round the globe, from Santiago to Stockholm, the cleverer politicians and bureaucrats are scouring the world for ideas. The reason is simple: the main political challenge of the next decade will be fixing government.

In *The Federalist Papers* Alexander Hamilton urged his fellow Americans to decide “whether societies of men are really capable or not of establishing good government from reflection and choice, or whether they are forever destined to depend on their political constitutions on accident and force.” His words are just as true today.

Countries that can establish “good government” will stand a fair chance of providing their citizens with a decent standard of life. Countries that cannot will be condemned to decline and dysfunction, in much the same way the Chinese once were. For the state is about to change. A revolution is in the air, driven partly by the necessity of diminishing resources, partly by the logic of renewed competition among nation-states, and partly by the opportunity to do things better. This Fourth Revolution in government will change the world.

Why call it a *fourth* revolution? Not least as a reminder that the state can change dramatically. Most of us in the West only know one model—the ever-expanding democratic state that has dominated our lives since the Second World War. However, history before then tells a different story. Indeed, Europe and America surged ahead precisely because they kept changing: government was engaged

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On May 21, LESZEK BALCEROWICZ, the architect of Poland’s post-communist economic success, was awarded the Cato Institute’s 2014 Milton Friedman Prize for Advancing Liberty. “The most important economic reforms are at the same time political reforms,” Balcrowicz said of his transformation of Poland, “because they reduce the scope of bureaucratic interventions.” **PAGE 3**
Mainstreaming Libertarianism

The defeat of House Majority Leader Eric Cantor by economist David Brat in a Virginia congressional primary generated lots of headlines about grass-roots insurgency in the Republican Party.

Former Minnesota governor Tim Pawlenty, a mild-mannered moderate, told journalists that “the new energy in the Republican Party is the libertarian strain in the party. It has matched and in my view exceeded the power and momentum and volume of the tea party.” Fire-breathing South Carolina conservative Katon Dawson complained: “There is a loud libertarian faction. Libertarianism has moved into the Republican Party and is trying to hijack it.” A strange complaint from a guy who was part of the Southern conservative influx into the Republican Party in the 1960s.

The rise of libertarianism in the political world is something I’d noticed before this recent election. Throughout 2012 and 2013 newspapers had run headlines such as “Rand Paul and the rise of the libertarian Republican,” “Libertarians’ rise has the GOP boiling,” “Libertarians, tech titans poke old-school GOPers,” “Americans are tilting more libertarian on foreign policy,” “Libertarian Populism and Its Critics,” “The tide is rising for America’s libertarians,” and my favorite—on page 2 of the Washington Post—“Libertarianism is hot.”

As one indication of the increasing attention paid to libertarians in the media, in 2013 the Washington Post had 27 headlines with the words “libertarian” or “libertarianism.” In 2003 there were two.

Not all the action is in the Republican Party. Under the headline “Southern-Fried Freedom Lovers Propel Libertarian Candidates,” the Daily Beast reported in June on Libertarian Party candidates in Florida, Georgia, and North Carolina bumping 10 percent in early polls. No doubt they were inspired by Robert Sarvis’s 6.6 percent in the 2013 Virginia gubernatorial race.

Sometimes I wonder what politicians and pundits mean when they talk about libertarians in the Republican grass roots. I doubt there are millions of consistent advocates of individual liberty, limited government, free markets, and peace. I fear they just mean “conservatives who talk about principles,” or maybe even “angry conservatives.”

But I hope I’m wrong about that. David Kirby, who spearheaded the “libertarian vote” studies that Cato has published over the past decade, found the number of libertarians in the Republican electorate rising from 15 percent in 2002 to 34 percent, based on two questions in the annual Gallup Poll Governance Survey about “government trying to do too many things” and whether “government should promote traditional values.” A Freedomworks survey found that 78 percent of Republicans and GOP-leaning independents self-identify as fiscally conservative and socially moderate.

I wrote a whole book on the definition of libertarianism. But for political purposes I’d say that what makes a voter, activist, or candidate a libertarian would be a commitment to economic freedom, personal freedom, civil liberties, and nonintervention. Given the exigencies of politics, I might settle for three out of four. Republican candidates and elected officials may even be perceived as “libertarian-ish” if they’re strongly committed to free markets and not much interested in conservative social issues.

As I’ve written at Cato’s blog, Cato at Liberty, genuine swing voters tend to hold libertarian views. A Washington Post-ABC News poll in 2012 found that 64 percent supported “smaller government with fewer services,” and 63 percent favored gay marriage (compared with 53 percent of the total electorate then). That’s the sort of understanding that led to another of those recent headlines: “Libertarian swing vote in play.”

Libertarian ideas are spreading, both among intellectuals and more broadly among voters. Voters with libertarian views are becoming more aware of their impact. Politicians and journalists are starting to notice the libertarian vote. Libertarian views are coming under more attack, from conservative politicians, liberal magazines, and more. This is all part of what we might call the mainstreaming of libertarianism.

Rep. Ron Paul and Sen. Rand Paul have helped make libertarianism a more visible part of our politics, but we shouldn’t forget the important role played by George W. Bush, the Federal Reserve, Barack Obama, the IRS, the NSA, and the VA.

We’ll also take some credit here at Cato. One close observer of the Cato Institute and the national debate said to me recently, “Cato’s job is to describe and defend libertarianism with credible scholarship so that policymakers, journalists, and intelligent lay people recognize libertarianism as a respectable intellectual position worthy of attention. Cato has been remarkably successful at carrying out its core function.”

Of course, we hope that the impact of libertarian ideas is still on the rise, and we’ll continue to work to make that the case.
As an economic crisis manager, Leszek Balcerowicz has few peers,” the Wall Street Journal declared in a weekend interview with the Polish economist in December 2012. “When communism fell in Europe, he pioneered ‘shock therapy’ to slay hyperinflation and build a free market. In the late 1990s, he jammed a debt ceiling into his country’s constitution, handcuffing future free spenders. When he was central-bank governor from 2001 to 2007, his hard-money policies avoided a credit boom and likely bust.”

