavior. The same goes for the HETE. Most highly educated people have the self-restraint not to dictate expansive policy schemes that outstrip anyone's knowledge of our complex social system.

But a small minority cannot contain themselves, and many of them end up in academia, the media, and high government positions. The key is to have even more cultural norms and restraints to curb their behavior. In his discussion, Schuck touched on certain impediments to government that included things like decentralization, checks and balances, and the country's cultural distrust of technical expertise. Unlike him, I would like to reinforce each of those phenomena.

In conclusion, this book really delves

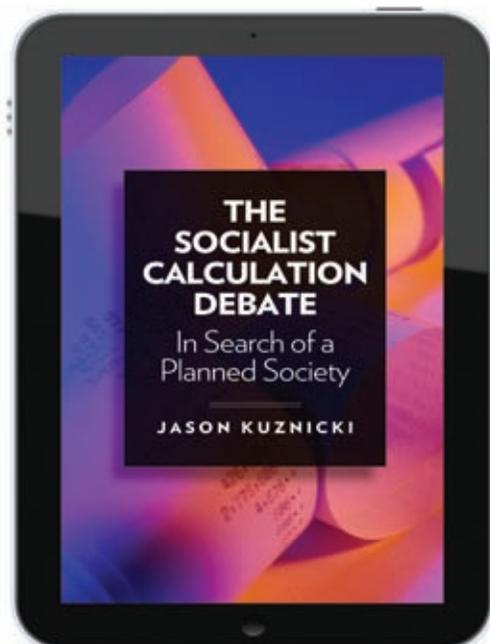
into government failure and properly rejects the intention heuristic in favor of cost-effectiveness evaluations. But it could benefit by being more rigorous in its definition of success, by emphasizing innovation economics over neoclassical economics, and by reconsidering the position of the technocratic elite. I believe that if I had Schuck's confidence in the HETE, I too would be a militant moderate. On the other hand, if he adopted my sober assessment of the HETE's deficiencies, he too would be a low-key libertarian. ■

## NEW EBOOKS FROM THE CATO INSTITUTE



**T**he 2008–2009 financial crisis and Great Recession have vastly increased the power and scope of the Federal Reserve, and radically changed the financial landscape. This ebook, an edited volume of papers presented at the Cato Institute's 30th Annual Monetary Conference, examines those changes and considers how the links between money, markets, and government may evolve in the future.

Topics covered include how the choice of monetary regimes affects economic freedom and prosperity, the policy steps needed to avoid future financial crises, the limits of monetary policy, the lessons from the Eurozone debt crisis, and China's path toward capital freedom. **\$3.99**



**T**he socialist calculation debate pitted members of the Austrian School of economics and a few others against those who proposed that a nation's economy could be centrally and mathematically planned. This was a huge undertaking, and it presented many difficulties, but it also promised great rewards. Some facets of the problem might even be solvable with today's computing technology. Yet the prospect of socialist calculation remains illusory. This newly released ebook by Jason Kuznicki, Cato research scholar and editor of Cato Unbound, explains why, with reference to real-world attempts at solving the calculation problem as well as the seminal works of F. A. Hayek and Ludwig von Mises. **\$3.99**



EBOOKS ARE AVAILABLE AT [CATOSTORE.ORG](http://CATOSTORE.ORG), [AMAZON.COM](http://AMAZON.COM), AND OTHER ONLINE EBOOK RETAILERS

Gokhale's new monograph takes taxpayers below the surface

## The Government Debt Iceberg

**N**obody who has even a passing acquaintance with economics could fail to realize that Western governments are highly indebted. On both sides of the Atlantic, budget deficits have increased continually as government expenditures on health care and public pensions spiral. As debt-to-GDP ratios increase further, investor confidence in government commitment to repay debts will erode. The problem, at its root, is that current generations have been consuming at the expense of future generations.

In *The Government Debt Iceberg*, a new research monograph published by the Institute of Economic Affairs, Cato senior fellow Jagadeesh Gokhale argues that in order to deal with fiscally overextended governments, structural changes are needed to bring these public programs into balance. “Europe and the United States will soon begin to encounter fiscal constraints the like of which we have never seen before,” he writes. But the official numbers don’t even begin to scratch the surface of the true magnitude of the problem.

