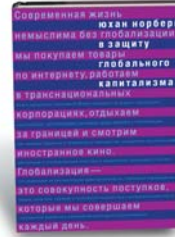




SEN. JOHN SUNUNU
On the fight for limited government
PAGE 4



AYAAN HIRSI ALI
Defends freedom for women in the Muslim world
PAGE 6



CATO'S GLOBAL FREEDOM INITIATIVE
New project takes libertarian ideas worldwide
PAGE 9

Cato Policy Report

July/August 2007

Vol. XXIX No. 4

The Global Flat Tax Revolution

BY DANIEL J. MITCHELL

In the early 1990s, Rep. Dick Armey (R-TX) proposed a flat tax. He would have junked the Internal Revenue Code and replaced it with a system designed to raise revenue in a much less destructive fashion. The core principles were to tax income at one low rate, to eliminate double taxation of saving and investment, and to wipe out the special preferences, credits, exemptions, deductions, and other loopholes that caused complexity, distortions, and corruption.

The flat tax never made it through Congress, but it's been adopted by more than a dozen other countries since 1994.

It's unfortunate that the United States is missing out on the tax reform revolution. Instead of the hundreds of forms demanded by the current tax system, the Armey flat tax would have required just two postcards. Households would have used the individual postcard to pay a 17 percent tax on wages, salary, and pensions, though a generous family-based allowance (more than \$30,000 for a family of four) meant that there was no tax on the income needed to cover basic expenses.

CONT'D ON PAGE 10

DANIEL J. MITCHELL is a senior fellow at the Cato Institute and is currently writing a book on international tax competition.



Clint Bolick presents a copy of his new book, *David's Hammer: The Case for an Activist Judiciary*, to Juanita Swedenburg, the Virginia winemaker who challenged laws banning the interstate shipment of wines directly to consumers. Bolick successfully argued her case in the Supreme Court in 2005, a story he tells in his book. Just two months after attending the launch of Bolick's book, Mrs. Swedenburg died at her Virginia home. She was a patriot who handed out pocket copies of the Constitution and who made our constitutional rights real by exercising them. R.I.P.



BY DAVID BOAZ

“When you combine liberty, wealth, and social openness, we have more choices and options than any people in history.”

Editorial Are We Freer?

In the 1980s, before he was appointed to the Supreme Court, Clarence Thomas spoke at the Cato Institute. He read from Cato’s standard description of itself the line, “Since [the American] revolution, civil and economic liberties have been eroded.” It didn’t seem that way to black Americans, he noted. Duly chastened, we changed it.

But it’s still a common theme among libertarians: we’re losing our freedom, year after year. We quote Thomas Jefferson: “The natural progress of things is for liberty to yield and government to gain ground.” We read books with titles like *Freedom in Chains*, *Lost Rights*, *The Rise of Federal Control over the Lives of Ordinary Americans*, and *The Road to Serfdom*.

But is it true? Are we less free? Less free than when?

I think libertarians often find it difficult to rouse most Americans with dire warnings about the state of freedom. Most Americans don’t feel unfree. Maybe that’s because they’re “sheeple,” or maybe it’s because we really aren’t losing our freedom.

One of the problems with discussing whether Americans are more or less free is some confusion over the meaning of “freedom.” There are three things that at least feel like freedom: wealth, which gives us options; openness, which also gives more people more options; and political liberty.

First, let’s consider the effects of widespread wealth. Air travel is so cheap today that young Cato staffers fly off to Iceland to attend a rock concert. That feels like a kind of freedom, a choice barely open to me 30 years ago and unimaginable to my parents. Wealth allows us to choose where to live. It gives us more freedom to choose careers, or to opt out of the career rat-race and still have a decent standard of living. We are less constrained by the necessity of eking out a living.

Wealth gives us cars, computers, iPods, cellphones, knowledge beyond belief organized and accessible at Google.com, and other really cool stuff. It gives us far more options for how to spend our leisure time; indeed, a downside of affluence may be that it gives us so many options that we feel overstressed, conscious of all the interesting things we don’t have time to do.

Wealth is not liberty (though it is a product of political and economic liberty). But having ever more abundant resources feels a lot like freedom.