On May 21, in recognition of his unwavering leadership as the architect of Poland’s economic transformation, Leszek Balcerowicz was awarded the 2014 Milton Friedman Prize for Advancing Liberty. The 67-year-old economist accepted the honor in front of a sold-out crowd, joining more than 700 supporters and friends of the Institute at the historic Waldorf-Astoria in New York City.
In his keynote address that night, former world chess champion Garry Kasparov—who is currently chairman of the Human Rights Foundation and a global advocate of individual liberty—discussed the importance of American values, speaking from the vantage point of his experience growing up in the Soviet Union. “As someone who looked at America through the Iron Curtain, I have strong feelings about the relationship between the importance of freedom at home and caring about freedom globally,” he said. Fortunately, Kasparov was by no means alone in this respect.

Like many countries around the world, Poland has been a battleground for competing ideologies. In the 1980s, Polish reformers fought for individual and economic freedom, shaking communism to its core. By 1989, the country’s Soviet-backed regime agreed to free elections, ushering in Eastern Europe’s first noncommunist government since World War II. A few months later, the Berlin Wall fell. Poland was free, but on the verge of economic collapse.
It was during this time that Balcerowicz stood at the frontier of economic change in Poland. From 1989 to 1991, he served as deputy prime minister and finance minister under President Tadeusz Mazowiecki. As chief architect of what became known as the Balcerowicz Plan, he fundamentally transformed the Polish economy in the 1990s—implementing a series of reforms that included freeing prices, capping government wages, liberalizing trade, and making the Polish currency convertible.

This approach has been labeled radical, but in Balcerowicz’s assessment he was conducting a critical rescue operation. “A very risky option is always better than a hopeless one,” he recounted at the award dinner. The results seem to speak for themselves. Within three days, the market responded: prices stopped rising, goods appeared in markets, and people began buying and selling. One year into the transition, Poland recorded a budget surplus, and shortages and hyperinflation ended. Between 1989 and 2007 its economy
The biennial dinner was held in the spectacular Grand Ballroom at the Waldorf Astoria in New York City. Middle Left: Vernon L. Smith, a Nobel laureate and senior fellow at the Cato Institute. Above Right: John Allison, president of the Cato Institute; Mark Calabria, director of financial regulation studies at the Institute; former senator Phil Gramm; and Geoff Gray, a former staffer for Senator Gramm. Below Right: Leszek Balcerowicz, former deputy prime minister and finance minister of Poland, accepts the 2014 Milton Friedman Prize from Phil Gramm. Facing Left: Balcerowicz recounted his role as chief architect of Poland’s radical stabilization plan. Above Right: Andrei Illarionov, former chief economic adviser to Russian President Vladimir Putin and a senior fellow at the Cato Institute, introduced the evening’s keynote speaker. Middle Right: The 2014 Milton Friedman Prize for Advancing Liberty. Below Right: Robert A. Levy, chairman of the Cato Institute, with Marie and Sean Newhouse.
doubled in size. Poland was the only country in the European Union to avoid recession in 2009 and has been the fastest-growing EU economy since.

It’s difficult to overstate what Balcerowicz helped achieve in a mere generation, and the lessons he taught are still applicable to this day. “First, be ready to move fast when a window of opportunity appears,” he said in his acceptance speech. “Second, work hard on public opinion to stop the spiral of state intervention.”

“In those respects, I believe, the role of Cato and other free-market think tanks is enormous,” Balcerowicz said, capping off a celebration that highlighted his achievements as well as the legacy of Nobel laureate Milton Friedman. The Friedman Prize, named in honor of the great 20th century champion of liberty, is presented biennially to an individual who has made a significant contribution to advancing human freedom. Established in 2002, the award is given out following a long process of deliberation by a distinguished panel of international judges. The honoree receives a $250,000 cash prize, which is made possible by generous earmarked donations.
The Western state has been through three and a half great revolutions in modern times.

TO THOSE WHO HAVE, MORE SHALL BE GIVEN

The twists and turns of each revolution have been significant. What is clear, however, is that for the past 500 years Europe and America have been the font of new ideas about government. Freedom and democracy have been central to that. The rise of the Western state was not just a matter of setting up a competent civil service. Even Hobbes’s monster was a dangerously liberal one for a royalist to propose, because Leviathan relied on the notion of a social contract between the ruler and the ruled. The Victorian liberals saw a well-run state as a prerequisite for individual emancipation. Their Fabian successors saw a welfare state as a prerequisite for individual fulfillment. As it has expanded, the Western state has tended to give people more rights—the right to vote, the right to education and health care and welfare.

Yet the Western state is now associated with another trait: bloat. The statistics tell part of the story. In America, government spending increased from 7.5 percent of GDP in 1913 to 19.7 percent in 1937, to 27 percent in 1960, to 34 percent in 2000, and to 41 percent in 2011. But these figures do not fully capture the way that government has become part of the fabric of our lives.

America’s Leviathan claims the right to tell you how long you need to study to become a hairdresser in Florida (two years) and the right to monitor your emails. It also obliges American hospitals to follow 140,000 codes for ailments they treat, including one for injuries from hitting a turtle. Government used to be an occasional partner in life, the contractor on the other side of Hobbes’s deal, the night watchman looking over us in Mill’s. Today it is an omnipresent nanny. Back in 1914, “a sensible, law-abiding Englishman could pass through life and hardly notice the existence of the state, beyond the post office and the policeman,” the historian A. J. P. Taylor once observed. “He could live where he liked and as he liked. … Broadly speaking, the state acted only to
help those who could not help themselves. It left the adult citizen alone.” Today the sensible, law-abiding citizen cannot pass through an hour, let alone a lifetime, without noticing the existence of the state.