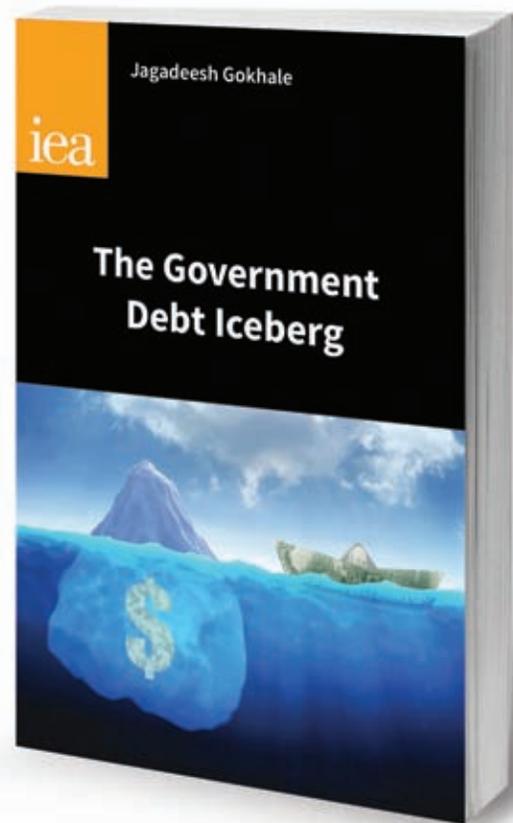
A country’s national debt is, in effect, the accumulation of all the historical budget deficits. “It is therefore almost entirely a backward-looking measure,” Gokhale notes. It doesn’t take into account the future commitments that governments have made. “No private sector firm would be able to present accounts in this way.” Using a combination of micro-data survey information and official budget projections, Gokhale reveals the extent of public indebtedness across both the United States and the European Union (EU).

If both Social Security and healthcare programs are included, the U.S. fiscal imbalance is 9 percent of the estimated present value of future U.S. GDP—meaning that an additional 9 percent of GDP in

tax revenues would have to be levied each year. Closing this fiscal gap would involve more than doubling federal payroll taxes. Therefore, if current unfunded spending commitments to future retirees are included, the U.S. fiscal imbalance is about seven times the published figure. In other words, “only about one seventh of the U.S. government debt is visible to the electorate,” Gokhale writes.

“The underlying fiscal situation in the EU is worse,” he continues. The ratio of workers to retirees in EU countries—which currently stands at between three and four—is projected to decline below two workers per retiree by the middle of this century. Combined with future social insurance commitments, this demographic situation will leave the EU with an average fiscal imbalance of 13.5 percent of the present value of GDP. This translates, on average, into a 23.2 percentage point increase in the consumption tax rate if taxes are going to fully finance spending—though this assumes that such a rise is feasible.

What else can be done to address these crises? It is unlikely that countries will be able to grow their way out of their implicit debts. Instead, countries will need to rein in their spending commitments and programs. “Rather than allow financial markets to force such a course of action with unpredictable results for ordinary citizens, it would be better to anticipate these problems and seek a more controlled resolution of national fiscal imbalances by political leaders in both the United States and the EU,” Gokhale writes. He offers a number of clear-headed prescriptions—from



adopting forward-oriented metrics of indebtedness to developing a policy environment that encourages savings and investment—that will act as “a sensible compass for navigating a less volatile course.”

Ultimately, each country has its own governance structure fiscal framework. “The one constant, however, is that, in good times and bad, governments throughout the West have adopted policies that impose huge fiscal burdens on future generations,” Philip Booth, editorial and program director at the Institute of Economic Affairs, writes in the book’s foreword. “The electorate is grazing a fiscal commons at the expense of future generations.” As Gokhale shows, the first step in addressing this crisis is understanding it clearly. ■

**PLEASE VISIT [WWW.CATO.ORG/STORE](http://WWW.CATO.ORG/STORE) TO PURCHASE OR DOWNLOAD YOUR COPY OF *THE GOVERNMENT DEBT ICEBERG*.**



**A**t a seminar in February with the new class of interns, JOHN ALLISON, president and CEO of the Cato Institute, spoke about the foundation of organizational success, emphasizing in particular the value of principled leadership. ALLISON addressed the interns in the Richard & Sue Ann Masson Policy Center, a state-of-the-art classroom that provides an ideal venue for student forums.