Second, we live in a more open society. Liberalism has always campaigned for a society of merit, not of status. That meant in the first place the dismantling of the privileges of nobility and aristocracy. Over the centuries it has also meant extending liberty and equality to people of other races and creeds, to women, to Jews, to gays and lesbians. Sometimes that involves dismantling actual legal barriers, and sometimes it means only a falling away of social prejudices and codes. For the most part laws didn’t keep women and Jews out of colleges

and careers in the 1950s; deep-seated social customs did. Sodomy laws imposed real legal penalties on gays, but the closet door was kept firmly shut more by social pressures and the fear of losing jobs, friends, and families.

Even if we’re seeing mostly the decline of social restrictions, it’s hard to tell blacks, women, Jews, and gays that they’re less free in modern America than they were at some earlier point.

Finally, let’s look at actual political and economic liberty. It’s easy to point to the ways that government has grown and liberty has yielded: soaring federal and state spending; a shift to federal and presidential power; the growth of surveillance and databases; intrusive regulations on hiring and firing, on eating and drinking and smoking; expanding entitlements; and all the threats to civil liberties in the post-9/11 era (which just might, if not reined in by the courts and political reaction, make my optimism outdated). The list could go on endlessly, and that’s what causes lots of libertarians to deplore “the road to serfdom” and our “lost rights.”

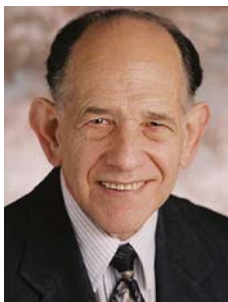
But that list doesn’t tell the whole story. In so many ways we are freer today than we were at various points in the past. Depending on just when you think was the golden age of liberty, I could counter by reminding you of oriental despotism, slavery, the Dark Ages, absolute monarchy, rigid class privilege, and so on. In the 20th century, fascism, communism, and national socialism. And even in our own country in my lifetime, we lived with military conscription, 90 percent income tax rates, wage and price controls, restricted entry to transportation and communications, indecency laws, and Jim Crow.

I think that, on balance, Americans today are more free than any people in history. And certainly when you combine liberty, wealth, and social openness, we have more choices and options than any people in history. So take a moment to reflect on our history, have a glass of wine, and celebrate what we’ve achieved after centuries and millennia of hard work and political struggle.

And then, refreshed and rejuvenated, return to the struggle. There never was a golden age of liberty, and there never will be. People who value freedom will always have to defend it from those who claim the right to wield power over others. Foreign and domestic, right and left, there are still plenty of people seeking to take our liberty, to force us into collectivist schemes, to promise us security or handouts in return for our freedom, or to impose their agendas on the rest of us. But slowly, over time, with high points and low points, freedom is winning.

Levy Named to Cato Board of Directors

Robert A. Levy has been named to the Board of Directors of the Cato Institute. He will also remain senior fellow in constitutional studies, a nonstaff position. Levy received his Ph.D. in business from the American University



and, after 25 years in business, his J.D. from the George Mason University School of Law. Levy clerked for Judge Royce C. Lamberth on the U.S. District Court in Washington, D.C., and for

Judge Douglas H. Ginsburg on the U.S. Court of Appeals for the D.C. Circuit. He founded CDA Investment Technologies, a major provider of financial information and software, and was its CEO until 1991. A director of the Institute for Justice and a member of the Board of Visitors of the Federalist Society, he was also an adjunct professor of law at Georgetown University from 1997 until 2004.

He is the author of *Shakedown: How Corporations, Government, and Trial Lawyers Abuse the Judicial Process* and the coauthor of a work in progress, *The Dirty Dozen: Losing Liberty, Expanding Government—A Non-Lawyer's Guide to the Worst Supreme Court Cases of the Modern Era*. Levy's writing has appeared in the *New York Times*, the *Wall Street Journal*, *USA Today*, the *Washington Post*, *National Review*, and many other publications. He has also appeared on national radio and television programs including ABC's *Nightline*, CNN's *Crossfire*, Fox's *The O'Reilly Factor*, MSNBC's *Hardball*, and NBC's *Today Show*. Recently he was one of the attorneys in the *Parker v. District of Columbia* case, in which the U.S. Court of Appeals for the D.C. Circuit overturned the District's ban on private ownership of handguns.

