



## FORTY YEARS OF REGULATION

How has regulation changed?

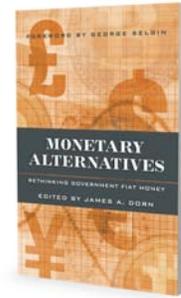
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## ANGUS DEATON

In defense of (some) inequality

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The case against the status quo

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# Cato Policy Report

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## Crime, the Constitution, and the Trump Administration

BY TIM LYNCH

President Trump says crime is a serious problem and that he's going to do something about it. His first move was to nominate Alabama Senator Jeff Sessions to be the new attorney general. Sessions, a former federal prosecutor, is widely known for his "lock 'em up" philosophy and tough stances on drugs and immigration. As the first 100 days of the Trump presidency recede into history, it is a good time to pause and assess what's in store for the American criminal justice system.

To begin, it is very unfortunate that Trump has chosen to elevate the crime problem in the way that he has because it reinforces the mistaken idea that the federal government "oversees" our criminal justice system. In fact, the Constitution says very little about federal criminal jurisdiction. According to the constitutional text, piracy, treason, and counterfeiting are supposed to be the federal government's concern, but not much else. The common law crimes of murder, rape, assault, and theft are to be handled by state and local governments. Of course, as the federal government grew in size and scope, it came to involve itself in a host of local matters—from schools to road maintenance to crime fighting. Although Trump has spoken of "draining the swamp" and slashing the

federal budget, he not only seems uninterested in reducing the federal role in crime-fighting, but is also clearly moving to *expand* that role.

### CRIME EXECUTIVE ORDERS

On February 9, Trump signed three executive orders relating to crime. The first order calls for the creation of a task force on crime reduction. Attorney General Sessions will appoint people to the task force and they will discuss ideas and make recommendations for Trump. A second order calls for the devel-

opment of strategies to enhance the protection and safety of law enforcement officers. The third order concerns enforcing federal law against transnational criminal organizations that employ violence and derive revenue through widespread illegal conduct. Working groups will be established to make recommendations to both Sessions and Trump.

These executive orders do not, by themselves, raise any legal or constitutional problems. Sometimes presidents use executive

*Continued on page 6*



KIM KATAGIRI, who, as a teenager, led the libertarian Free Brazil Movement that inspired millions of Brazilians to protest government corruption and successfully demand the impeachment of now-former president Dilma Rousseff, spoke at Cato's Annual Benefactor Summit in Naples, Florida, in March. See page 14 for more photos from the event.

TIM LYNCH directs the Cato Institute's Project on Criminal Justice.



BY PETER GOETTLER

“Two years in Washington has taught me that tribalism is a huge factor in driving the political process and discourse.”

PRESIDENT'S MESSAGE

## Red Sox versus Yankees (Political Version)

While delivering a keynote address at the celebration of Cato's 40th anniversary on May 6 (more details in the next issue of *Cato Policy Report!*), George Will paid the Institute a wonderful compliment. Said he, “Connoisseurs of football want to go to Lambeau Field in Green Bay; connoisseurs of college basketball want to go to the Palestra in Philadelphia; connoisseurs of baseball want to go to the corner of Clark and Addison in Chicago to Wrigley Field; and connoisseurs of liberty want to go to the corner of Massachusetts and 10th in Washington, D.C.” Most of you will recognize these last coordinates as the locale of Cato HQ at 1000 Massachusetts Avenue.

Who doesn't love sports analogies? So let's keep 'em going. I recently heard a commentator liken the approach most take to the policy world to being a sports fan: your team, come what may. Namely, for many, their viewpoints aren't always informed by an underlying philosophy or a principled approach to policy, but rather by the dictates of their “team.” Such a view holds that, in these days of strong red team vs. blue team partisanship, identification with a particular group—and demonizing the political or policy “opponents” of that group—can take priority over adherence to specific policy views.

The generous Sponsors who make Cato's work possible and the dedicated professionals who work here are a principled bunch. Passionate about liberty, seeking to serve our national interest by limiting the power of the state and restoring the libertarian framework upon which our country was founded, Cato's community is dedicated to a liberty-focused philosophy and the policy positions it informs. It just doesn't occur to us that you'd change your principles for partisan reasons. But two years in Washington has taught me that tribalism is a huge factor in driving the political process and discourse. The analogy of politics as allegiance to a particular sports team has merit.

The first piece I ever wrote for *Cato Policy Report* commented on the fact that the philosophical thread holding together the various policy positions of our political parties often seems to be missing. This is particularly true in the inconsistent ways individual liberty and economic liberty are treated by each. The

partisan packaging of issue positions thus lacks a logical basis, and philosopher Michael Huemer of the University of Colorado labels this “political irrationality.” While of course driven by overall political considerations, he also cites the dynamics of group membership and identity as key factors in motivating and reinforcing this. Huemer maintains that most of our public policy challenges are not as complex or intractable as we make them out to be, and therefore cites political irrationality or tribalism as our biggest public policy problem since it can be considered the key obstacle in addressing all the others.

It's discouraging that the current environment, thick with hypocrisy, appears to be strengthening these tendencies. Republicans who have supported free trade all their lives now rationalize the need for a “level playing field,” since their team appears to have flipped—or at least developed a case of schizophrenia—on the issue. Democrats exercised the “nuclear” option to stack the D.C. Circuit Court of Appeals ahead of the *King v. Burwell* case, but are now indignant that the same tool would be used by Republicans to seat Neil Gorsuch on the Supreme Court. And, of course, each team's zeal for investigation, fear of expanding executive power, and willingness to defend civil liberties waxes or wanes depending upon which controls the White House. The voters (or fans, to continue the analogy) shouldn't wonder why politicians continue to disappoint if they're unwilling to call their team to account—as so often needs to be done.

I don't mind living and dying with my sports teams—there's always next year, and the stakes, let's be honest, just aren't that high. But over my years as a Cato Sponsor, the most important lesson I learned from Ed Crane and David Boaz was, in the policy world, not to put undying faith in either team. If you believe the role of government is strictly limited and accept an expansive view of individual liberty, you'll have lots of disagreements with both teams. I think in the current environment, the intellectual honesty to which Cato aspires is a crucial—and potent—antidote to political tribalism and irrationality.

## “The very best book on how special interest groups subvert the quality of public policy.” —Tyler Cowen

Critics of government corruption tend to focus on the special interest groups and lobbyists who manage to rig politics in their favor. But in *Inside Job: How Government Insiders Subvert the Public Interest*, Mark Zupan reminds readers that there are two sides to this equation of government corruption: not just those seeking favors, but those doling them out, as well. Government insiders, from elected officials to agency bureaucrats and public employees, stand to profit from government in almost innumerable ways. They can gain financial benefits, visibility, and status; political power; and revolving-door positions in industry. Yet all too often, their role in politics remains a “black box”—which Zupan seeks to open.

Zupan worked on this book as a visiting fellow at the Cato Institute in 2014, in between his jobs as dean of the University of Rochester’s Simon Business School and president of Alfred University. The book is copublished by Cato and Cambridge University Press.

Zupan sets up an economic model of politics—a supply-and-demand chart, where government insiders, the “sellers” of political favors, make up the supply side, and businesses, labor unions, consumer activists, and others seeking those

favors make up the demand side. He then examines the effect that supply-side politics, the motivations of government insiders, have had in both modern and historical examples—from how nepotism and public official job protection ruined the Ottoman empire, to how pharaohs and their court officials destroyed the once-powerful New Kingdom of Egypt with wasteful and self-serving monument building and military campaigns. And, of course, how those same motivations and tendencies are endangering modern governments today.

Zupan also stresses that, contrary to popular opinion, it’s not only autocracies that suffer from government insider corruption. Most children learn in school that democracies produce, as Abraham Lincoln envisioned, “government of the people, by the people, for the people.” But democratic elections are not enough, in and of themselves, to ensure that the government actually functions “for” the people.

“While difficult to restrain, capture of the political process is not inevitable,” Zupan concludes. But in order to prevent government insiders from subverting the public interest, we must first understand who they are, what their actions involve, how their influence grows, why they are difficult to restrain, and when and where they have resulted in the downfall of nations. Zupan’s book provides a concise and powerful guide to the history of government insiders, so that we may not be doomed to repeat it. ■

**PURCHASE *INSIDE JOB* AT BOOKSTORES NATIONWIDE AND ONLINE RETAILERS.**



MARK ZUPAN

## Cato News Notes

### CLAYTON YEUTTER, RIP

Ambassador Clayton Yeutter, President Ronald Reagan’s U.S. Trade Representative (USTR) from 1985 to 1989 and President George H. W. Bush’s Secretary of Agriculture from 1989 to 1991, passed away on March 4 at the age of 86. As both

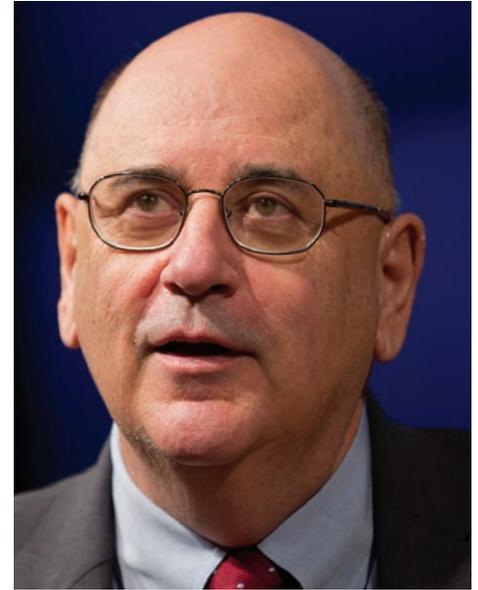
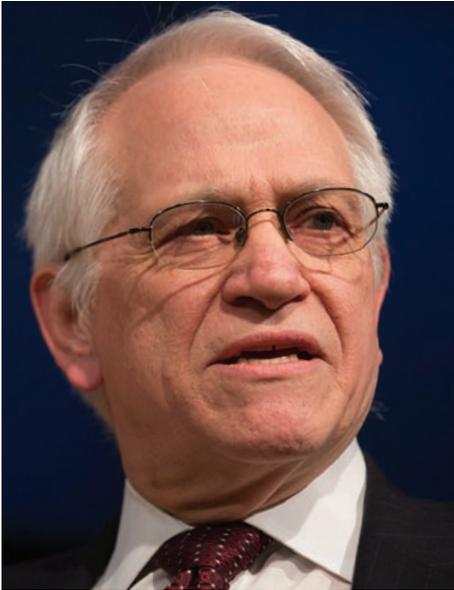


USTR and Secretary of Agriculture, Yeutter worked to take American policies in a more free market and free trade direction. Among other accomplishments, he presided over the implementation of America’s first-ever bilateral free trade agreement with Israel, and organized the U.S.-Canada Free Trade Agreement, which would eventually become the North American Free Trade Agreement in 1994.