**T**here is considerable evidence to suggest that the Federal Reserve is more the cause of economic instability than it is the cure,” MARK CALABRIA (left), Cato’s director of financial regulation studies, testified before the House Financial Services Committee. He was joined by ABBY MCCLOSKEY (center) of the American Enterprise Institute and former Federal Reserve vice chair DONALD KOHN, now of the Brookings Institution.



**T**estifying before the House Committee on Financial Services, LOUISE BENNETTS, associate director of financial regulation studies at the Institute, discussed the dangers of financial-sector balkanization.



**L**ENORE SKENAZY, host of the TV series *World's Worst Mom*, explored the perils of helicopter parenting and its unfortunate relative, helicopter governance.

**FEBRUARY 5:** Cato Institute Policy Perspectives 2014 (Naples)

**FEBRUARY 6:** *Stumbling Giant: The Threats to China's Future*

**FEBRUARY 10:** Cato Institute Policy Perspectives 2014 (Beverly Hills)

**FEBRUARY 10:** Boom to Bust? How Export Restrictions Imperil America's Oil and Gas Bonanza

**FEBRUARY 11:** Understanding the Continuing Violence in Iraq

**FEBRUARY 11:** Cato Institute Policy Perspectives 2014 (San Francisco)

**FEBRUARY 12:** *Gold: The Monetary Polaris*

**FEBRUARY 20–23:** 26th Annual Benefactor Summit (Sarasota, FL)

**FEBRUARY 24:** *The Up Side of Down: Why Failing Well Is the Key to Success*

**FEBRUARY 25:** Obamacare: What We Know Now

# Cato Calendar

**FRANCIS FUKUYAMA'S END OF HISTORY**  
WASHINGTON • CATO INSTITUTE • JUNE 6, 2014  
Speakers include Francis Fukuyama, Michael Mandelbaum, and John Mueller.

**AFTER DODD-FRANK**  
**THE FUTURE OF FINANCIAL MARKETS**  
WASHINGTON • JULY 16–17, 2014  
Speakers include Richard Kovacevich.

**CATO UNIVERSITY**  
SAN DIEGO • RANCHO BERNARDO INN  
JULY 27–AUGUST 1, 2014  
Speakers include Tom G. Palmer, Randy Barnett, Jeffrey Miron, Gabriela Calderon de Burgos, Louise Bennetts, Rob McDonald, and Brian Doherty.

**CONSTITUTION DAY**  
WASHINGTON • CATO INSTITUTE  
SEPTEMBER 17, 2014

**CATO CLUB 200 RETREAT**  
MIDDLEBURG, VA • SALAMANDER RESORT AND SPA  
SEPTEMBER 18–21, 2014

**TRANSITION FROM COMMUNISM**  
**AFTER 25 YEARS: LESSONS FOR NON-FREE SOCIETIES**  
WASHINGTON • CATO INSTITUTE  
OCTOBER 15, 2014  
Speakers include Vaclav Klaus, Mikheil Saakashvili, and Andrei Illarionov.

**ALTERNATIVES TO CENTRAL BANKING:**  
**TOWARD FREE-MARKET MONEY**  
32ND ANNUAL MONETARY CONFERENCE  
WASHINGTON • CATO INSTITUTE •  
NOVEMBER 6, 2014  
Speakers include James Grant, Axel Leijonhufvud, Judy Shelton, George Selgin, Steve Forbes, and Patrick Byrne.