There have been periodic attempts to stop the supersizing of the state. In 1944, in The Road to Serfdom, Friedrich Hayek warned that the state was in danger of crushing the society that gave it life. This provided an important theme for conservative politicians from then onward. In 1975 California’s current governor, Jerry Brown, in an earlier incarnation, declared an “era of limits.” This worry about “limits” profoundly reshaped thinking about the state for the next decade and a half. In the 1990s people on both the Left and the Right assumed that globalization would trim the state: Bill Clinton professed the age of limits. Government quickly resumed its growth. George W. Bush increased the size of the U.S. government by more than any president since Lyndon Johnson, while globalization only increased people’s desire for a safety net. Even allowing for its recent setbacks, the modern Western state is mightier than any state in history. W e dub this the Winds of Change.

Margaret Thatcher and Ronald Reagan, inspired by classical liberal thinkers like Milton Friedman, temporarily halted the expansion of the state. We dub this a half revolution.

THE WINDS OF CHANGE

Bringing Leviathan under control will be at the heart of global politics because of a confluence of three forces: failure, competition, and opportunity. The West has to change because it is going broke. The emerging world needs to retool to keep forging ahead. There is a global contest, but one based on promise as much as fear: government can be done better. Debt and demography mean that government in the rich world has to change. Even before Lehman Brothers collapsed, Western governments were spending more than they raised. The U.S. government has run a surplus only five times since 1960. For the foreseeable future the state will be in the business of taking things away—far more things than most people realize. In some places, where governments have managed their finances spectacularly badly, such as Greece and some American cities, that taking away has already been dramatic: In San Bernardino the city attorney advised people “to lock their doors and load their guns” because the city could no longer afford police.

This battle will go straight to the heart of democracy. Western politicians love to boast about the virtues of democracy and urge errant countries, from Egypt to Pakistan, to embrace it. They argue that “one person, one vote” holds the cure to everything from poverty to terrorism. But the practice of democracy is diverging ever more from the ideal. The edifying truth is that Western democracy got rather flabby and shabby when it was mostly giving things away. Interest groups (including many people who work for the state) have proved remarkably successful at hijacking government.

If failure is the first prompt for change, competition is the second. For all its frustrations with government, the emerging world is beginning to produce some striking new ideas, eroding the West’s competitive advantage in the process. If you are looking for the future of health care, then India’s attempt to apply mass-production techniques to hospitals is part of the answer, just as Brazil’s system of...
conditional cash transfers is part of the future of welfare.

So far the emerging world has not seized the opportunity to leapfrog ahead that technology has presented it with. Brazil is heading toward a pension crisis that could dwarf even those in Greece and Detroit. India may have a few of the most innovative hospitals in the world, but it has some of the lousiest roads and laziest politicians. But do not be fooled into thinking that the emerging world is miles behind. The days when the West had a monopoly on clever government are long gone.

This points to the third force: the opportunity to “do government” better. As with previous revolutions, the threat is plain: bankruptcy, extremism, drift. But so is the opportunity: the chance to modernize an institution that we have overloaded with responsibilities. How should the state be changed? The pragmatic answer, which people of all persuasions should seize upon, relies on improving management and harnessing technology, particularly information technology. Fifty years ago, companies suffered from the same bloat that government does now. Business has changed shape dramatically since then, slimming, focusing, and de-layering.

There is more to the future of government than just better management, however. At some point a bigger decision has to be made. What is the state for? That question is at the heart of an old debate—a debate that disappeared during the “all-you-can-eat” phase of modern democracy. Now these questions are discussed only in piecemeal form. Modern politicians are like architects arguing about the condition of individual rooms in a crumbling house, rushing to fix a window here or slap on a new coat of paint there. We need to look at the design of the whole structure—and also to think hard about the proper role of the state in a fast-changing society, just as the Victorians did at the dawn of the modern democratic age.

CONCLUSION

The Fourth Revolution is about many things. It is about harnessing the power of technology to provide better services. It is about finding clever ideas from every corner of the world. It is about getting rid of outdated labor practices. But at its heart it is about reviving the power of two great liberal ideas.

It is about reviving the spirit of liberty by putting more emphasis on individual rights and less on social rights. And it is about reviving the spirit of democracy by lightening the burden of the state. If the state promises too much, it creates distemper and dependency among its citizens; it is only by reducing what it promises that democracy will be able to express its best instincts, of flexibility, innovation, and problem solving. This is a fight that matters enormously. Democracy is the best safeguard for basic rights and basic liberties. It is also the best guarantee of innovation and problem solving. But fighting against its worst instincts will be tough.

The three revolutions we chronicle in our book have all been enormously hard fought. The revolutionaries had to question long-cherished assumptions and dream up a very different world, often in the face of stern opposition from people at the very heart of the state. Yet each one of these revolutions brought huge rewards. Early modern Europe became the most dynamic continent in the world. Victorian England created a liberal state that provided better services at lower cost than Old Corruption, oversaw the transition to mass democracy with little disruption, and ruled a vast empire very cheaply. The welfare state provided millions of people with tangible securities in a world that could be horrifically harsh. The Fourth Revolution will be no easier.

But reformers should push ahead, for the rewards will be dramatic: any state that harnesses the most powerful innovative forces in society will pull ahead of its peers. Ultimately, these states have history on their side: this revolution is about liberty and the rights of the individual. That is the tradition that propelled first Europe and then America forward. The West has been the world’s most creative region because it has repeatedly reinvented the state. We have every confidence that it can do so again, even in these difficult times.

The Fourth Revolution is about reviving the power of two great liberal ideas.
No Place to Hide

In May 2013 journalist Glenn Greenwald set out for Hong Kong to meet an anonymous source who claimed to have evidence of pervasive government spying. The source, who insisted on communicating only through heavily encrypted channels, turned out to be 29-year-old National Security Agency (NSA) contractor Edward Snowden, and his revelations about the agency’s systemic overreach proved to be some of the most explosive and consequential news in recent history. In an exclusive interview with Cato, the Institute’s director of multimedia Caleb Brown sat down with Greenwald to discuss his new book, No Place to Hide — revealing his thoughts on everything from the response from the “establishment media” to the broader implications of the current surveillance debate.