In later years, Yeutter served as a valued adviser to Cato’s Herbert A. Stiefel Center for Trade Policy Studies. “Over the years, Clayton was always generous with his time. He read everything we published in the Cato trade center, frequently offering kind words of endorsement or gentle points of dissent,” wrote Cato’s Dan Ikenson. “Even as he was enduring wrenching and sometimes debilitating treatment for cancer, Ambassador Yeutter graciously participated in numerous trade policy events at Cato, speaking with his signature booming voice, offering encouragement to continue the fight for free trade, and holding court with his throngs of admirers in the policy world and in the media.”

### SCHOLAR DONATES RARE LIBRARY

Cato senior fellow Alan Reynolds has donated a personal collection of rare primary source documents, including original correspondence from F. A. Hayek, Milton Friedman, William F. Buckley, and other conservative and libertarian intellectual giants, to Sam Houston State University. Students, under the supervision of historian Brian Domitrovic, are currently sifting through his collection and creating an index for their public display. And in no time, as Domitrovic recently wrote in *Forbes*, “you can come to Huntsville, Texas to find one of the key collections, along with those in the Hoover Institution in California, on the movement that gave us the Ronald Reagan revolution in economics.”



**W**ill President Trump be good or bad for free speech? On the one hand, he has critiqued censorship for the sake of political correctness—on the other, he has promised to “open up” libel laws and said flag burners should be jailed and lose their citizenship. At a Cato Policy Forum, (left to right) First Amendment lawyer ROBERT CORN-REVERE and Cato senior fellow FLEMMING ROSE criticized Trump’s record on free speech, while author and George Mason law professor F. H. BUCKLEY defended the president’s views on speech and libel laws.



**S**hould the United States continue to use its military to guarantee the flow of oil from the Persian Gulf? At a Cato Book Forum, *Crude Strategy: Rethinking the U.S. Military Commitment to Defend Persian Gulf Oil*, coeditor ROSEMARY KELANIC (left) argued that, despite the conventional wisdom that America needs to be in the region, the economic and opportunity costs of America’s presence there are not worthwhile. Cato’s EMMA ASHFORD (right) moderated the event.



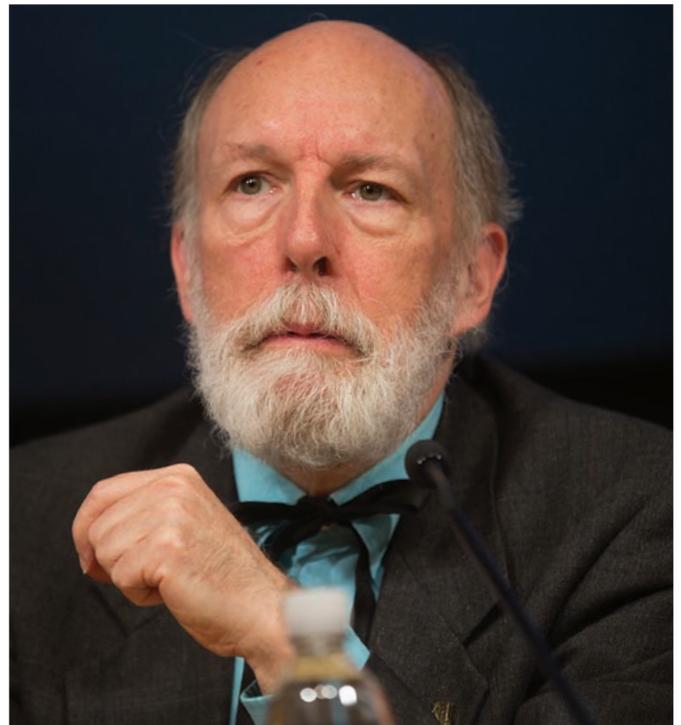
In March, CHRISTINE GULUZIAN, a visiting research fellow at the Cato Institute, moderated a Cato event discussing how the Ukraine crisis emerged from decades of ruinous policies from both Russia and the West.



At a conference on pension reform in Costa Rica, Cato's IAN VÁSQUEZ (second from left) speaks with (left to right) MAX LUKOWIECKI, U.S. Ambassador to Costa Rica STAFFORD FITZGERALD HANEY, and economist ELI FEINZAIG.



At a Cato Policy Forum, MARK V. PAULY of the University of Pennsylvania argued that “reference pricing”—when employers review the range of prices for health services and choose a price up until which they’re willing to cover—increases price transparency and incentivizes consumers to make cost-conscious choices.



President Trump has vowed to spend \$1 trillion on infrastructure—but at a Cato Policy Forum, Cato's RANDAL O'TOOLE argued that the advent of driverless cars will drastically reduce the need for infrastructure spending.

Continued from page 1

orders to usurp the lawmaking power that is assigned to Congress. These orders do *not* fall into that category. There's no new law or restriction that applies to persons in the United States that did not already exist previously. The orders are basically trying to get various offices within the government to share and coordinate information with one another.

Still, there are several reasons that supporters of limited, constitutional government ought to be concerned about the direction in which Trump and Sessions are heading. For the past 30 years, many on the right have been sounding the alarm about the growth of government and the federalization of crime and much else. In the landmark *Lopez* ruling in 1995, the Rehnquist Court invalidated the first federal criminal law in 60 years—the Gun-Free School Zones Act of 1990—because it was simply beyond Congress's power to enact. Former Reagan attorney general Edwin Meese has testified before congressional committees about the sorry shape of the federal criminal code and the need to *scale it back*. Trump and Sessions are going the other way. For example, the executive orders instruct the task forces and working groups to see whether existing laws are adequate and to recommend legislation defining new crimes for the president's consideration and signature. Federal power will expand, not contract, under these orders.

Trump also caused a stir when he tweeted about the spike in homicides in Chicago. If Mayor Rahm Emanuel doesn't turn those numbers around, the president said he'll "send in the feds." No one really knows what that meant, but it was the clearest indication of how Trump views his powers and responsibilities. He appears to be ready to launch a federal intervention in any American city.

As one of Trump's top legal advisers, Sessions should know better, and yet we know that he is considering reviving a 1990s initiative called Project Exile. The idea behind that program was to bring firearms charges that would normally be handled by state

“Trump not only seems uninterested in reducing the federal role in crime-fighting, but is also moving to *expand* that role.”

courts into the federal system for prosecution. Federal judges bitterly complained that Project Exile was filling their dockets up with local police business. The central problem with the program was that it assumed the federal government has general police powers instead of the limited and enumerated powers set forth in Article I, Section 8. The Constitution's division of powers between what is properly local and what is properly national was just ignored.

#### MASSIVE DEPORTATIONS?

Trump believes that illegal immigrants are responsible for a lot of violent crime so he has pledged to get these “bad hombres,” as he calls them, out of the country. During the presidential campaign, he famously promised to build a great wall on the Mexican border to stem the tide of bad guys. He also promised to create a Deportation Task Force that would target “millions and millions of undocumented immigrants.” This initiative would constitute the largest police action in American history. Many deportations take place close to the border, but to accomplish Trump's mandate for those living in the interior of the country, there will likely be scores of raids, roadblocks, arrests, and prosecutions.

There are several problems with Trump's plan. To start with, he wants to hire 5,000 Border Patrol agents and 10,000 more Immigration and Customs Enforcement (ICE) officers. This will boomerang on the agencies and American taxpayers. Experience shows that when there is a government hiring binge, standards fall. Background checks are rushed, and so is the training for newbie agents who will be carrying guns. The agencies have

already been hiring scores of people in recent years, and the problems are in plain sight. Between 2005 and 2012, a border agent was arrested for a crime every day, on average. Victims of border-agent misconduct bring lawsuits and win millions in legal settlements. Trump's Homeland Security secretary, John Kelly, is adamant that standards will be maintained, but his promise seems untenable.

Sessions has urged federal prosecutors to use all federal laws to reduce crime and to capture illegals. Many Americans don't think they'll be impacted because they are, after all, citizens. They are blissfully unaware of their vulnerability. For example, one federal law says it is a crime to shield illegal immigrants. At first, that law was only used against smugglers who actively help aliens remain in the country, such as those who provide safe houses. Not any more. Prosecutors sometimes take an expansive view of the law so it could cover mild actions, such as telling an illegal to avoid certain parts of town. Consider the implications. There are an estimated 11 million illegal immigrants in the United States. If true, there must be millions of citizens and legal immigrants around them (neighbors, coworkers) who have probably violated the shielding law unknowingly.

Trump and Sessions also want local police to assist ICE investigations. Voluntary and brief courtesies have always been standard procedure in American law enforcement, but when federal authorities *demand* assistance, a constitutional problem arises. Under the constitutional principle of federalism, local police cannot be compelled to enforce federal laws—whether it be for tax code violators or illegal immigrants. When local police have a violent alien criminal in custody, they typically contact ICE, but some sanctuary jurisdictions decline to cooperate in petty matters involving peaceful aliens. The White House wants to withdraw federal funds from cities it considers uncooperative. Like Trump's travel ban, this initiative will get stuck in a litigation battle and the president will likely lose.