**27TH ANNUAL BENEFACTOR SUMMIT**  
NAPLES, FL • RITZ-CARLTON GOLF RESORT  
FEBRUARY 19–22, 2015

**CATO CLUB 200 RETREAT**  
SEA ISLAND, GA • THE CLOISTER  
SEPTEMBER 24–27, 2015

**FEBRUARY 27:** Chinese Intrusions into American Universities: Consequences for Freedom

**FEBRUARY 28:** The Fed's 100th Anniversary and the Case for a Centennial Monetary Commission

**MARCH 4:** Censorship Through the Tax Code: How the Proposed IRS Rules for Social Welfare Groups Stifle Political Activity

**MARCH 5:** Intellectual Property in the Trans-Pacific Partnership: National Interest or Corporate Handout?

**MARCH 6:** Quit Bubble-Wrapping Our Kids!

**MARCH 7:** TPA, TPP, TTIP, and You: When Will We Enjoy the Fruits of the U.S. Trade Agenda?

**MARCH 12:** Miami Luncheon

**MARCH 13:** Advanced Techniques for the New Twitter

**MARCH 13:** *The Burglary: The Discovery*

*of J. Edgar Hoover's Secret FBI*

**MARCH 18:** *The Ticket: The Many Faces of School Choice*

**MARCH 19:** Did the Military Intervention in Libya Succeed?

**MARCH 20:** Cato Sponsor eBriefing: Engaging the Courts: Guns, Gays, and Lying Politicians

**MARCH 21:** *DEAR READER: The Unauthorized Autobiography of Kim Jong Il*

**MARCH 25:** State-Based Visas: A Federalist Approach to Immigration Reform

**MARCH 26:** *The Kidney Sellers: A Journey of Discovery in Iran*

**MARCH 27:** *Why Government Fails So Often: And How It Can Do Better*

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The Spring 2014 issue of Regulation is available

## From Fisheries to the Basketball Court

For most of the 20th century, the world's fisheries provided a classic example of what ecologist Garrett Hardin famously called "the tragedy of the commons." As Hardin explained, each person can capture the full benefit of a resource, while the "overgrazing" costs are shared among all users. As a result, individuals lack the incentive to exercise restraint, which leads to overconsumption.

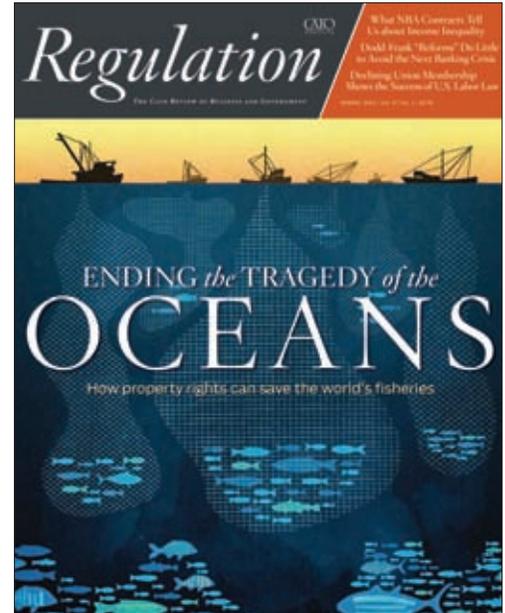
In order to combat this phenomenon, Jonathan H. Adler, a professor at the Case Western University School of Law and a senior fellow at the Property and Environment Research Center, and Nathaniel Stewart, an attorney in Washington, D.C., argue for utilizing territorial or catch-share allocation among fishery participants. They make the case that property-based management aligns fisher incentives with the underlying health of the resource and appears to reduce the adverse environmental effects of commercial fishing. "There is ample empirical evidence that such institutional reforms encourage more efficient fishery exploitation, reduce overcapitalization, and eliminate the dreaded 'race to fish'—the wasteful and dangerous effort to catch as many fish as possible in a very short season," Adler and Stewart write.

Is America's housing finance crisis finally behind us? According to Charles W. Calomiris, professor of financial institutions at Columbia Business School, and Stephen H. Haber, professor of political science at Stanford University, the main source of potential trouble—risky investments in residential mortgages, undertaken by over-leveraged government-sponsored enterprises and banks—has not been addressed. The authors review the latest round of policies, from the implementation of the Volcker Rule to the creation of the Financial Stability Oversight Council. "The sad truth is that reforms that have been implemented are

either irrelevant or have been lobbied to the point that they have been made irrelevant," they write. In short, there is little indication that the Obama administration is serious about rolling back mortgage-risk subsidies. "Until average Americans decide to punish political leaders for acquiescing to the subsidization of mortgage risk, effective reform will remain elusive, although reform likely will be promised again—right after the next banking crisis," Calomiris and Haber conclude.