N E W S N O T E S

Speech at Cato Makes Headlines in South Africa; Scholar's Criticisms of Vaccine Carry Weight

The April 11 speech by **TONY LEON**, opposition leader in South Africa, received extensive coverage on the South African Broadcasting Corporation evening news and in the newspaper *Business Day*. Leon praised the transition of South Africa from "racial authoritarianism to multiparty democracy under law" and the ANC government's handling of the economy. But he pointed to crime, unemployment, education, AIDS, "racial engineering," and a shameful foreign policy toward Zimbabwe as failures of President Thabo Mbeki's government.

As Congress began to consider reauthorization of farm programs, the Council on Foreign Relations hosted an online debate on farm subsidies between Bob Young, chief economist of the American Farm Bureau, and **DANIEL GRISWOLD**, director of Cato's Center for Trade Policy Studies. The debate can be found at <http://www.cfr.org/publication/13147/>.

Last June the Centers for Disease Control recommended that all girls and young women between the ages of 9 and 26 be vaccinated against a common sexually transmitted disease known as human papillomavirus (HPV) that could cause cervical cancer. When state legislative sessions started in 2007, the pro-vaccine camp was making headway. Who wouldn't want to prevent cervical cancer? By the end of March, 24 states and the District of Columbia were considering mandating HPV vaccinations for middle and/or high school aged girls. In Texas, Governor Rick Perry mandated vaccination by executive order, and in New Mexico and Virginia, bills had already passed and were awaiting the governor's signature.

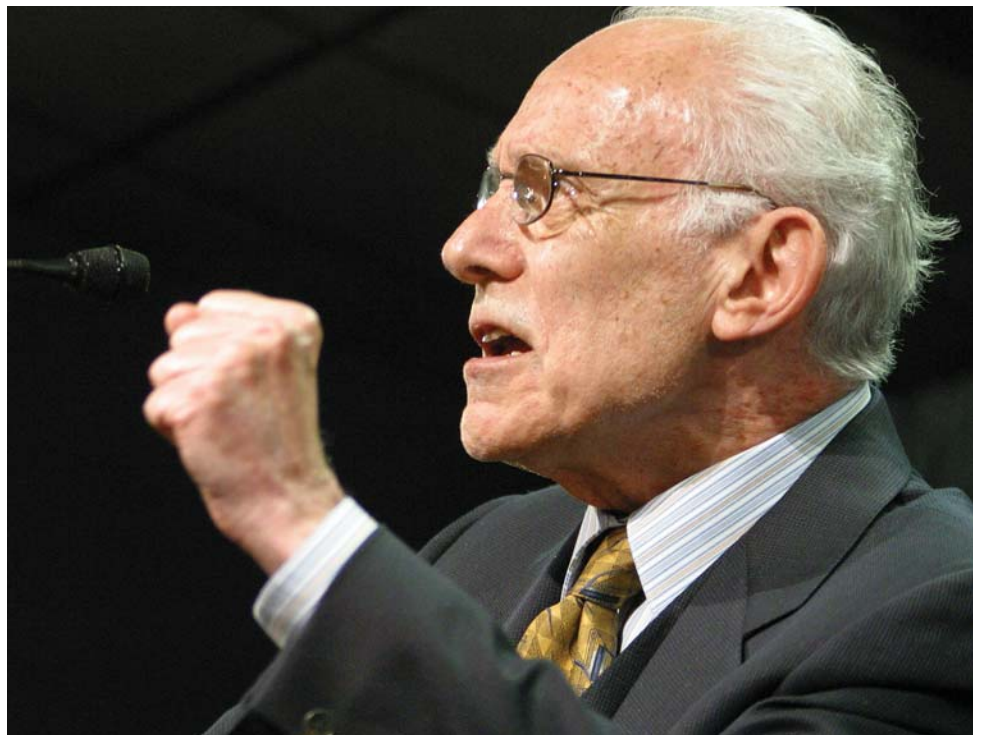
Then **SIGRID FRY-REVERE**, director of bioethics studies at the Cato Institute, stepped in. In a dozen op-eds in the *New York Times* and other major papers, she pointed out that the case for mandatory vaccination was far weaker than legislators had been told: True, cervical cancer is the number-two cancer killer of women in the world, but 80 percent of those deaths occur in developing countries where women don't have access to Pap tests. And 90 percent of all types of HPV infections in adolescents and 75 percent of those in adults disappear without any treatment whatsoever. Fry-Revere argued that women and girls should decide whether or not to be vaccinated in consultation with their physicians, not at the mandate of their legislators. More criticism followed, including editorials in the *New England Journal of Medicine* and the *Journal of the American Medical Association*, voicing many of the same arguments. By the end of May, bills that had passed one chamber of state legislatures with huge margins foundered in the other, or expired on governors' desks unsigned. In the end, of 24 states considering mandatory HPV vaccination laws, only one, Virginia, actually passed such a law.