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## “Sessions believes that drug arrests help in the fight against violent crime, but he has that backwards.”

One other unintended consequence of the planned massive police action concerns extortion. Criminal gangs can shake down peaceful, hardworking immigrants by threatening to tip off ICE agents. Crime victims and witnesses are more vulnerable to intimidation because of the rising fear of mass deportations by federal authorities. Note that the ostensible purpose of Trump’s program is to enhance public safety, but it might well have the opposite effect.

### **MARIJUANA POLICY**

More than 20 million Americans use marijuana regularly. Millions more use it occasionally. Unlike most politicians, who take pains to avoid the subject, Attorney General Sessions is outspoken. Last year, during a Senate hearing on narcotics, he said, “Good people don’t smoke marijuana.” Sessions gets exasperated by those who lament the problem of mass incarceration in America. He sees tens of millions of people in the United States behaving badly. To stop use, he wants to see more punishment.

During his campaign, Trump said marijuana legalization was a matter that should be left to the states. Since he won the election, however, Trump has steered clear of the subject. It remains to be seen whether Trump will let Sessions loose in the marijuana area. Sessions believes that drug arrests help in the fight against violent crime, but he has that backwards. Like alcohol prohibition, drug prohibition attracts criminal gangster organizations to fight one another to control the lucrative black-market profits. During the 1920s, the news media reported on the “beer wars.” When alcohol prohibition ended and businesspeople took over alcohol production, violent crime rates declined steadily.

Although police shootings have dominated the crime news, the most dramatic change in our criminal justice system in recent years has been the legalization of marijuana. Voters in eight states—Alaska, California, Colorado, Maine, Massachusetts, Nevada, Oregon, and Washington—have now approved ballot

measures to legalize pot. Millions of people are no longer subject to searches, arrests, and prosecution by local law enforcement. And police units are freed up to focus on unsolved violent crimes.

The constitutional doctrine of federalism means the states can opt out of the war on marijuana. Even though the feds can’t force local police to arrest marijuana users, Sessions might nevertheless use the Federal Bureau of Investigation and the Drug Enforcement Administration to raid marijuana firms in the eight states that have legalized it. The federal government can’t overrule what the states have opted to do, but it can interfere and impede. The feds have enough power to disrupt the legal marketplace and scare away peaceful entrepreneurs. Of course, the criminal cartels that Trump wants to target would be strengthened by such a federal crackdown.

### **CIVIL ASSET FORFEITURE**

Police organizations are quite fond of civil asset forfeiture laws. It’s no wonder—these laws enable the police to seize property from people who have not been convicted of a crime. Because the police are invoking a civil instead of a criminal procedure, many constitutional safeguards do not apply. In some states, the presumption of innocence is completely absent. If someone’s vehicle is seized and the owner wants to get it back, he must prove his innocence in court instead of the government having to prove wrongdoing.

Police like to say that cash seizures are rarely contested in court. Strong proof, they say, that police are using the forfeiture laws against criminals, not innocent victims. A more likely explanation is that it is very hard

to fight city hall. As columnist George Will has observed, civil forfeiture “forces property owners of limited means to hire lawyers and engage in protracted proceedings against a government with limitless resources just to prove their innocence.”

In addition to the relaxed legal standards, civil forfeiture laws commonly allow police departments to keep the assets they seize. The proceeds are plowed back into the budget of the police department instead of the government’s general treasury fund. That arrangement creates a financial incentive that can distort the priorities of police agents. Instead of focusing on the most dangerous criminals, the police turn their attention to asset seizures. According to the Institute for Justice, the revenue from federal forfeitures in 1986 totaled \$93.7 million. By 2014, the fund had \$4.5 billion from annual deposits.

The distortions and injustices spawned by these controversial laws have been widely reported and reformers are gaining traction in both the legislatures and the courts. Ohio Governor John Kasich signed a measure in January that will require a criminal conviction before the police can permanently seize property. Other reform measures have been enacted in New Mexico, Minnesota, and Mississippi. In March, Supreme Court Justice Clarence Thomas called attention to possible constitutional infirmities in the procedures and essentially invited a legal challenge that the Court could rule upon.

Alas, this is another area where Trump is moving the other way. Trump’s candidacy was supported by many police unions and they now want to be rewarded for that support. During a televised White House meeting with law enforcement officials, the president asked how he might be of help to them. One sheriff complained that a state lawmaker in Texas was drafting a bill to reform the state’s civil asset reform arrangement. The sheriff told Trump that the Mexican cartels would benefit from the measure and that police efforts would be harmed. Don’t worry, Trump assured the sheriffs, the lawmaker would be

sorry because Trump would “destroy” his political career. The president later said that he was only joking about the political retaliation, but his tweet storms could undermine reform efforts at the state level.

### MILITARIZED POLICING

In the summer of 2014, the Ferguson, Missouri, police department was widely criticized for its use of military gear in response to protests over the police shooting of a black teenager. Ferguson police officers looked like soldiers—helmets, camouflage, armored vehicles, and M-16s. Since the equipment and weaponry came from the Pentagon, President Barack Obama found himself on the defensive when he was asked a basic question: Why do local police departments need weapons of war? In response to the growing outcry, Obama ordered a formal review of the Pentagon program.

The transfer of armored military vehicles and weapons began well before Obama took office—even before the 9/11 terrorist attacks. The transfers are merely one aspect of a disturbing militarization trend among local civilian police departments that started to take off in the 1980s. The rationale for a Special Weapons and Tactics (SWAT) unit was to have a specialized unit available for extraordinary events, such as a hostage situation. As the years passed, several things happened. First, SWAT units started to spring up all around the country—even in small towns where there was no violent crime. Second, the mission of these units expanded to include more routine policing assignments, such as the execution of search warrants in drug cases. Third, the Pentagon made armored military vehicles and weapons available to local police departments.

When Obama’s review was complete, he only tinkered with the Pentagon program. Some outlandish weapons (at least for police work), such as bayonets and grenade launchers, were banned. And more standardized procedures and additional training were ordered for local police. Truth be told, Obama was

“Massive deportations, marijuana raids, and militarized policing will jolt the foundations of our constitutional republic.”

probably informed that there was little interest in changing the giveaways. Members of Congress like to help out their local police departments—and the rank and file cops covet the military gear.

The problem is that when the police confuse their mission with the military mission, there are just too many unnecessary confrontations. A *New York Times* investigation in March found that paramilitary raids often led to avoidable deaths, gruesome injuries, and multimillion dollar legal settlements.

During the presidential campaign, Trump

promised to rescind the 2015 Obama order. As with forfeiture, police unions are now lobbying the White House to follow through on that promise. Chuck Canterbury, national president of the Fraternal Order of Police, says, “We’re going to remind him of that promise and ask him to deliver.” Few expect Trump to break that promise and reverse course.

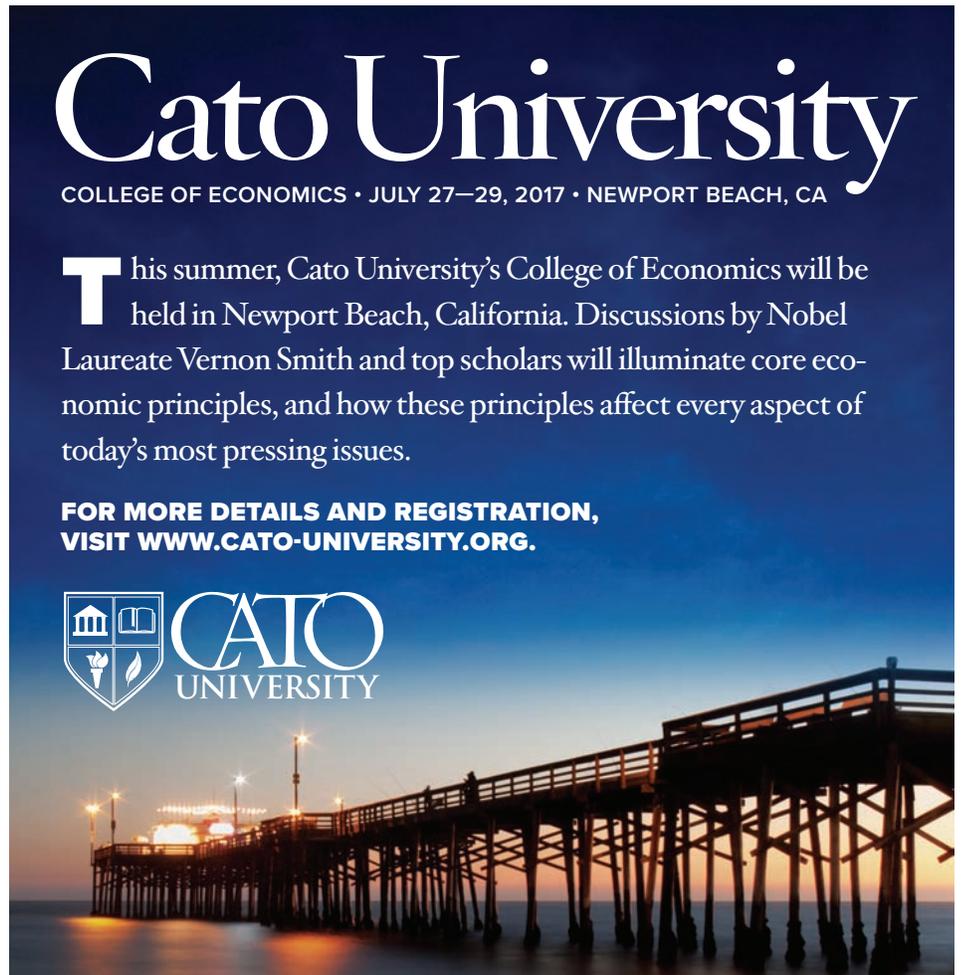
To conclude this overview of the criminal justice policy landscape, the first few months of the Trump presidency have been unsettling, to say the least. Trump may have good intentions, but his gut instincts in the area of criminal justice are terribly misguided. Massive deportations, marijuana raids, property seizures, and militarized policing will jolt the foundations of our constitutional republic. Criminal justice reformers will win some policy battles—especially at the state and local level, but the road ahead looks treacherous indeed. ■

# Cato University

COLLEGE OF ECONOMICS • JULY 27–29, 2017 • NEWPORT BEACH, CA

This summer, Cato University’s College of Economics will be held in Newport Beach, California. Discussions by Nobel Laureate Vernon Smith and top scholars will illuminate core economic principles, and how these principles affect every aspect of today’s most pressing issues.