Next, Ike Brannon, a senior fellow at the George W. Bush Institute, examines the forces that have increased income inequality in the United States by considering how they affected one particular market: professional basketball. The National Basketball Association's (NBA) explosion in popularity has created a few spectacularly rich people, but most of the wealth created has gone to people who hold solidly middle-class jobs. This has not only produced entertainment value for hundreds of millions of fans, but has created tens of thousands of well-paying jobs that don't involve shooting a jump shot. "That the result of this has also been the creation of a few dozen millionaires each year is a good problem to have," Brannon writes. Taxing a majority of their wealth away, he argues, would accomplish little in terms of our long-term budget situation and, if done poorly, could easily punish the nonrich, as well as threaten the league's future success. "That's a lesson that holds for the rest of the economy as well."

Since most economic controls over domestic commercial aviation ended in the late 1970s, the airline industry has changed dramatically. The underlying philosophy has been that competition, while not perfect, was generally preferable to government dictates. Kenneth Button, a professor of public policy at George Mason University,



explores whether competition can be taken further, and in particular whether market entry can be widened. "While the 1978 Airline Deregulation Act removed many of the legal barriers that limited the routes that individual carriers could serve and the fares they could set, it did nothing to open up the domestic market to international carriers," he writes.

Other contributors include Michael L. Wachter on "The Striking Success of the NLRA," Dwight R. Lee on "The Two Moralities of Outlawing Price Gouging," and Robert H. Nelson on "Bringing Religion into Economic Policy Analysis."

The Spring 2014 issue concludes with reviews of books on the powerful case for immigration, the history of public compensation, and the atrophied state of law in the United States. It wraps up with editor Peter Van Doren's survey of recent academic papers, as well as a final word from columnist Tim Rowland on the tension between freedom and environmental accountability. ■

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*Volokh's new ebook on* Sebelius v. Hobby Lobby

# Reconciling Corporate Rights and Religious Liberty

In 1970, David Green founded a picture-frame company in his Oklahoma City garage. Since then, Hobby Lobby has grown into a leader in the arts-and-crafts retail industry. Ever since Hobby Lobby's founding, the Green family has managed the company in accordance with their Christian principles. For example, Hobby Lobby is closed on Sunday, doesn't sell shot glasses, and purchases newspaper advertisements suggesting that readers seek Jesus.

Thanks to Obamacare, however, the Greens are being forced to provide employee coverage in their group health plans for certain medical services, including contraception that functions by preventing the implantation of a fertilized egg. As Protestants who believe that life begins at conception, they argue that this is a substantial burden on their right to exercise their religion.

In a new ebook called *Sebelius v. Hobby Lobby*, Eugene Volokh, professor at the UCLA School of Law and founder of *The Volokh Conspiracy* blog, offers a comprehensive primer on the resulting Supreme Court case. Should you be entitled to an exemption from the generally applicable law because of your religious beliefs? Or should the government be free to apply the law to you just as it does to others?

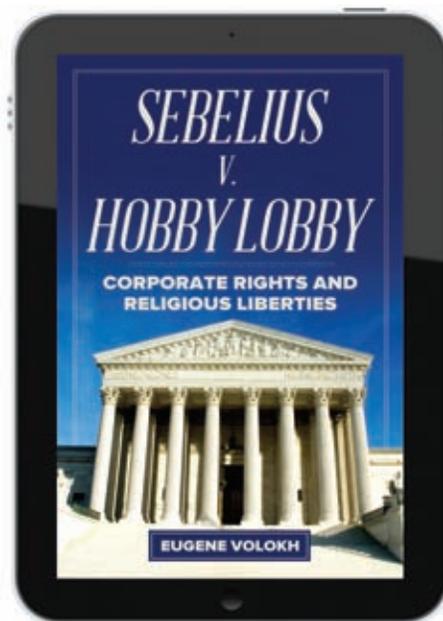
Volokh investigates the legal background leading up to the Religious Freedom of Restoration Act (RFRA), as well as the main arguments used to justify it. He notes that in situations in which accommodations will not be costly for other citizens or society as a whole, religious objectors should be exempted from those obligations, as long as any "compelling government interests" can still be served effectively. Take the requirement that people remove their headgear in court, which can be a substantial burden to, for instance, Orthodox Jews. "Granting religious objectors an exemption from the rule won't do

much to undermine the decorum of the courtroom, but it will let the objectors live normal civic lives without violating either what they see as religious law or secular law," he writes.