CALEB BROWN: In June 2008, Gen. Keith Alexander, then-head of the NSA, asked in reference to intercepting communications, “Why can’t we collect all the signals all the time?” Is that the direction the NSA is moving in?

GLENN GREENWALD: It’s important to understand that Gen. Alexander’s comment was not just an off-handed quip, as it has sometimes been characterized. One of the things I try to convey in my book is just how pervasive this motto—“all the signals all the time”—is in terms of what the NSA sees as its mission. Their goal is not just a target-ed operation designed to monitor the communications of particular people. They want to turn the Internet into a limitless system of surveillance. And it’s not just an institutional aspiration. It’s something that they are extremely close to fulfilling.

The NSA is already collecting so much data that their primary problem at this point is finding a way to store it all. Keep in mind that enormous sums of data can be stored on thumb drives now. The amount of data that the NSA collects is gargantuan—billions of emails, telephone calls, and other online activities everyday—that they’re building a sprawling new facility in Utah just to be able to store it all.

In fact, the idea of collecting everything was something pioneered by Gen. Alexander when he was deployed in Baghdad during the Iraq war. What we really have now is a communications strategy that was developed for an enemy population in a time of war that has now been imported onto American soil and aimed at our own population. I think that’s an expression of just how radical it is.

The NSA is an appendage of the overall machine.

Is there any evidence that the national security apparatus has been used at lower levels of government?

Yes. One of the more revealing episodes took place when I started reporting for GloboNews in Brazil. Thomas Shannon, the U.S. ambassador to Brazil at the time, was the point person for tamping down the outrage, and he assured the public that these operations were only used in a targeted way to detect terrorist plots and protect Americans. Then, in a 2009 letter, it was revealed that Shannon had thanked the NSA for the outstanding surveillance they performed on a regional financial summit organized by Brazilian president Luiz Inacio Lula da Silva—activities that, as Shannon himself acknowledged, gave the United States insight into the negotiating strategies of each of the countries present at the conference.

In short, the same person who defended U.S. surveillance three years earlier was now effusively praising the NSA for its economic espionage. That’s the culture that has developed: if the U.S. government is interested in certain information, it can, should, and will infiltrate. This speaks to a broader point about how those in control come to justify their own exercise of power. At some point, the practice of encroachment becomes normalized. They convince themselves that it’s being put toward positive ends, and ultimately there’s no accountability or punishment for this sort of mission creep.

Is the NSA simply another bureaucracy trying to maximize its budget?

The NSA shouldn’t be thought of in isolation. It is not some uniquely malevolent agency within a benevolent executive branch. It’s an appendage of the overall machine. In the wake of 9/11, the executive branch went completely insane and, along with Congress, began ignoring the balance between basic privacy rights and those measures ostensibly taken in the name of security. There was an institutional inertia that allowed this machinery to keep growing.

I should add that you can’t underestimate how much the profit motive has driven all of this. Roughly 70 percent of the NSA’s $75 billion budget goes into the coffers of private companies like General Dynamics or Booz Allen Hamilton. The revolving door between these corporations and the Pentagon too often becomes its own driving force. In essence, crony capitalism encourages profiteering off of these ever-expanding government programs.

Can the private companies that complied with these surveillance activities win back their customers’ trust?

Well, those companies are suffering now. They weren’t before, because this was all
done in secret. There are great benefits to cooperating with the NSA and establishing relationships with the U.S. government. It’s incredibly lucrative for these companies. Nevertheless, to sustain profitability, companies like Facebook, Google, and Yahoo have to be global in nature. And, unfortunately for them, you already see German and Brazilian and Japanese companies advertising that customers should entrust their personal data with them instead because they won’t turn it over to the NSA. The perception is that American technology is now unsafe and that is truly threatening to some of our companies.

Yet, it’s also important to keep in mind that American tech companies exert enormous influence in Washington. Silicon Valley is probably the most important financial backer of the Democratic party, and certainly was of the Obama campaign. It’s a very powerful sector. So if they’re serious about imposing constraints on the surveillance state—even if it’s simply out of self-interest—that’s probably one of the most promising avenues for reform.

Public outrage can be a critical force in a responsible democracy. But when you live in what is essentially an oligarchy, business tycoons exert much greater influence. What happens is both political parties compete for power and almost never diverge in any meaningful way over issues like this. There are certain politicians on both sides of the aisle riding the current crest of anger. But by and large the U.S. government is constructed to prevent fundamental reform. It’s designed to placate public outrage with symbolic gestures. Fortunately, the tech sector may actually be able to make a difference.

Are there any lawmakers that understand the importance of getting these surveillance reforms right?

Sure, there are several senators who are reasonably good on the issue, including Ron Wyden, Mark Udall, Rand Paul, and a few others from both parties. There are also House members—such as Justin Amash and John Conyers, who introduced a bill to end the NSA’s blanket collection of Americans’ telephone records—who are excellent.

One of the things that gives me the most hope is that this is one of the few controversial issues that does not break down along partisan or ideological lines. In fact, I would say it’s almost 50/50. If you look at who is least supportive of Snowden and the reporting we’ve done, the most vociferous critics are probably Democrats because there’s a Democrat in the White House. Although, I should add that when I was doing the same work during the Bush years, they were my greatest supporters. To the extent that there is a predictable metric of reaction, it’s probably age group more than anything else. Younger people tend to be extremely supportive of the disclosures, whereas older people are more wary of them. But, in general, the fact that there’s this coalition of disparate forces is really encouraging.

The NSA has procedures in place to “minimize” the data it collects on U.S. citizens. But to what extent does the NSA provide unminimized data to foreign governments?