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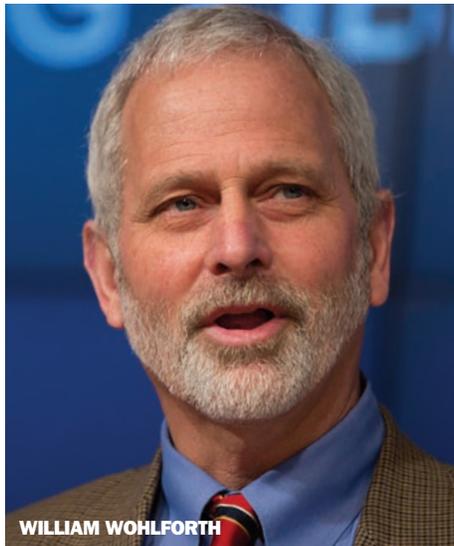
# Should America Shape the World?

Should the United States continue its role as a military hegemon, deeply engaged in alliances and globe-shaping efforts? Or should it pull back and assume a more modest role of restraint? A Cato book forum in March discussed these questions. Stephen G. Brooks and William C. Wohlforth, who recently published *America Abroad: The United States' Global Role in the 21st Century*, are the preeminent scholars arguing for what academics call primacy or deep engagement. Cato adjunct scholar Eugene Gholz of the University of Texas and Cato research fellow Benjamin Friedman make the scholarly argument for an alternative strategy, restraint, sometimes called retrenchment, which argues for fewer military commitments and wars.

**WILLIAM WOHLFORTH:** Steve and I have been partners in crime as coauthors for some 20 years now, and I'd say for at least 15 of those 20 years, we have been debating a group of highly intelligent scholars of international relations who believe the United States should pull back, retrench, cut a much smaller figure on the international scene than it has generally done since 1950. After a long while, we finally decided to write about what we would actually do if we were responsible for the affairs of this country.

The book answers what Steve and I think are two of the most important questions, if not *the* most important questions, facing the United States in the 21st century. The first question is, does the United States have the material capacity to continue to sustain a strategy of deep engagement with the world? Or is it soon going to decline in terms of its power position, to the point where we'll no longer have the capacity to act as a superpower?

The first part of the book takes a deep dive into the numbers, but I won't bore you with the details, I'll simply come to our essential finding: that the world has changed in ways to render the rise of new challengers to an existing great power like the United States much more difficult than in the past. The complexity, the scale of investments necessary to create the military systems, platforms, infrastructure, and software that sustain the United States' position are things that are only



WILLIAM WOHLFORTH

the result of decades of investment, and it's very, very hard to catch up. The one country that really has, at least in the broad sense, the capacity to either become a superpower or render the United States incapable of being one is China. And that country is *far* behind the United States technologically. Indeed, the gap between the rising and defending power of the current global order is larger in this technological realm than in all the canonical cases of rise and decline of powers in the world, such as the rise of Germany, the rise of the United States itself in the 19th and early 20th centuries, and the rise of the Soviet Union in the middle of the 20th century. We believe that it's going to be many decades before the United States would be compelled by

its circumstances to cease pursuing this grand strategy of deep engagement.

Which leads, of course, to the second key question: *should* the United States continue to pursue this strategy just because it can? And to answer that question, I invite my colleague Steve Brooks up to the stage.

**STEPHEN BROOKS:** The bulk of our book, *America Abroad*, is devoted to analyzing what the world would look like if the United States no longer pursued a global leadership role. Today, let me make five overall points.

The first overall point is that many people who critique the deep engagement grand strategy misinterpret it because they do not focus on its constant defining elements. So what are those constant defining elements? Let me first talk about what they are not. Is active democracy promotion a defining element? We would say no. Is assertive human rights promotion a defining element? We would say no. Is the regular use of military power a defining element? We would say no. What ultimately lies at the core of deep engagement are three objectives: first, managing the external environment to reduce near- and long-term threats to U.S. security; second, promoting a liberal economic order, to expand the global economy and maximize U.S. prosperity; and third, creating, sustaining, and revising the global institutional order to secure necessary interstate cooperation to advance American interests. Those three objectives have been constant elements of U.S. grand strategy for 70 years. And the pursuit of those objectives underlies what is arguably the United States' most consequential strategic choice, which is to maintain security partnerships with allies in three core regions: Europe, East Asia, and the Middle East.

Our second overall point is that the costs and risks of deep engagement are manageable. The scholarly proponents of retrenchment

advance a powerful set of arguments for why deep engagement is costly and risky, and they point to five things in particular: free riding—if we defend our allies they spend less; entrapment—our allies might pull us into a war that’s not in our interest; budgetary costs—we’re spending all this money on defense that we could be using here at home; balancing—we make other countries mad, or madder, than they would otherwise be; and finally temptation, which is the “if you have a hammer, then everything looks like a nail” problem—this constant temptation to do *something*, given all of the material power that we have.

In the book we went through and addressed all of these counterarguments in detail. We think they’re serious, and by far the strongest of them is the temptation argument. As for the free riding, entrapment, and budgetary cost arguments, they obtain, but weakly in our view. Regarding free riding, sure, our allies free ride. But it’s less than you think, if you consider *all* the things that our allies do instead of boiling down the metric of judging our allies to one thing, which is how much they spend on defense. For example, when is the last time Germany voted against us in the International Monetary Fund? That kind of support matters.

Regarding entrapment, it’s a real risk, but as Tufts University’s Michael Beckley shows in his study on entangling alliances, this is a risk the United States has so far essentially avoided. And you must also balance that risk against the risk that, if a conflict emerges and we get pulled back into a region, it’s going to be more costly than being there in the first place to prevent the conflict. Summing up, there are certainly costs and risks of deep engagement, but they are manageable.

Our third overall point is that security provided from the outside by the United States is more likely to produce stability in these three core regions than if security were provided by local actors. We outline the many reasons this is the case in the book.

Our fourth overall point is that academic proponents of retrenchment, in general, miss

many of the benefits of deep engagement. The analysis of grand strategy cannot be limited just to security affairs. But that is just what the vast majority of proponents of retrenchment do, and they consequently miss the large economic and institutional benefits of deep engagement.



STEPHEN BROOKS

“The analysis of grand strategy cannot be limited just to security affairs.”

Finally, pulling back from the world would be a very risky grand experiment that is simply not worth running. The world is *not* perfect for America’s interests. We just think things would be even worse if the United States pulled back.

**EUGENE GHOLZ:** This book is a very meaningful contribution, but it presents no theory of the causes of war or the causes of threat. The chapter that outlines the book’s intellectual underpinnings talks about the role of deterrence and the role of assurance, which are important concepts. But proponents of restraint believe in deterrence, too. So the authors are not doing a good job of creating an underpinning architecture of what makes

their sense of what causes conflict in the world *different* from what I think. And I think that, implicitly, their argument rests on what academics call hegemonic stability theory—that you can overwhelm the rise of potential challengers by making a strong commitment to providing global security. We’ll tell people what to do, but we’re nice guys so they won’t be too upset about it, and that will resolve the causes of war or threat. That’s what their argument really builds on, but they don’t actually say that, and it’s telling.

The trouble is, that overall argument that says the world is a more peaceful place when there is one powerful country that keeps security competition down is actually quite weak in academia. You can’t do a systematic, careful, theoretical review of the academic evidence in favor of hegemonic stability theory, because it just sort of petered out in the late 1980s or 1990s, because people couldn’t figure out how to make the case for it. It’s a weak intellectual case, and they really need to fix that to make their argument believable. If we want to prevent the causes of war, why do we think having one strong power actively engage with the world addresses the problem of rising threats?

As they bolster the case for deterrence, since what they believe they’re doing with deep engagement is deterring threats around the world, they actually make a case which is very helpful to the restraint case. They argue that deterrence is easier than compellence—that if the United States is helping deter threats to Japan, that’s an easier job than coming back later and trying to chase away dangers. But, of course, if deterrence is relatively easy, countries can deter on their own behalf—they don’t need the United States.

You have to ask yourself, what does the United States have to do to convince other countries that we’re serious about extending our deterrent envelope to protect others? We have to show people we’re a little bit crazy, that we’re willing to fight, and pay real costs, to fight wars for other countries, not for ourselves. And *that’s* the real danger—that we fight extra wars. It’s not that Germany entraps us into fighting

on their behalf, but that we willingly fight on Germany's behalf because we're trying to convince not only Germany but also Japan and also Taiwan and also Korea and all of our other dependencies around the world that we're crazy enough to fight on their behalf also. Basically we have to convince people that we like to fight. And that's costly.

Bill and Steve say over and over again that there is *no* temptation problem in true deep engagement to do democracy promotion, or to do humanitarian interventions. But that's not the temptation I'm talking about. The temptation I'm talking about is that if you define the core security, prosperity, and liberty interests of the United States the way they do, you will be tempted to fight wars and make costly commitments around the world on *security* grounds. So when they say that they personally opposed the Iraq War, I'm not sure why. The Iraq War was not justified on the grounds of democracy promotion. That was the *ex post facto* justification after we didn't find weapons of mass destruction. But in the lead-up to the Iraq War, the argument was that Iraq posed a security threat to the United States. If deep engagement says that we care about three regions in the world, and one of them is the Middle East, we care about nuclear proliferation, we care about oil, and we believe that it's necessary to use U.S. force to protect against nuclear proliferation and against instability in oil-producing regions of the world—based on the logic of deep engagement, how do you say no to the Iraq War? And the Iraq War was a terrible blunder, as they agree.