SENATOR JOHN SUNUNU (R-NH) spoke at Cato's luncheon seminar in New York on May 8. He said that while the betrayal of fiscal conservatism by Republicans is unfortunate, it should have been expected. If Americans continue to vote for politicians who profess a commitment to small government and the free market, but are unable to articulate why they believe in those principles, then we will continue to get bad government. He also spoke at a May 23 Cato Capitol Hill Briefing, "Freeing the Farm: A Farm Bill for All Americans," about how farm subsidies distort the market and block progress toward free trade.

VIC GOLD, a veteran campaign operative who got his start as Barry Goldwater's deputy press secretary, is an old friend of George H. W. Bush and Lynne Cheney, but after watching the current administration and other Republican leaders steer the party sharply away from the tradition of Goldwater-style conservatism, Gold decided he was mad as hell and wasn't going to take it anymore. He wrote a book, *Invasion of the Party Snatchers: How the Holy-Rollers and the Neocons Destroyed the GOP*. In a forceful speech at a Cato Book Forum on May 10, Gold said that the GOP today would never nominate a Barry Goldwater for president.





Shortly after being interviewed on *The Daily Show with Jon Stewart* about his new book, BRINK LINDSEY (top), Cato's vice president for research, spoke at a Cato Book Forum on May 30 about *The Age of Abundance: How Prosperity Transformed America's Politics and Culture*. New York Times columnist DAVID BROOKS challenged the book's thesis that the spoils of capitalism have made Americans more libertarian and argued that strong governmental power is needed to deal with problems such as economic mobility. Lindsey responded that the number of immigrants, many of whom flee European welfare states, who come to America to study and work shows that capitalism continues to produce vibrant mobility. His book was reviewed by George Will in the June 10 *New York Times*.

EXPRESO DE GUAYAQUIL • MIÉRCOLES, 9 DE MAYO DE 2007

Analista cree que Chávez no culminará su gobierno

El venezolano Gustavo Coronel se encuentra en Guayaquil

REDACCIÓN GUAYAQUIL

El político venezolano y experto petrolero, Gustavo Coronel, presentó un panorama de la actual situación social, política y económica de Venezuela y sus posibles consecuencias en el contexto internacional, regional e interno de su país, durante el almuerzo corporativo realizado por la Cámara de Industrias de Guayaquil.

Coronel, quien fue presidente de Petróleos de Venezuela (Pdvsa) en 1979 y congresista en 1999, dijo que es opositor al gobierno de Hugo Chávez porque su política ha causado un colapso económico y su gobierno ha sido uno de los más corruptos de la historia de su país.

Frente a cerca de un centenar de industriales locales y al alcalde de la ciudad, Jaime Nebot, Gustavo Coronel aseguró que el actual gobierno de su país ha despilfarrado doscientos cincuenta mil millones de dólares, derivados del ingreso petrolero en ocho años.

"Ese dinero lo utiliza (Hugo Chávez) para donar dinero a gobiernos extranjeros amigos como los dos mil millones de dólares anuales que le está dando a Fidel Castro (petróleo subsidiado); o como los millones que le está dando a Evo Morales, o como los cuatro mil millones de dólares que ha comprado en bonos argentinos. Utiliza el ingreso petrolero a espaldas de la nación venezolana", indicó. Después de calificar como una experiencia trágica, lo vivido por Venezuela en



AMELIA ANDRADE / EXPRESO

El analista venezolano, Gustavo Coronel habló de la situación política y económica de su país.

los ocho años del chavismo, dijo que Pdvsa hoy es una empresa totalmente politizada, al igual que las Fuerzas Armadas, donde sus miembros tienen la obligación de gritar en los desfiles "Patria, Socialismo o Muerte, lo cual jamás hubiera sido aceptable bajo un sistema democrático".

Para Gustavo Coronel, la razón por la que Hugo Chávez ganó varias elecciones es que repartió algunos de los ingresos petroleros a los sectores más pobres de la población, lo cual los hizo sentir como que ahora son tomados más en cuenta.