One story we published that got less attention than expected involved a memorandum of understanding between the NSA and its Israeli counterpart. Basically, the United States provides Israel with large amounts of raw communications from American citizens—data that is unminimized, meaning that it hasn’t been sifted through in order to remove personal information. The memorandum was designed with safeguards laying out what the Israelis can and can’t do with this data. But the United States also shares this data with the inner core of surveillance-sharing countries—Britain, Australia, Canada, and New Zealand, also known as the Five Eyes.

The primary defense of the NSA has been that there are rigorous controls on personal data that are tightly managed. Perhaps the leading example discrediting this claim is the fact that over a few months Edward Snowden downloaded tens of thousands of their most sensitive documents right under their noses. Even now, after spending tens of millions of dollars to investigate, they still have no idea what he took. This is the opposite of a tightly controlled system.

As Snowden has explained, he had access to programs like XKeyscore, which literally allowed him to enter an email address, click on a prepopulated menu, and hit search. There’s no audit, and basically it returns emails from the past and records ones in the future, allowing for real-time surveillance. “I, sitting at my desk,” Snowden said, could
“wiretap anyone, from you or your accountant, to a federal judge or even the president, if I had a personal email.” Even post-search auditing was extremely sporadic. It mostly consisted of getting the paperwork right.

One of the concerns that Snowden expressed to you was that the public would react to these revelations with indifference. That obviously didn’t happen.

Snowden’s concern was that people would say they assumed this was already happening and that “I’m probably not the person the NSA is targeting, so who cares?” But as you said, there has been sustained outrage around the world. My book tour will take me to 11 different countries, and the book itself is already translated into 9 or 10 languages. Back when Snowden and I were sitting in Hong Kong anticipating the impact, we never would have expected all of this. The reaction has exceeded our wildest dreams.

But looking ahead, you don’t change the American national security state overnight. One indication of the extent of this enormous behemoth’s power is the fact that it can fortify itself against sustained global public outrage for a good period of time.

Perhaps the most significant change thus far is the way that people around the world now think about various issues, from the importance of privacy in the digital age to the role of journalism vis-à-vis the state.

What do you make of the criticism you’ve received from other members of the media?

There are a lot of factors. People break big stories all the time and they aren’t treated with hostility by other reporters, at least not in public. They’re not accused of being hacks or criminals who belong in prison, the way that I was by several leading lights of the journalistic world. One thing that’s going on is a general fear that the new order that’s represented by the Internet is a threat to their way of doing things. It’s a classic tale of the Old Guard feeling besieged by something new and wanting to lash out and delegitimize and discredit it. I’ve been very harsh and vocal critic of those who practice that kind of journalism, so in some ways their hostility is unsurprising.

Simply put, I set out to break a lot of the rules that traditional journalists treat as sacred. I began writing about political issues after spontaneously creating my own blog one day. For the first year-and-a-half or so, I wrote whatever I wanted, how I wanted, without anyone telling me different. Once I started generating interest, I began writing for media outlets on the condition that I retain that full-scale independence. I was able to do that at Salon, then at The Guardian, and now at my own news organization, where we are grounded in that principle of journalistic independence.

But I think the biggest factor is that, with some exceptions, American journalists at these large media institutions see themselves as part of the circle of power. They identify with leading political and economic elites because it solidifies their position within that circle. They look at the world through that socioeconomic prism. They become guardians of the status quo, and they react to threats with as much hostility as do those with political power. There’s almost no division between the two factions any longer. They’ve essentially merged.

There’s another strain of critics who, despite being very vocal, have gained little attention. And they’ve objected to the journalism we’ve done on the grounds that we actually haven’t released enough of the documents. They argue that we’ve been concealing too much information, that we’ve been too slow in releasing it. I’m actually more sympathetic to that critique than the one that we’ve been reckless in releasing too much.

This idea that anything we’ve released will help the terrorists or somehow undermine legitimate espionage is just incoherent. We are very careful about the information that we release. Multiple people scrutinize it. If anything we’ve erred on the side of excess caution.

You’ve compared the national security state to Jeremy Bentham’s Panopticon. It goes without saying that that’s a very troubling paradigm to think about.

The idea that the mere existence of a surveillance system, regardless of how it is used, will severely limit and alter human behavior is something that has been recognized for centuries. There’s a reason that insight is so critical. There seems to be this prevailing sentiment that if someone poses no threat to the government, they have no reason to fear this type of surveillance. But embedded within that statement is a certain acceptance of this bargain. It says that if you become sufficiently obedient and compliant and passive, you can continue living your life unmolested by power. And that is the recipe for tyranny.

Even in the worst tyrannies, those who don’t bother tyrants are rarely targeted for oppression outright. But what Bentham recognizes is that if you create institutions where the people you’re trying to control—whether it be inmates, students, or patients in a psychiatric ward—know that they can be watched at any moment, they will assume that they are being watched at every moment. They may not know when—or even if—they’re being watched, but they will act in compliance with the dictates of authority if the possibility is always there. It’s a way to keep people under control. That was the essence of 1984.

In fact, Michel Foucault called this the foundational point of western democracy. We don’t have concentration camps or political dissidents because we don’t need that. We’ve effectively put prisons into people’s minds. They think they’re free, but it’s only at the price of relinquishing their basic political rights in order to be seen as non-threatening and avoid punishment. That is why a surveillance state is so insidious. It removes the essential part of what it means to be a free individual.
At a Cato Policy Forum in May, Nicholas Quinn Rosenkranz (left), a law professor at Georgetown University and a senior fellow at the Cato Institute, joined Jonathan Turley, a law professor at George Washington University, to discuss the Obama administration’s abuse of executive power.

Alberto Mingardi (at podium), director general of the Istituto Bruno Leoni and a Cato adjunct scholar; Peter Boettke (center), University Professor of Economics and Philosophy at George Mason University; and Todd J. Zwicki, George Mason University’s Foundation Professor of Law, highlighted Bruno Leoni’s contributions to classical liberal thought on law and liberty.