I think that they've developed a very important argument, but I think they downplay the real costs and risks, and they fail to adjust to the way the world has changed. They contort their description of the Cold War grand strategy of the United States in various ways to make it seem like deep engagement is just a continuation of fighting the Cold War, which was justified. And that's not right. The Cold War was about resisting a particular enemy that was powerful and threatening. This is about shaping and changing the inter-

national environment and picking fights around the world. Tempting the United States to intervene over and over again.

**BENJAMIN FRIEDMAN:** I have three issues with the book. First, it focuses on critics of deep engagement who say it's unsustainable



“Based on the logic of deep engagement, how do you say no to the Iraq War?”

rather than those, like me, who say the real problem is that it's sustainably bad. Second, it ignores some nonsecurity costs of deep engagement. Third, it understates the security dangers of deep engagement, specifically the problems of entanglement and temptation.

The book goes to great lengths to show that the costs of deep engagement are sustainable, and that switching over to restraint wouldn't save much—at least not enough to matter a lot economically. I think the authors basically succeed in those claims, although I would point them to recent work we've done here at Cato, showing that we could save another trillion or so over a decade by adopting restraint. But even that, I'll admit, would only cause the national debt to grow to \$27 trillion instead of

\$28 trillion in the next decade. So clearly our military strategy is not going to be the solution to our fiscal troubles.

But what they don't refute is the version of restraint that says the problem with deep engagement isn't that it can't be sustained, but that it *can*. Let me quote Stein's Law: "If something cannot go on forever it will stop." Our major policy problems aren't things that are unsustainable, they're things that we can do sustainably, to our detriment. We're rich and powerful enough in the United States to do a lot of dumb things in our foreign policy for a long time without ruin. But that doesn't make it a good idea, any more than being fabulously wealthy makes it a good idea to buy a fleet of 50 Lamborghinis and have an expensive drug habit.

They also ignore some of the nonsecurity costs of deep engagement, most importantly its contribution to the damage to liberal government, which is a major, if not *the* major cost of deep engagement. Deep engagement harms liberal values in several ways.

First, the prospect or realization of unnecessary wars justifies the state's restriction of various individual freedoms. That occurs not just because the state grows, and the military establishment grows and taxes more money out of people's pockets, but also due to the direct curtailment of liberties in the name of security. Second, the supposed requirement for presidential dispatch, which results from deep engagement, boosts presidential power and saps that of Congress, the most democratic branch. This contributes to the tendency in U.S. foreign policymaking to resemble a kind of oligarchy of insiders only occasionally hindered by democratic oversight. Third, deep engagement encourages the growth of a large national security bureaucracy shrouded in secrecy, which further retards oversight and debate.

Those developments lead to generally dumber policies, because the separation of powers, where it still applies, produces conflict, which generates information about policy that

*Continued on page 19*



# Money: Its Unfree Past . . .

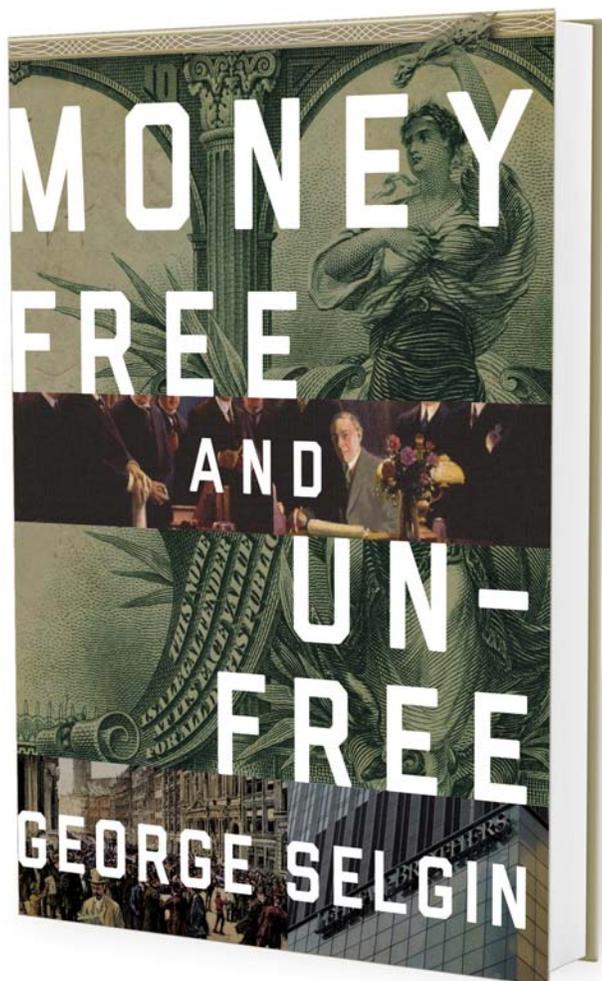
**M**ost people, and many economists, take for granted that the status quo of the Federal Reserve is the best possible arrangement, that the way to prevent financial crises is through more regulation, and that alternative currency systems are wild and unscientific ideas. But in reality, these popular notions are the result of the fact that these same people, including economists, know too little about monetary history. In a new book, Cato's George Selgin, whom James Grant of *Grant's Interest Rate Observer* has deemed "the best monetary thinker in Washington, D.C.," combats that ignorance with a sweeping review of monetary history that turns these misguided popular notions on their heads.

*Money: Free and Unfree* is a collection of essays that represent several decades of research. This research delves back into pre-Civil War history to find the true root of U.S. financial woes: the government's unnecessary interventions into the monetary system, which disrupted successful private-sector arrangements. Selgin details how the Civil War prompted the indebted federal government to ramp up its involvement in the banking and currency system, limiting commercial banks' ability to issue their own bank notes and tying currency to the government's debt. This in turn launched the country into some of its first financial crises.

He goes on to review how an early 20th-century push to halt future crises culminated in the creation of the Federal Reserve. The National Monetary Commission was set up to investigate the best means of preventing financial crises. But instead, the Commission ended up as a "Trojan horse," as Selgin puts it, for Wall Street's self-serving schemes. The Commission's chairman, Sen. Nelson Aldrich (R-RI), was a notorious partisan with close ties to Wall Street, and he wielded his new power to pursue Wall Street's preferred plan: a central bank, which could protect and shield them from failure, all the while denying that they were creating a centralized system in the first place. Selgin exposes the propaganda that the Fed has engaged in to obscure its true functions, and the many ways in which it has failed to perform its duties.

Most importantly, Selgin undermines, chapter by chapter, the false claim that our current monetary system is inevitable and that no viable alternative structures exist. Alternatives he discusses include a monetary rule, the gold standard, and rule-bound fiat standards. In a final essay, he makes the case for streamlining the Federal Reserve's operating system in order to help it better deal with financial crises. Although he deems his suggestions here merely "palliative," and ultimately advises more radical reforms, there are still more immediate steps we can take to remedy our current less-than-ideal situation.

Selgin's work is indispensable reading for understanding not only why the status quo of monetary thinking is wrong, but also why economists got things so wrong in the first place—the forgotten history of our monetary system.



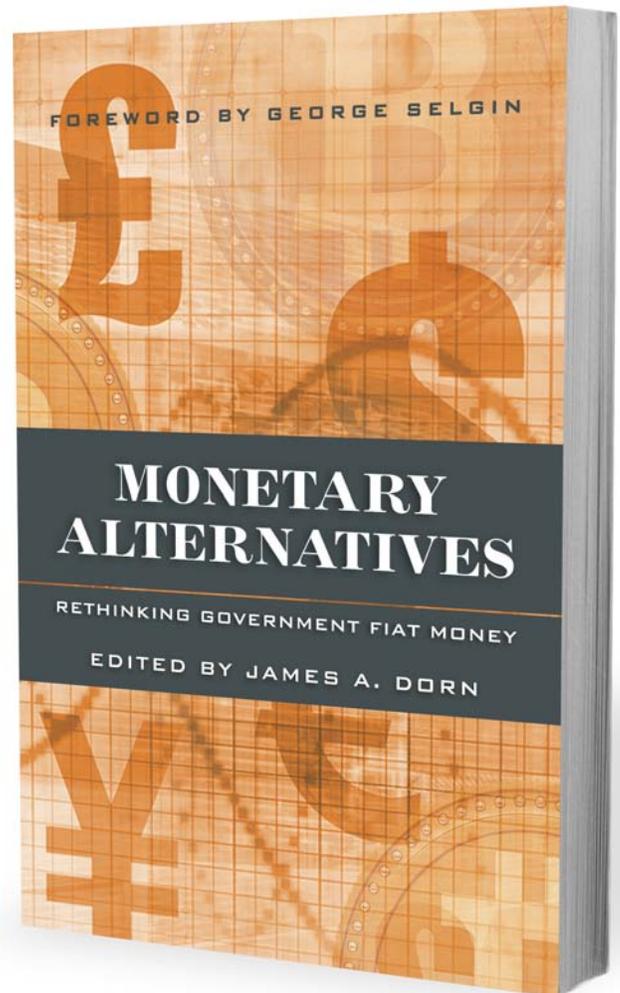
# and Its Future of Freedom

**D**espite widespread ignorance of our monetary history and general acceptance of government fiat money and the Federal Reserve's unlimited powers, the case for alternatives has never been stronger. The Fed's failure to prevent financial crises, coupled with the rise of technology and alternative monetary options such as Bitcoin, make a compelling case for the dawn of new alternative monetary systems. In *Monetary Alternatives: Rethinking Government Fiat Money*, editor James A. Dorn of Cato's Center for Monetary Alternatives has gathered leading scholars to examine some of those alternative systems and outline the way to reform.

The collection's distinguished contributors include Claudio Borio, Jeffrey Lacker, John Allison, James M. Buchanan, Peter Bernholz, Charles Plosser, John B. Taylor, Leland Yeager, Scott Sumner, and Lawrence H. White. Some essays evaluate the Fed's role in monetary policy; others discuss how to restore a monetary constitution; others debate rules versus discretion; while others present in-depth considerations of alternatives to government fiat money, such as gold and silver, currency competition, and cryptocurrency.