The premise of RFRA is that "laws 'neutral' toward religion may burden religious exercise as surely as laws intended to interfere with religious exercise." According to Volokh, those conclusions are just as applicable to laws that tell people what they may or may not do in their commercial activity as such laws that fall outside of commerce.

Many have argued that RFRA shouldn't apply in *Hobby Lobby* because the employer mandate doesn't require employers to actually use, administer, or even handle the contraceptives that they find immoral. Is that a true burden on belief? In this case, the owners of the company argue that providing health insurance that covers what they see as tools for homicide is complicity with sin. Not surprisingly, some people believe that, when a certain behavior is wrong, many sorts of complicity with that behavior are wrong, too. In fact, this principle is enshrined in the American legal system itself. "If you help someone with the purpose of helping him commit his crime," Volokh writes, "you're guilty of the crime itself as an accomplice."

Of course, lots of people have religious beliefs that are substantially burdened by the law, but for most of them the government interest trumps the claim of religious freedom—think, for instance, about cases involving taxes, antidiscrimination, or drugs. "This, I think, is the most unpredictable part of the *Hobby Lobby* case," Volokh writes. Nevertheless, he mines the religious-exemption precedents thoroughly, and concludes that this aspect of the RFRA is essentially a Congressional mandate for courts to



use their own moral and empirical judgments of important interests and the practical problems with exemptions.

In short, the *Hobby Lobby* case revolves around the fact that people are being forced to do what their religious beliefs prohibit. While the focus of the case is the intersection of corporate rights and religious liberties, there is an even bigger issue at stake. "This is just the latest example of the difficulties in turning health care—or increasing parts of our economy more broadly—over to the government," Shapiro writes. As Roger Pilon, director of the Cato Institute's Center for Constitutional Studies, has written, when something is socialized or treated as a public utility, we're forced to fight for every "carve-out" of liberty. The more government controls—whether it's health care, education, or even marriage—the greater the battles over conflicting values will be. ■

**SEBELIUS V. HOBBY LOBBY IS AVAILABLE AT [WWW.CATO.ORG/STORE](http://WWW.CATO.ORG/STORE), AMAZON, APPLE ITUNES, AND OTHER ONLINE EBOOK VENDORS; \$3.99**

# Meddling with Mortgage Finance

**T**he passage of the Housing and Economic Recovery Act in July of 2008 expanded the federal government's authority to place Fannie Mae and Freddie Mac into conservatorship. As exercised, the government secured the right to stock warrants worth 79.9% of the company, as well as a 10 percent dividend on its gross investment. The existing shareholders kept the other 20.1%. However, as Ike Brannon of the George W. Bush Institute and Mark A. Calabria of the Cato Institute argue in "The Paths to Mortgage Finance Reform and Their Budgetary Implications" (Working Paper no. 18), the terms of the conservatorship were repeatedly amended. As the two government-sponsored enterprises (GSEs) returned to profitability, the government laid claim to the entire net worth of them. "This move effectively froze out the non-

government shareholders from any residual profits," they write. It also allowed the federal government to report sharply lower deficits than would have otherwise been the case. The current reform plan that has garnered bipartisan support would wind down Fannie and Freddie and replace them with new entities, while explicitly guaranteeing their \$5.2 trillion of debt. "Explicitly guaranteeing the debt incurred by Fannie Mae and Freddie Mac represents an unprecedented step for the government, and something the Treasury previously went to some lengths to avoid," Brannon and Calabria write. Neither the public assumption of all GSE debt nor the effective confiscation of the private shareholders' GSE stock would send an affirming signal to private investment. "Reform of the U.S. housing market is past due: if we hope to rebuild our mortgage finance system on a foundation of private

capital, then property and contractual rights must be respected," they conclude.