John Samples (right), vice president and publisher of the Cato Institute, sat down with a reporter from Voice of America to discuss campaign finance reform and the political culture of limited government. The two spoke in the Institute’s Melvyn Jay Kushner Library, which houses a wealth of essential resources on economics, philosophy, and history, including the Roy A. Childs Jr. Collection.

Timothy Sandefur, principal attorney at the Pacific Legal Foundation and a Cato adjunct scholar, explained why the Obamacare “tax” on people without health insurance is still unconstitutional.
At a Cato Student Forum in April, Neal McCluskey, associate director of the Institute’s Center for Educational Freedom, asked whether or not getting a college degree is worth it.

APRIL 1: High Frequency Trading: Information Tool for Efficient Markets or Destabilizing Force?

APRIL 16: College Accreditation in the Crosshairs

APRIL 17: Libertarianism #ThroughGlass: Using Google Glass to Change Policy

APRIL 28: Everything You Know about International Trade Is Wrong: A Presentation and Refutation of Ten Pervasive Trade Myths (Houston, TX)

APRIL 30: Is College Worth It?

MAY 1: Tumblr for Nonprofits: Finding and Engaging your Audience

MAY 6: Bruno Leoni at 101

MAY 6: The Tyranny of Experts:

Economists, Dictators, and the Forgotten Rights of the Poor

MAY 7: Intellectual Privilege: Copyright, Common Law, and the Common Good

MAY 8: Beyond the Individual Mandate: The Obamacare “Tax” Is Still Unconstitutional

MAY 8: Police Misconduct: The Assault on Civil Liberties

MAY 13: Unlucky Strike: Private Health and the Science, Law and Politics of Smoking

MAY 19: Mugged by the State: When Regulators and Prosecutors Bully Citizens

MAY 20: The Investor-State Dispute Settlement Mechanism: An Examination of Benefits and Costs

MAY 20: The Milton Friedman Prize for Advancing Liberty Biennial Dinner (New York)

MAY 21: Suspending the Law: The Obama Administration’s Approach to Extending Executive Power and Evading Judicial Review

MAY 27: The Economics of Medicaid and the Need for Reform

MAY 29: The Once and Future King: The Rise of Crown Government in America

MAY 30: A New Leaf: The End of Cannabis Prohibition

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.
ack in colonial India, the British government had a problem. There were too many venomous cobras in Delhi, officials said, and therefore they decided to offer a bounty for every snake that was killed. At first, the plan worked and large numbers of the dead reptiles were turned in. But eventually the more discerning hunters began breeding cobras to make their jobs easier. When British officials realized the error of their ways, they dropped the program—causing breeders to release the now worthless cobras and greatly escalating the initial problem.

This phenomenon, known as the “cobra effect,” has become one of the classic examples of perverse incentives. But as Thomas E. Hall, a professor of economics at Miami University in Ohio, demonstrates in his new book Aftermath: The Unintended Consequences of Public Policies, there is no shortage of examples closer to home. “Policies created for one set of purposes almost always create an additional set of results that were not part of the original plan,” he writes. “Very often these unintended consequences are seriously adverse.” Throughout the book, Hall focuses on four case studies of the law of unintended consequences as it applies to government policy.

The federal income tax was put into effect in 1913, with the goal of shifting the tax burden away from the working class and toward the upper class. That outcome was accomplished. But the major unintended consequences were reducing the incentive to earn income by those taxed at high rates and providing “a flood of tax revenue”—to the point that it allowed an unprecedented expansion of government. According to Hall, not even its creators expected this. “The income tax was instrumental in helping create the huge federal bureaucracy that many Americans complain about today,” he writes.

Cigarette taxes are collected by the federal government, along with all 50 states and the District of Columbia, as well as some counties and cities. They were originally imposed in the 1860s as a public revenue source, but since the 1960s they’ve relied on an additional justification: taxing cigarettes discourages smoking. Yet, the major unintended consequence has been the criminal activity this creates. With large differences in tax rates, criminals can purchase cigarettes where taxes are low and illegally transport them to high-tax areas. The fact that cigarettes are small, light, and durable makes them ideal for this “especially brisk retail trade,” and the smuggling that results has become a huge business, largely controlled by organized crime syndicates.

Minimum wage laws first appeared at the state level in the early 1900s, while the original federal law was put in place in 1933 as part of the New Deal. The purpose was to raise incomes of the working poor and to cause employers to replace female and child workers with adult males. Yet this policy has had mixed results. Perhaps those most affected by the law are teenagers and high school dropouts, who often lack the skills necessary to create $7.25 of value each hour. As such, “artificially raising wages elevates the incomes of some low-skilled workers—those employed at or slightly above the minimum—but lowers the incomes of those unable to find work, many of whom might be willing to work for less than the minimum,” Hall writes.

In 1919, when the nation took the bold step of adopting the Eighteenth Amendment and imposing national Prohibition, supporters were ecstatic about what was then referred to as “the noble experiment.” Unlike the first three case studies, however, the unintended consequences of alcohol Prohibition were so devastating that the policy was eventually abandoned. “Their intent was, in fact, noble: to reduce alcohol consumption and many of the social ills associated with it.” The reality was very different. Criminal gangs cropped up. Poisoned booze sickened and sometimes killed tens of thousands. Corruption soared. After experiencing these problems for several years, Americans finally said “enough” and ended Prohibition. In the end, the thread that ties these examples together is a warning of sorts. In every initiative mentioned, the supporters genuinely believed in their causes, arguing with conviction that the associated policies would leave the country better off than it was before. Often, the public followed suit. Yet, Hall warns with equal force that the world is more complicated than that. “Be careful what you wish for,” he concludes, “because those unintended consequences can undo a well-intentioned government policy.”