"A limited constitutional government calls for a rules-based, free-market monetary system, not the topsy-turvy fiat dollar that now exists under central banking," Dorn writes. The essays therefore examine the constitutional basis for alternatives to central banking, making the case for a self-regulating and independent monetary regime that operates with private contracts, rather than a centralized, politicized, and interventionist system.

The book is also particularly timely, as the Cato Institute prepares to celebrate its 40th anniversary and the Center for Monetary Alternatives is set to host its 35th annual monetary conference. The collection includes both newer papers and others that were originally published as early as 1986. As Cato's George Selgin notes in the foreword, much has changed in the last few decades. When Cato was first founded, there was very little interest in monetary alternatives, and economists were confident that the Federal Reserve was a stable and well-oiled system. "Throughout the 1980s and 90s," Selgin reminisces, "while journalists and most academic economists celebrated the Fed's mastery of scientific monetary management, and other think tanks avoided the topic of monetary reform, Cato kept the subject alive, offering a safe haven, in the shape of its An-



nual Monetary Conference, for the minority of experts that continued to stress the need for fundamental monetary reform."

*Monetary Alternatives* draws on Cato's years of scholarship to propose concrete ways to improve our current system and implement alternatives. As the Cato Institute looks forward to its next 40 years, Dorn writes with the hope that the insights in this volume will "help shape a new monetary order based on freedom and the rule of law." ■

**PURCHASE MONEY: FREE AND UNFREE AND MONETARY ALTERNATIVES AT CATO.ORG/STORE AND ONLINE RETAILERS.**



1.



2.



3.



4.

**C**ato held its Annual Benefactor Summit in Naples, Florida. 1. Cato’s THAYA BROOK KNIGHT with Sponsor MARTHA RANDALL. 2. J. D. VANCE, author of the bestselling *Hillbilly Elegy*, discussed the growing tendency among the white working class he grew up with to despair of changing their circumstances and to blame society for their problems. 3. Nobel laureate ANGUS DEATON made the case that not all inequality is a bad thing—especially not the sort of inequality that springs from innovation and invention. “To be against that sort of inequality is to be against progress itself,” he said. 4. Cato’s EMILY EKINS discussed why so many millennials initially embrace the socialist label but grow to dislike big government as they age and make more money.



**R**EP. JASON CHAFFETZ (R-UT) came to Cato to discuss the findings of a report by the House Committee on Oversight and Government Reform, which he chairs, on the troubling lack of oversight in police use of “stingrays” to track and monitor cell phones.



**A**t a Cato Policy Forum, author MUSTAFA AKYOL made the case that Islam is not an inherently illiberal religion, but that it must take a path akin to the 18th-century Jewish Enlightenment, which integrated Jewish tradition with liberal Enlightenment-era values.



**A**t the Capitol Hill Launch for the latest edition of the *Cato Handbook for Policymakers*, REP. JIM JORDAN (R-OH) praised the handbook as an essential guide to ending out-of-control spending and protecting personal liberties.

**FEBRUARY 1:** Cato Institute Policy Perspectives 2017 (Naples, FL)

**FEBRUARY 2:** Everything You Wanted to Know about Border Adjustability but Were Afraid to Ask

**FEBRUARY 3:** Will President Trump Threaten Free Speech?

**FEBRUARY 15:** Stingrays: A New Frontier in Police Surveillance

**FEBRUARY 15:** Islamic Liberalism: Real or False Hope?

**FEBRUARY 16:** *Cato Handbook for Policymakers*, Capitol Hill Launch

**FEBRUARY 22:** Trump's Energy Policy: Promise or Peril?

**FEBRUARY 23:** Life after BRAC: Has the Time Come for Another Round?

**FEBRUARY 27:** *Crude Strategy: Rethinking the U.S. Military Commitment to Defend Persian Gulf Oil*

**MARCH 2:** Annual Benefactor Summit (Naples, FL)

**MARCH 2:** *Business and the Roberts Court*

**MARCH 6:** Setting Transportation Infrastructure Priorities

**MARCH 7:** *Nuclear Weapons and Coercive Diplomacy*

**MARCH 8:** Setting Infrastructure Priorities: Considerations for the 115th Congress

**MARCH 10:** *Everyone Loses: The Ukraine Crisis and the Ruinous Contest for Post-Soviet Eurasia*

**MARCH 17:** Rethinking Regulatory Takings: A Preview of *Murr v. Wisconsin* on the Eve of Oral Argument

**MARCH 21:** *America Abroad: The United States' Global Role in the 21st Century*

**MARCH 23:** What Voters Hate about Obamacare: Public Polling and the Affordable Care Act's Impact on Healthcare Quality

**MARCH 29:** Can Health Insurance Innovations Reduce Prices and Drive Cost-Effective Care?

**MARCH 30:** *Inside Job: How Government Insiders Subvert the Public Interest*

**MARCH 31:** Cato Institute Policy Perspectives 2017 (New York, NY)

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](http://WWW.CATO.ORG/EVENTS). YOU CAN ALSO FIND WRITE-UPS OF CATO EVENTS IN PETER GOETTLER'S BIMONTHLY MEMO FOR CATO SPONSORS.

# Cato Calendar

**CATO UNIVERSITY:  
COLLEGE OF ECONOMICS  
NEWPORT BEACH, CA • HYATT REGENCY  
JULY 27-29, 2017**

Speakers include Vernon L. Smith, Jeffrey Miron, Lynne Kiesling, Dan Ikenson, and Tom G. Palmer.

**CONSTITUTION DAY CONFERENCE  
WASHINGTON • CATO INSTITUTE  
SEPTEMBER 18, 2017**

Speakers include Neal Katyal, Nina Totenberg, Roger Pilon, and Philip Hamburger.

**CATO CLUB 200 RETREAT  
LAGUNA BEACH, CA  
MONTAGE LAGUNA BEACH  
OCTOBER 5-8, 2017**

**CATO UNIVERSITY: COLLEGE OF  
HISTORY AND PHILOSOPHY  
PHILADELPHIA • WESTIN  
OCTOBER 26-28, 2017**

Speakers include Robert MacDonald, Steven Davies, Tom G. Palmer, and David Boaz.

**THE FUTURE OF MONETARY POLICY  
35TH ANNUAL MONETARY CONFERENCE  
WASHINGTON • CATO INSTITUTE  
NOVEMBER 16, 2017**

Speakers include Loretta Mester, Martin Feldstein, John B. Taylor, and Andy Barr.

**CATO INSTITUTE POLICY PERSPECTIVES  
NEW YORK • INTERCONTINENTAL BARCLAY  
NOVEMBER 17, 2017**

**CATO INSTITUTE POLICY PERSPECTIVES  
CHICAGO • THE DRAKE  
NOVEMBER 29, 2017**

**CATO INSTITUTE POLICY PERSPECTIVES  
NAPLES, FL • RITZ-CARLTON  
FEBRUARY 6, 2018**

**30TH ANNUAL BENEFACITOR SUMMIT  
RANCHO MIRAGE, CA • RITZ-CARLTON  
FEBRUARY 22-25, 2018**

**CATO CLUB 200 RETREAT  
MIDDLEBURG, VA  
SALAMANDER RESORT & SPA  
SEPTEMBER 27-30, 2018**

*Cato's program grows more competitive by the year*

## The Ivy League of Internships

Cato has noted in the past that its intern program is even more competitive than Ivy League schools—in 2013, the acceptance rate to the Institute's summer internship was just 4.9 percent. Harvard and Columbia, the most exclusive of the Ivys, accept about 6 percent of their applicants. But this year, Cato has blown the Ivy League out of the water. Applications to its summer program increased nearly 80 percent—from 760 last year to 1,360. This in turn lowered Cato's acceptance rate to just 2.5 percent.

Like in the Ivy League, Cato interns receive an elite education and unique opportunities. Unlike many other internships, where interns mostly fetch coffee and perform office drudgery, Cato interns conduct real research and gain scholarly experience. They are each assigned to a scholar or particular department, where they are able to immerse themselves in policy research and contribute meaningfully to Cato's work. One intern from the most recent class cite-checked a legal brief that was going to be filed before the U.S. Supreme Court; another compiled a survey of statistical methods and built statistical models for his scholar to prepare for research for an upcoming paper. Another helped the foreign policy department investigate the question of whether the troop surge in Iraq was successful by compiling exhaustive data on corruption rankings, government spending on services, troop deployments to specific regions in Iraq, and other relevant statistics. In addition to policy interns, there are also interns in communications-oriented roles, including media relations, government affairs, and video production.

All interns attend an intensive seminar series, which covers a broad range of history, philosophy, policy, and professional development topics. Most of these in-depth sessions



(Clockwise from top) The Spring 2017 class of Cato interns poses for a photo; Cato Student Programs Coordinator MARK HOUSER reviews a record 1,360 applications for Cato's summer program; and Cato's Hayek Auditorium reaches overflow capacity for the 2016 intern debate.

are led by Cato scholars, which gives interns an opportunity to meet and interact with scholars from all of the Institute's policy departments, regardless of their individual placement. They receive rigorous training in public speaking and op-ed writing, and practice their resume-writing and interview skills. They also go on field trips to historical points of interest in the D.C. area, such as Monticello, Mt. Vernon, Gettysburg, and various museums.

Interns also participate in one of Cato's most well-attended yearly traditions: the libertarianism vs. conservatism intern debate. Every year, two interns from the Cato Institute debate two interns from the Heritage Foundation in Cato's Hayek Auditorium on the merits of their respective political philosophies, fielding questions from a mod-

erator and the audience. At the end of the debate, Cato conducts a survey of attendees, asking them about their political beliefs and which side they believe won the debate. This gives interns a chance to engage with ideas they disagree with in a friendly but constructive context, gaining valuable practice in confronting ideological opponents in a respectful, professional manner.