## EDUCATION'S COLLAPSE

Academic performance and preparation for college success are widely shared goals, and so it is useful for the public and policymakers to know how they have varied over time. Yet such data have been scarce at the state level, where the most important education policy decisions are made. Using a time-series regression approach, Andrew J. Coulson, director of Cato's Center for Educational Freedom, adjusts state SAT score averages for factors such as participation rate and student demographics, then validates the results against



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**William A. Niskanen (1933–2011)**..... Chairman Emeritus

recent state-level National Assessment of Educational Progress (NAEP) test scores—producing continuous, state-representative estimated SAT score trends reaching back to 1972. In “**State Education Trends**” (Policy Analysis no. 746), he then charts these trends against both inflation-adjusted per pupil spending and the raw, unadjusted SAT results, providing an unprecedented perspective on American education inputs and outcomes over the past 40 years. In general, the findings are not encouraging. Adjusted state SAT scores have declined by an average of 3 percent. “This echoes the picture of stagnating achievement among American 17-year-olds,” Coulson writes. That disappointing record comes despite a more than doubling in inflation-adjusted per pupil public school spending over the same period. “Consistent with those patterns,” he continues, “there has been essentially no correlation between what states have spent on education and their measured academic outcomes.” In other words, America’s educational productivity appears to have collapsed, at least as measured by the NAEP

and the SAT. “Two generations seems a long time for a field to stand outside of history,” Coulson concludes. “Perhaps it’s time to ask if there are inherent features in our approach to schooling that prevent it from enjoying the progress typical in other fields.”

### TOP-DOWN TRANSPORTATION

The Metro rail transit system now under construction in Panama City, and planned extensions to that system, are poor investments. According to Randal O’Toole’s “**Review of the Panama City Metro Project**” (Working Paper no. 17), the U.S. \$1.88 billion construction cost of the first 13.7-kilometer line of the system could cost as much as \$15 per rider, depending on ridership. But O’Toole, senior fellow at the Cato Institute, calculates that the costs of operating the line are likely to be greater than fare revenues, and maintenance costs for the system will grow until, after

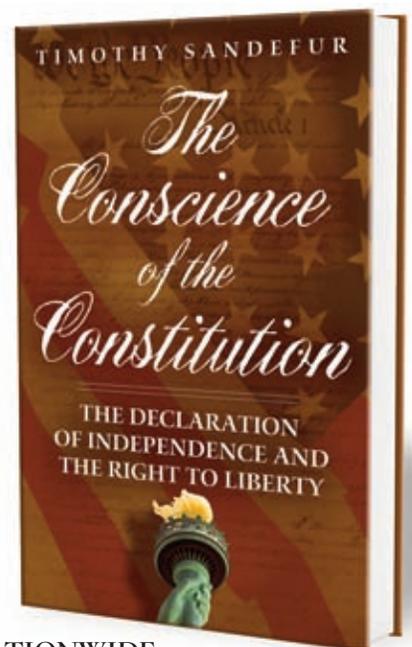


about 30 years, much of the infrastructure will need to be replaced at a probable cost of more than \$1 billion. “The government says Panama City needs a rail system because buses do not have the capacity to move the large numbers of people who enter and leave the center city each day,” he writes. But the government has designed, and is building, a low-capacity rail system that will not be able to move more than about 6,400 people per hour. By comparison, transit buses can move more than 10,000 people per hour on city streets and double-decker buses can move at least 17,000 people per hour. “The one thing rail transit does is create winners and losers,” O’Toole continues. The winners include the companies that design and build the expensive rail lines, owners of property near rail stations, and the few people who will find it convenient to take a train from where most people don’t live to where most people don’t want to go. The losers include the taxpayers who have to support the train, owners of property away from the rail stations, and anyone who wants to travel to the many places the trains don’t go. ■

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—GEORGE WILL, writing in the *Washington Post*



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# “To Be Governed...”