PLEASE VISIT WWW.CATO.ORG/STORE TO PURCHASE YOUR COPY OF AFTERMATH IN CLOTH OR EBOOK TODAY.
It’s now a decade since Ukraine’s “Orange Revolution” brought hope that the country could be liberated from its post-Soviet legacy and join the ranks of the successful transitional countries of Central and Eastern Europe. Those hopes were sadly disappointed. But can the Ukrainians do better this time around? Besides the threat from Russia, Ukrainians face another large challenge: how to build durable institutions of democratic capitalism.

For nearly a decade now, the Cato Institute’s Center for Global Liberty and Prosperity under the direction of Ian Vásquez has worked tirelessly to advance policies that protect human rights, extend the range of personal choice, and support the central role of economic freedom in ending world poverty. In March the Center cohosted a conference in Kiev with the Atlas Network and the Ukraine-based European Business Association—an event that brought together prominent speakers from post-communist countries who had had intimate experience with the challenges facing their Ukrainian counterparts.

Ivan Mikloš, former deputy prime minister of Slovakia and author of that country’s flat tax reform, urged the Ukrainian government not to delay the inevitable fiscal consolidation. The quicker and more radical the fiscal adjustment, he said, the sooner Ukraine’s economy will start to grow, generating opportunities for ordinary people, not just the oligarchs. While risky, such bold reforms often pay off politically. Mikloš’s own party recorded historically high levels of support in the election in 2006, after eight years of far-reaching reforms in the area of tax policy, pensions, and healthcare, as well as privatization and restructuring of ailing banks and utilities.

Other speakers included Einars Repše, former prime minister and head of the central bank of Latvia; Kakha Bendukidze, former minister of the economy of Georgia; and Cato’s own Andrei Illarionov, a veteran of economic reform efforts in Russia. The event attracted more than 500 attendees and significant media attention. As columnist Anne Applebaum wrote in the New Republic:

One of the most positive events in Kiev last week took place not at the barricades, but in the gaudy conference room of the Intercontinental Hotel where hundreds of economists, bankers, and members of parliament gathered to hear advice from politicians who had been through equally dramatic revolutions. A former Georgian economy minister told the audience that the fight against corruption requires one crucial element: jail, for those who break the law. A Slovak told his Ukrainian colleagues to prepare fundamental reforms and to prepare to be really unpopular.

On the heels of the Kiev conference, the Center for Global Liberty and Prosperity held a Latin American version of Cato University—the Institute’s premier educational event—in Caracas in April. After nearly 15 years of socialist rule, Venezuela is now facing an acute economic and political crisis: it has the highest inflation rate in the world, one of the highest murder rates, pervasive shortages, and widespread protests. Co-sponsored by CEDICE, Venezuela’s leading free-market
The Worst of Both Worlds

Around the world, most new rail transit lines are either heavy rail, which are built in exclusive rights of way, or light rail, which often cross through city streets. What many don’t realize is that the terms light and heavy refer to people-moving capacities, not the actual weight of the equipment. As Cato senior fellow Randal O’Toole writes in “The Worst of Both: The Rise of High-Cost, Low-Capacity Rail Transit” (Policy Analysis no. 750), a number of cities have recently built a hybrid form of rail transit that combines the cost disadvantages of heavy rail with the capacity limits of light rail. This seems to be a worldwide trend, from Honolulu to Mumbai. “Rail lines built at light-rail costs are questionable enough, as in nearly every case buses can move more people just as comfortably (if not more so), just as fast (if not faster), and at a far lower cost,” O’Toole writes. In fact, buses share infrastructure with cars and trucks, reducing their cost, while the use of high-occupancy vehicle or high-occupancy toll lanes would allow buses to avoid congestion during even the busiest times of day.

“The willingness of many rail advocates to support high-cost, low-capacity rail lines calls into question the entire rail agenda,” he continues. Supporters of low-capacity lines are not truly interested in transportation, nor are supporters of high-cost lines truly interested in urban efficiencies. If they are not willing to draw the line against such projects, then there is little reason to believe their claims about the benefits of other rail projects.

**IMMIGRATION AND THE STATES**

Michigan governor Rick Snyder and Sen. Rand Paul (R-KY) recently proposed a regional visa program that would allow immigrants to live and work exclusively in Detroit or other cities in the United States. In “State-Based Visas: A Federalist Approach to Reforming U.S. Immigration Policy” (Policy Analysis no. 748), Brandon Fuller, a research scholar at New York University, and Sean Rust, a practicing attorney, argue that a regional immigration option through a state-based visa program would create a temporary work permit that would allow participating states to manage the flow and regulate the quantity of temporary migrants who want to live and work within their borders. “Ideally, law-abiding visa holders would be eligible for renewal and free to apply for permanent residency during their stay in the United States,” they add. Although overseen by the federal
government, a state-based visa program would allow state governments to craft a better-functioning work-visa program “that is more adaptable to their local economic conditions than the present system run by the federal government”—perhaps even supplying lessons for future federal work-visa programs. A state-based visa program would direct immigration to the states that want it without forcing much additional immigration on those that do not. “Unlike existing employment-based visas that tie foreign workers to one firm, state-based visa holders would be free to move between employers in the state—leading to thicker, more equitable, and more efficient local labor markets,” the authors write. A state-based visa would increase prosperity by allowing additional migration to portions of the country and economy that demand them. Fuller and Rust conclude that successful international experiences with regional visas in Australia and Canada provide some valuable policy lessons and hint at the major economic benefits of such a policy in the United States.