Cato's field of interns is always diverse—students hail from top schools both in America and from across the world. They leave with a wealth of intellectual and practical skills, and frequently go on to work in academia and policy as the next generation of libertarian thinkers, leaders, and advocates. ■

**CATO ACCEPTS INTERNS IN THE FALL, SPRING, AND SUMMER SEMESTERS. TO APPLY, VISIT [CATO.ORG/INTERN](http://CATO.ORG/INTERN).**

Four decades of leading scholarship on regulatory reform

## Regulation at 40

This year marks the 40th anniversary of *Regulation* magazine, Cato's quarterly journal where the nation's top economists, law professors, and other policy experts offer easy-to-understand explanations and insights on current topics in regulatory policy.

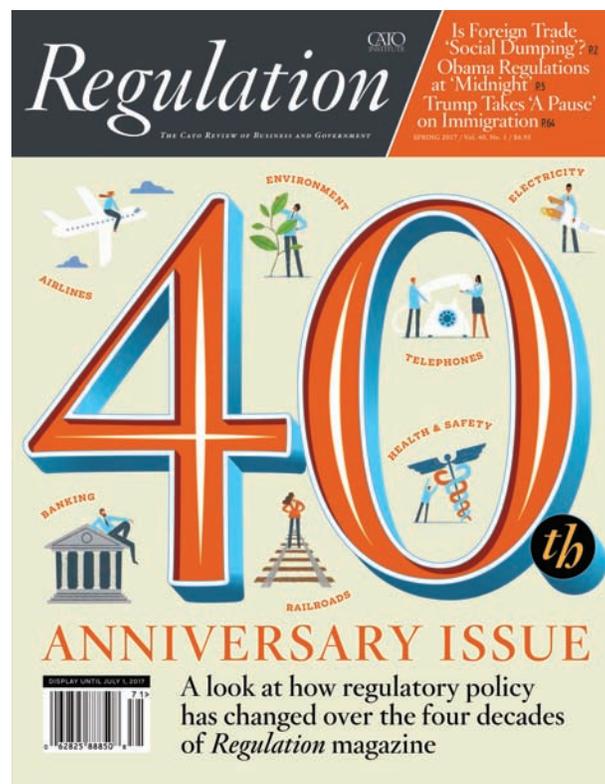
*Regulation* was initially published by the American Enterprise Institute but moved to the Cato Institute in 1990 under the editorship of Bill Niskanen. Its other past editors include such esteemed policy thinkers as Murray Weidenbaum, Antonin Scalia, Walter Olson, Peter Huber, and Christopher C. DeMuth. It has published articles by Alfred Kahn, James C. Miller III, Robert Crandall, Charles Schultze, Walter Oi, Robert Bork, Jeanne Kirkpatrick, Anne Brunsdale, Bruce Yandle, Richard Gordon, Peter Schuck, Louis Lasagna, Christopher DeMuth, Richard Epstein, Michelle White, Kate Baicker, Joseph Kalt, Kenneth Arrow, Paul Joskow, Robert Litan, Kip Viscusi, Thomas Gale Moore, Ronald Coase, George Stigler, Charles Calomiris, Richard Wilson, Susan Dudley, Edward Glaeser, Robert Pindyck, Daniel Shaviro, and numerous other distinguished thinkers.

Cato's Peter Van Doren has edited the magazine since 1999, with the goal of making it a summary of important articles in economic journals, along the lines of *Scientific American* or *Reader's Digest*—something that college-educated readers with an interest in regulatory reform, but without advanced training in economics, can easily access. Its readers include newspaper columnists; staff economists for Congress and government agencies, who use its articles to fill their noneconomic bosses in on pressing economic issues; corporate executives; and college professors, who frequently use *Regulation* articles in their

undergraduate classes.

In a special 40th-anniversary edition of *Regulation*, Van Doren and managing editor Thomas Firey reflect on how regulation has changed in the four decades since the magazine's inception. There have been major victories, thanks in part to the scholarship that has appeared in the pages of *Regulation*. In the mid-20th century, they note, economists and legal scholars became increasingly skeptical of “market failure” justifications for regulations. At the same time, computer technology and the increased availability of social science data allowed them to test their suspicions and prove that regulations were hurting, rather than helping, the economy. Their work inspired a push toward deregulation and doing away with the traditional price and entry regulations that *Regulation* was initially founded to critique, such as railroad and airline regulations. And even more hearteningly, these regulations are not in danger of returning anytime soon. “There is no movement to reinstitute the Civil Aeronautics Board or repeal branch banking,” write Van Doren and Firey. “Even in the darkest days of last decade's financial crisis, calls for restoring the repealed sections of the Glass-Steagall Act gained little traction.”

But unfortunately, other types of regulation have cropped up in their place, and the momentum for market liberalization has stalled in recent years. “No policy change in the last 16 years would seem to qualify as a major deregulation, while such initiatives as



A look at how regulatory policy has changed over the four decades of *Regulation* magazine

the 2001 USA PATRIOT Act, 2002 Sarbanes-Oxley corporate governance act, 2002 and subsequent farm bills, 2005 Energy Policy Act, 2010 Patient Protection and Affordable Care Act, 2010 Dodd-Frank financial regulation act, and 2015 Federal Communications Commission ‘net neutrality’ regulations have expanded federal intervention in markets and added tens of thousands of pages to the U.S. Code of Federal Regulations,” they write.

Nevertheless, the history of *Regulation* and its demonstrable impact on American scholarship and policymaking should provide hope for the future. *Regulation* will continue educating policymakers and students on cutting-edge research in regulatory policy, and spreading the objective, fact-based case for freer markets. ■

**READ REGULATION ONLINE AT CATO.ORG, OR SUBSCRIBE TO RECEIVE IT QUARTERLY IN YOUR MAILBOX.**

# Why Tuition Rises

**A**s the cost of college continually escalates, some claim that a dip in direct subsidies to public institutions is to blame. In **“Not Just Treading Water: In Higher Education, Tuition Often Does More than Replace Lost Appropriations”** (Policy Analysis no. 810), Neal



McCluskey, the director of Cato's Center for Educational Freedom, dismantles these claims. In fact, while per pupil and local appropriations for public colleges have

declined in the last 25 years, total state and local spending has gone up. In the aggregate, schools have seen large net revenue increases. He goes on to tackle other possi-

ble explanations for rising tuition but contends that they, too, fall short of explaining the sharp tuition increases. Ultimately McCluskey suggests that the real culprit here may in fact be federal aid, which encouraged state policymakers to cut appropriations and let the federal government make up the difference.

## HOW BROTHELS REDUCE CRIME

Does prostitution increase or decrease sex crimes? Unfortunately, data on both sex crimes and prostitution are rare, leaving these questions largely unanswered until now. In **“The Effect of Indoor Prostitution on Sex Crimes: Evidence from New York City Recession”** (Research Briefs in Economic Policy no. 70) Ricardo Ciacci of the European University Institute and Maria Micaela Sviatschi of Columbia Uni-

versity use a unique data set on prostitution and crime in New York City to survey the effect of indoor prostitution establishments (e.g., prostitution solicited at a strip club or escort service, as opposed to outdoor solicitation on a street corner). They find that the presence of an indoor prostitution establishment in a given precinct led to a 0.4 percent daily reduction in sex crimes per precinct, seemingly because potential sex offenders prefer to attend indoor prostitution establishments rather than commit sex crimes.

## UNCERTAIN TERRITORY

While some have proposed economic and policy uncertainty as a significant cause of the Great Recession, others counter that such a theory could not explain the varying geographic distribution of job losses. In **“Uncertainty and the Geography of the**

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**Andrei Illarionov**..... Senior Fellow  
**Thaya Knight**..... Assoc. Director, Financial Regulation Studies  
**Jason Kuznicki**..... Research Fellow  
**Tate Lacey**..... Policy Analyst  
**David Lampo**..... Publications Director  
**Simon Lester**..... Trade Policy Analyst  
**Timothy Lynch**..... Director, Criminal Justice  
**Neal McCluskey**..... Director, Center for Educational Freedom  
**Jon Meyers**..... Art Director  
**Patrick J. Michaels**..... Director, Center for the Study of Science  
**Jeffrey Miron**..... Director of Economic Studies  
**Daniel J. Mitchell**..... Senior Fellow  
**John Mueller**..... Senior Fellow  
**Johan Norberg**..... Senior Fellow  
**Alex Nowrasteh**..... Immigration Policy Analyst  
**Walter Olson**..... Senior Fellow  
**Randal O'Toole**..... Senior Fellow  
**Tom G. Palmer**..... Senior Fellow  
**Daniel R. Pearson**..... Senior Fellow, Trade Policy Studies  
**Alan Petersson**..... Director of MIS  
**Aaron Ross Powell**..... Director, Libertarianism.org  
**Alan Reynolds**..... Senior Fellow

**Claudia Ringel**..... Manager, Editorial Services  
**Flemming Rose**..... Senior Fellow  
**Nicholas Quinn Rosenkranz**..... Senior Fellow  
**Julian Sanchez**..... Senior Fellow  
**George Selgin**..... Director, Center for Monetary Alternatives  
**Ilya Shapiro**..... Senior Fellow  
**Brad Stapleton**..... Visiting Research Fellow  
**Michael Tanner**..... Senior Fellow  
**A. Trevor Thrall**..... Senior Fellow  
**Marian Tupy**..... Senior Policy Analyst  
**Valerie Usher**..... Chief Financial Officer  
**Peter Van Doren**..... Editor, *Regulation*  
**Ian Vásquez**..... Director, Ctr. for Global Liberty and Prosperity

**Richard Lindzen**..... Distinguished Senior Fellow  
**José Piñera**..... Distinguished Senior Fellow

**Radley Balko**..... Media Fellow  
**Randy E. Barnett**..... Senior Fellow  
**Vladimir Bukovsky**..... Senior Fellow  
**Lawrence Gasman**..... Senior Fellow in Telecommunications  
**Steve H. Hanke**..... Senior Fellow  
**John Hasnas**..... Senior Fellow  
**Penn Jillette**..... Mencken Research Fellow  
**David B. Kopel**..... Associate Policy Analyst  
**Deepak Lal**..... Senior Fellow  
**Christopher Layne**..... Research Fellow, Foreign Policy Studies  
**Gerald P. O'Driscoll Jr.**..... Senior Fellow  
**P. J. O'Rourke**..... Mencken Research Fellow  
**William Poole**..... Senior Fellow  
**Jim Powell**..... Senior Fellow  
**Vernon L. Smith**..... Senior Fellow  
**Teller**..... Mencken Research Fellow  
**Cathy Young**..... Research Associate

**James M. Buchanan (1919–2013)**..... Distinguished Senior Fellow  
**F. A. Hayek (1889–1992)**..... Distinguished Senior Fellow  
**William A. Niskanen (1933–2011)**..... Chairman Emeritus

**Great Recession**” (Research Briefs in Economic Policy no. 69), Daniel Shoag of Harvard University and Stan Veuger of the American Enterprise Institute construct a measure of policy uncertainty at the state level and find both that local uncertainty appears to have increased local unemployment and that these patterns of uncertainty and unemployment are, in fact, consistent with the geographic pattern of the recession, suggesting that uncertainty’s role in the recession should not be discounted.