## THEY’VE KNOWN THIS FOR 20 YEARS

After keeping them under lock and key for 13 years, the National Archives and the Clinton Presidential Library on Friday released about 4,000 to 5,000 pages of documents from former President Bill Clinton’s administration. . . .

In a Jan. 22, 1994 memo, White House staffers worried about whether they could “get away with” promising voters that under the proposed reforms, people would be able to pick the health care plan and doctor of their choice.

“This sounds great and I know that it’s just what people want to hear,” the memo said. “But can we get away with it? Isn’t the whole thrust of our health plan to steer people toward cheaper, HMO-style providers? It’s one thing to say we’ll preserve your option to pick the doctor of your choice (recognizing that this will cost more), it’s quite another to appear to promise the nation that everyone will get to pick the doctor of his or her choice. . . . I am very worried about getting skewed or over-promising here on something we know full well we won’t deliver.”

—CBSNEWS.COM, 02/28/2014

## JUST CALL US THE “NOT SMART ENOUGH” FOLKS

At a recent work session on the issue, [Maryland State Sen. Delores G.] Kelley rejected the contention from Lyft and Uber that it’s a matter of consumer choice about whether to use the application to book a ride and they won’t do it if the price is too high.

“We regulate all sorts of things because the general public is not smart enough to know when they’re about to be fleeced,” Kelley said.

—BALTIMORE SUN, 03/15/2014

## FRANK UNDERWOOD PLAYS HARDBALL

“House of Cards” star Kevin Spacey is booked to appear in Annapolis on Friday night as the fate of a tax credit that has benefited the production of his Netflix series hangs in the balance.

Gerard E. Evans, an Annapolis-based lobbyist for the show, has invited the entire Maryland General Assembly to a local wine bar to meet the two-time Academy Award winner who plays the scheming Vice President Frank Underwood in the series. . . .

A few weeks before the second season of “House of Cards” debuted online, the show’s production company sent letters to Busch and Gov. Martin O’Malley (D) making clear they could film elsewhere if [they didn’t get a larger tax credit].

—WASHINGTON POST, 03/19/2014

## BUDGETS ARE MOSTLY FICTION ANYWAY

In William Forstchen’s new science fiction novel, “Pillar to the Sky,” there are no evil cyborgs, alien invasions or time travel calamities. The threat to humanity is far more pedestrian: tightfisted bureaucrats who have slashed NASA’s budget.

The novel is the first in a new series of “NASA-Inspired Works of Fiction,” which grew out of a collaboration between the National Aeronautics and Space Administration and science fiction publisher Tor. The partnership pairs up novelists with NASA scientists and engineers, who help writers develop scientifically plausible story lines and spot-check manuscripts for technical errors.

The plot of Mr. Forstchen’s novel hinges on a multibillion-dollar effort to build a 23,000-mile-high space elevator—a

quest threatened by budget cuts and stingy congressmen. . . .

—WALL STREET JOURNAL, 02/10/2014

## THE LINES SHOULD CARRY THE SAME SLOGAN

On aisle seven, among the diapers and fabric softener, the socialist dreams of the late Venezuelan president Hugo Chávez looked as ragged as the toilet paper display. Employees at the Excelsior Gama supermarket had set out a load of extra-soft six-roll packs so large that it nearly blocked the aisle. To stock the shelves with it would have been pointless. Soon word spread that the long-awaited rolls had arrived, and despite a government-imposed limit of one package per person, the checkout lines stretched all the way to the decimated dairy case in the back of the store. . . .

“There’s nothing to buy where we live,” said Maria Valencia, a preschool teacher from the oil-producing hub of Maracaibo, near Venezuela’s western border, while shopping at a government-run Bicentenario supermarket where products sold by recently nationalized companies carried little heart symbols and the phrase “Made in Socialism.”

—WASHINGTON POST, 02/01/2014

## LET’S TURN OUR HEALTH CARE OVER TO THEM

For the first time in decades, the federal government this year will pay Native American Indian tribes what they’re owed under the terms of health and social service contracts that have previously been underfunded by millions of dollars annually, according to lawmakers and congressional staff members.

—WASHINGTON POST, 02/13/2014