IDENTITY CRISIS
In 2005, Congress passed a law seeking to create a national identification system by weaving together the states’ driver-licensing systems. According to the federal government’s plan, within three years state motor-vehicle bureaus would begin issuing driver’s licenses and identification cards according to federal standards, and data about drivers would be shared among governments nationwide. In “REAL ID: State-by-State Update” (Policy Analysis no. 749), Cato senior fellow Jim Harper reviews the outlook on the program, revealing that some states’ legislatures have backtracked on their opposition to the national ID law. Initially, states across the country rejected what Harper calls an “unfunded federal surveillance mandate.” Half the state legislatures in the country passed resolutions objecting to the REAL ID Act or bills outright barring their states from complying. Almost a decade later, there is no national ID, but Congress continues to funnel money into the federal government’s national ID project. The federal government has spent more than a quarter billion dollars on REAL ID. Now the motor vehicle bureaus in certain states are quietly moving forward with REAL ID compliance—contrary to state policy. This could create problems, according to Harper. “A national ID system could be used to administer more and more intimate tracking and control of all Americans’ lives,” he writes. With any luck, REAL ID seems to have deteriorated federally. “However, the state-by-state status check reveals that it is by no means dead at the state level, and so opponents of a U.S. national ID system must remain vigilant,” he writes.

RUNNING BLIND
Throughout history there has been a consistent fear of bank runs, particularly regarding large institutions during times of crisis. The financial crisis of 2007–09 was no exception. The Financial Crisis Inquiry Commission, which was created after the crisis to investigate its causes and triggering events, highlighted no less than 10 cases of runs at individual institutions. In “Run, Run: Was Financial Crisis Panic over Institution Runs Justified?” (Policy Analysis no. 747), Vern McKinley, a research fellow at the Independent Institute, argues that those runs were a major consideration in the shifting policy responses that authorities employed during the crisis. In the early stages of the crisis, troubled institutions facing runs were dealt with through a scattered blend of voluntary mergers, outright closures, and bailouts. “By late September 2008 and thereafter, panic had descended on the Treasury and the major financial agencies,” McKinley writes. “That resulted in the decision to backstop the full range of large institutions, as government officials feared a collapse of the entire financial system.” However, serious analysis of the risks facing the financial sector was sorely lacking and outright misstatement of the facts was evident. “It did not have to be that way,” he adds. Simple rules elaborated by Walter Bagehot and Anna J. Schwartz involving a systemic review of the condition of the financial system, prompt intervention, and consideration of the condition of individual institutions could have prevented the numerous ill-advised bailouts. McKinley concludes that application of these considerations could have avoided the panic by the authorities and the strategy of bailouts for the megabanks.
COULDN’T SEE THAT COMING
The construction of a massive new headquarters for the Department of Homeland Security, billed as critical for national security and the revitalization of Southeast Washington, is running more than $1.5 billion over budget, is 11 years behind schedule and may never be completed, according to planning documents and federal officials.
—WASHINGTON POST, 05/20/2014

IN MALAWI, BEEF IS THE NEW PORK
Malawi’s President Joyce Banda is betting voters in her poor African nation will rank cows and corn flour ahead of economic tumult and corruption allegations in Tuesday’s elections. . . .

To sweeten the deal for eight million registered voters, most of whom are poor farmers, she spent the past few months giving away hundreds of cows and thousands of 100-pound bags of corn flour at rallies across the country. . . .

“This old-school electoral patronage, a-cow-for-every family, is effective with female voters especially,” said Anne Fruhauf, vice president at the risk-analysis firm Teneo Intelligence. “No one else is courting that half of the electorate.”
—WALL STREET JOURNAL, 05/19/2014

WALKING TO SCHOOL? YEAH, THERE’S A FEDERAL PROGRAM FOR THAT
For a growing number of children in Rhode Island, Iowa and other states, the school day starts and ends in the same way—they walk with their classmates and an adult vol-

unteer to and from school. Walking school buses are catching on in school districts nationwide because they are seen as a way to fight childhood obesity, improve attendance rates and ensure that kids get to school safely. . . .

Many programs across the country are funded by the federal Safe Routes to School program, which pays for infrastructure improvements and initiatives to enable children to walk and bike to school.
—ASSOCIATED PRESS, 05/26/2014

NEXT TIME TRY RUNNING A BUSINESS BEFORE YOU START PASSING REGULATIONS
David Bonior . . . former Michigan Democratic congressman, liberal pit bull, academic, antirwar firebrand and labor-union BFF has . . . invested at least $1 million, by my estimate, building two family-owned Washington restaurants. . . .

Bonior said if he had the power, he would lighten up on pesky regulations.

“It took us a ridiculous amount of time to get our permits. I understand regulations and . . . the necessity for it. But we lost six months of business because of that. It’s very frustrating.”
—WASHINGTON POST, 04/27/2014

IT WOULD ACTUALLY BE A MINUTE AND A HALF, BUT WHO NEEDS MATH?
When Sen. Barbara A. Mikulski (D-Md.), who led the [Senate floor debate on Paycheck Fairness Act], yielded time to a male colleague, Joe Manchin III (D-W.Va.), she joked that she should really only give him 77 percent of the two minutes the female senators got. Or about a minute and 45 seconds, she observed.
—WASHINGTON POST, 04/09/2014

Funny Guy
Colorado legalized marijuana this year, an interesting social experiment. I do hope it doesn’t lead to a whole lot of paranoid people who think that the federal government is out to get them and listening to their phone calls. (Laughter.)
—PRESIDENT OBAMA AT THE WHITE HOUSE CORRESPONDENTS DINNER, 05/03/2014

Regular Guy
As he toured a series of mansions . . . at the home of Walt Disney Studios chief executive Alan Horn . . . at an event hosted by Marissa Mayer, the chief executive of Yahoo, and Sam Altman, the president of Y Combinator. . . . At the home of Irwin Jacobs, founder of the telecom giant Qualcomm . . . Obama put the blame for failing to make progress squarely on the Republicans—“a party that has been captive to an ideology, to a theory of economics, that says those folks, they’re on their own and government doesn’t have an appropriate role to play.”
—WASHINGTON POST, 05/09/2014

Good News at Last
In terms of actual laws or bills passed, the 113th Congress is headed toward historic levels of unproductivity.
—WASHINGTON POST, 04/10/2014