### ON POLICE, A RACIAL DIVIDE

In “**Deep Racial Divide in Perceptions of Police and Reported Experiences, No Group Is Anti-Cop**” (Public Opinion Brief no. 1), Cato’s Emily Ekins reveals the dramatic results of a new Cato Institute/ YouGov survey of public attitudes toward the police, which finds that minorities are far less confident than whites that police use appropriate force, are impartial, and are competent and held accountable. Only 17 percent of African Americans think that the justice system treats all Americans equally, for example, compared with 49 percent of white Americans. Yet at the same time, ultimately no group is “anti-cop,” and regardless of race, Americans oppose reducing the number of police in their communities.

### LESSONS FROM CHINA

In a world of fiat money, most major central banks have abandoned monetary targeting in favor of setting interest rates to achieve long-run price stability and full employment. There is, however, an exception: China, which does use money growth targets. In “**Monetarism with Chinese Characteristics**” (Working Paper no. 42) Cato’s Jim Dorn



contrasts monetary policymaking at the Federal Reserve with that employed by the People’s Bank of China, critiques financial repression in China, and offers some lessons learned from China’s system, whose use of monetary targets has helped prevent severe inflation and recession. At the same time, however, he argues that China must allow privatization and the free flow of capital and information, along with implementing the rule of law, if the country is to truly prosper.

### THE POWER OF UNIONS

In 2011, Wisconsin passed a landmark law limiting the bargaining power of public sector unions. This provides a unique opportunity to study the effects of unions, since it is sometimes argued that they don’t signifi-

cantly impact wages but instead primarily lobby for better working conditions or other benefits. In “**The Effects of Public Unions on Compensation: Evidence from Wisconsin**” (Research Briefs in Economic Policy no. 71), Andrew Litten of the University of Michigan finds that reducing union power in turn reduced total teacher compensation by 8 percent, or \$6,500, and that the highest-paid teachers were benefiting the most from unionization.

### THE ‘HOW’ OF FISCAL ADJUSTMENTS

When designing fiscal policy, scholars debate what most impacts a fiscal adjustment: is it the “when” of an adjustment—whether it occurs during an economic expansion or recession; or is it the “how”—whether the adjustment comes from spending cuts or from tax increases. In “**Is It the ‘How’ or the ‘When’ That Matters in Fiscal Adjustments?**” (Research Briefs in Economic Policy no. 72), Alberto Alesina of Harvard University, Gualtiero Azzalini of New York University, Carlo Favero and Francesco Giavazzi of Bocconi University, and Armando Miano of Harvard University create a model to test this question and find that the “how” matters more—fiscal adjustments based on spending cuts are much less costly than those based on tax increases. ■

*Continued from page 11*

empowers oversight in interest groups to the least risky and extreme policies. That moderating process generally produces policies more attuned to the national interest than those made by a largely unchecked executive. The book argues, following Michael Beckley of Tufts, that the problem of entanglement, which it defines as when a country is pulled into a conflict it would otherwise avoid because of an alliance, is rare enough to safely ignore. One problem with this is that Beckley’s short list of entanglements essentially includes Vietnam. The cost of that war alone ought to make us worry about entanglement.

Also, again relying on Beckley, the book

largely defines entanglements away. Alliances meld our sense of our interest with that of our allies. That’s what George Washington was concerned about in his farewell address. That kind of entanglement doesn’t count in Beckley’s analysis, which accounts for its really low incidence. A better definition of entanglement might include the Korean War and Libya, along with Vietnam, which would show that the problem is more substantial than Brooks and Wohlforth admit.

On temptation, I appreciate the book’s admission that restraint would lessen the risks of fighting needless wars. But I’m not reassured by their alternative antidote, which includes “the emergence of prudent leadership” and

the resurrection of “domestic institutional constraints on the president’s authority” to make war. I prefer the old-fashioned view that we should take seriously the possibility that the president could be a schmuck. One potential “domestic institutional constraint” on the president’s ability to start wars is the strategy of restraint and the smaller military establishment it encourages.

Finally, a note on risk. It is wrong to presume that the status quo is the careful, conservative, and risk-averse course. Of course, there are risks to adopting restraint, but the current strategy of deep engagement is riskier, thanks to its costs, the wars it encourages, and its threat to liberal values at home. ■

## CATO POLICY REPORT

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# CATO

# “To Be Governed...”

## EVERYTHING WRONG WITH THE ECONOMY IN ONE STORY

Nestlé USA, the maker of Häagen-Dazs, Baby Ruth, Lean Cuisine and dozens of other mass brands, is moving its U.S. headquarters to Arlington. . . .

Nestlé was lured to the area, executives say, by its proximity to lawmakers, regulators and lobbyists—and more than \$16 million in state and county subsidies.

—*WASHINGTON POST*, FEBRUARY 1, 2017

## SOMEBODY NEEDS TO READ ARTICLE I

Joe Pizarchik spent more than seven years working on a regulation to protect streams from mountaintop removal coal mining.

It took Congress 25 hours to kill it.

The rule is just one of dozens enacted in the final months of the Obama administration that congressional Republicans have begun erasing under a once-obscure law—much to the dismay of agency staffers who hauled those regulations through the long process to implementation.

“My biggest disappointment is a majority in Congress ignored the will of the people,” said Pizarchik, who directed the Interior Department’s Office of Surface Mining Reclamation and Enforcement from 2009 through January. . . .

“I believe there’s a good chance that, in a legal challenge, that a court will overturn Congress’ actions here as an unconstitutional usurpation of the executive branch’s powers,” he said.

—*POLITICO*, FEBRUARY 11, 2017

## IMAGINE AN ECONOMY WHERE WE ALL HAVE GOOD, WELL-PAYING JOBS AS REGULATORS

The regulation actually would have cost relatively few mining jobs and would have created nearly as many new jobs on the reg-

ulatory side, according to a government report.

—*WASHINGTON POST*, FEBRUARY 19, 2017

## MAKE COLLEGE BORING AGAIN

Frank Tomasulo has taught film studies at universities since 1977. Last year, he eliminated several classic movies from his syllabus for fear of offending his mostly liberal students.

He no longer shows “Birth of a Nation” (because it deals with racism), the W.C. Fields film “The Bank Dick” (because it makes fun of blind people), or “Tootsie.”

“It brings up too many gender stereotypes,” said Dr. Tomasulo.

Such caution is part of the new normal for many faculty across the country as they adapt to an environment in which a word or turn of phrase—if perceived to be biased or insensitive—has the power to derail a career.

In recent years, hundreds of schools have created bias-response teams that field thousands of complaints from students from across the political spectrum who believe they have been slighted or slurred over race, gender, sexual orientation or political views. At some campuses, conservative students have posted clips of lectures to expose what they see as professors’ radical leftist views.

—*WALL STREET JOURNAL*, FEBRUARY 28, 2017

## WE’RE GUESSING SHE DIDN’T MAJOR IN ECONOMICS

Restaurant diners are footing the bill for rising minimum wages.

In lieu of steep menu price increases, many independent and regional chain restaurants in states including Arizona, California, Colorado and New York are adding surcharges of 3% to 4% to help offset rising labor costs. . . .

Jamie Hampton, 37 years old, walked out of San Diego’s BO-beau kitchen + bar in January after seeing a notice about the surcharge.

She and her boyfriend chose a restaurant across the street that didn’t charge one.

—*WALL STREET JOURNAL*, MARCH 9, 2017

## CAN WE TELL THE SATIRICAL POLITICIANS FROM THE REAL ONES?

The self-proclaimed most beautiful candidate in Serbia arrives in the sleepy town of Kovacica at midday, a loudspeaker perched atop his aging car. His name is Ljubisa Beli Preletacevic, or just Beli for short. He’s tall, blue-eyed and wearing his signature white suit and shoes, his long hair in a knot above his head. He tells NPR that he has a message for voters:

A new politician is here to save you. I’m pure and clean. Whatever the other politicians promise you, I will promise you three times more.

I’ll give jobs to everyone and big pensions to everyone. I’m going to move the sea here because we need a beach.

Beli founded a satirical party last year.

—*NPR*, MARCH 30, 2017

## BECAUSE SHE KNOWS THE TRAVEL BUSINESS SO WELL

Chelsea Clinton is joining the board of directors of online travel booking site Expedia. . . .

Filings for IAC [InterActiveCorp] say Chelsea Clinton is entitled to receive \$300,000 in a mix of stock and cash each year for serving as a director.

—*ASSOCIATED PRESS*, MARCH 18, 2017

## THE MADURO DIET

Venezuela’s Living Conditions Survey found that nearly 75 percent of the population lost an average of at least 19 pounds in 2016 due to a lack of proper nutrition amid an economic crisis.

—*UPI*, FEBRUARY 19, 2017