SE GASTA MÁS DE LO QUE INGRESA

El analista Gustavo Coronel cree que haber triplicado la deuda nacional de 22.000 millones de dólares a cerca de 70.000 millones en ocho años y registrar una pérdida de 12.000 millones de dólares de las reservas internacionales del Banco Central de Venezuela, en los últimos tres meses, demuestran que el presidente Hugo Chávez está gastando más de lo que ingresa. Además, se ha alejado de organismos internacionales de crédito

y todo eso hace prever que Chávez no culminará su período presidencial, dijo Coronel.

Al preguntársele si hay similitudes entre los gobiernos de Venezuela y Ecuador, dijo que solo narra la experiencia de su país con la esperanza de que en Ecuador se pueda ver cuáles han sido los resultados y que puedan sacar sus propias conclusiones. Dijo que no conoce al presidente Correa, pero tiene referencias de que es un hombre bien preparado.

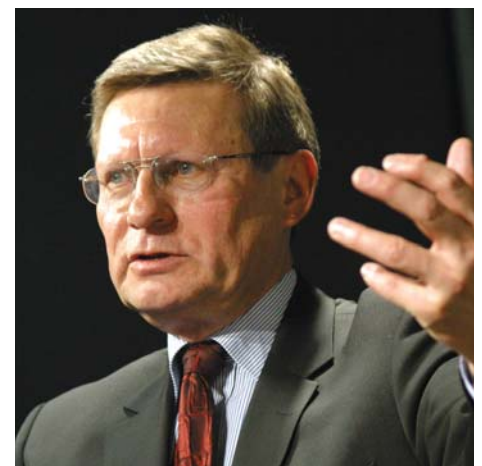
El juicio contra 14 Latin King continúa

On May 9 GUSTAVO CORONEL made headlines in Ecuadoran newspapers for his speech to 400 people at a conference sponsored by elcato.org and the Chamber of Industries of Guayaquil, the country's largest city. Coronel discussed his recent research on the Hugo Chávez regime of Venezuela and how it has enriched bureaucrats while neglecting basic services. His ideas were published last November in a Cato study, "Corruption, Mismanagement, and Abuse of Power in Hugo Chávez's Venezuela."

AYAAN HIRSI ALI, author of the book *Infiel*, spoke at Cato's New York seminar on May 8 about how so many women in the Muslim world are victimized and denied freedom, as she was growing up in Somalia. Other speakers at the seminar were Brink Lindsey and senior fellow Dan Mitchell.



Senior fellows PAT MICHAELS and JERRY TAYLOR dispelled some myths about global warming for staffers and others at a Capitol Hill Briefing on May 7. Michaels explained that global warming is real but not a critical problem. Humans have been quite proficient at adapting to warm temperatures in the past, he said, and good science shows that temperature increases in coming years will not overcome our ability to adapt. Taylor said that trying to head off global warming through emissions regulations would cost us more than we would gain.



LESZEK BALCEROWICZ, the former finance minister of Poland, spoke at a Cato Policy Forum on April 10. His comments were later covered by the *Washington Post*. Balcerowicz made the empirical case that government welfare programs fail on their own terms and used that evidence to challenge the moral underpinnings of the welfare state. He also argued that government programs often replace, not supplement, private forms of aid.

APRIL 3: *David's Hammer: The Case for an Activist Judiciary*

APRIL 10: The Economics and Ethics of the Welfare State

APRIL 11: South Africa's Democracy: Dynamic or Defective?

APRIL 12: Economic Reforms in Egypt

APRIL 16: Should the United States Be More like Scandinavia?

APRIL 17: Calm before the Storm? Developments in U.S. Trade Remedy Laws

APRIL 20: Curing the Trust Crisis in Health Care

APRIL 25: *FEC v. Wisconsin Right to Life, McCain v. Wisconsin Right to Life, Does the First Amendment Protect Political Speech?*

APRIL 26: Freeing the Farm: A Farm Bill for All Americans

MAY 1: *The End of Alliances*

MAY 7: Global Warming: Some Convenient Facts

MAY 8: Policy Perspectives 2007, a City Seminar that featured Sen. John Sununu (R-NH)

MAY 10: *Invasion of the Party Snatchers: How the Holy-Rollers and the Neo-Cons Destroyed the GOP*

MAY 18: The Alternative Minimum Tax: Reform or Repeat?

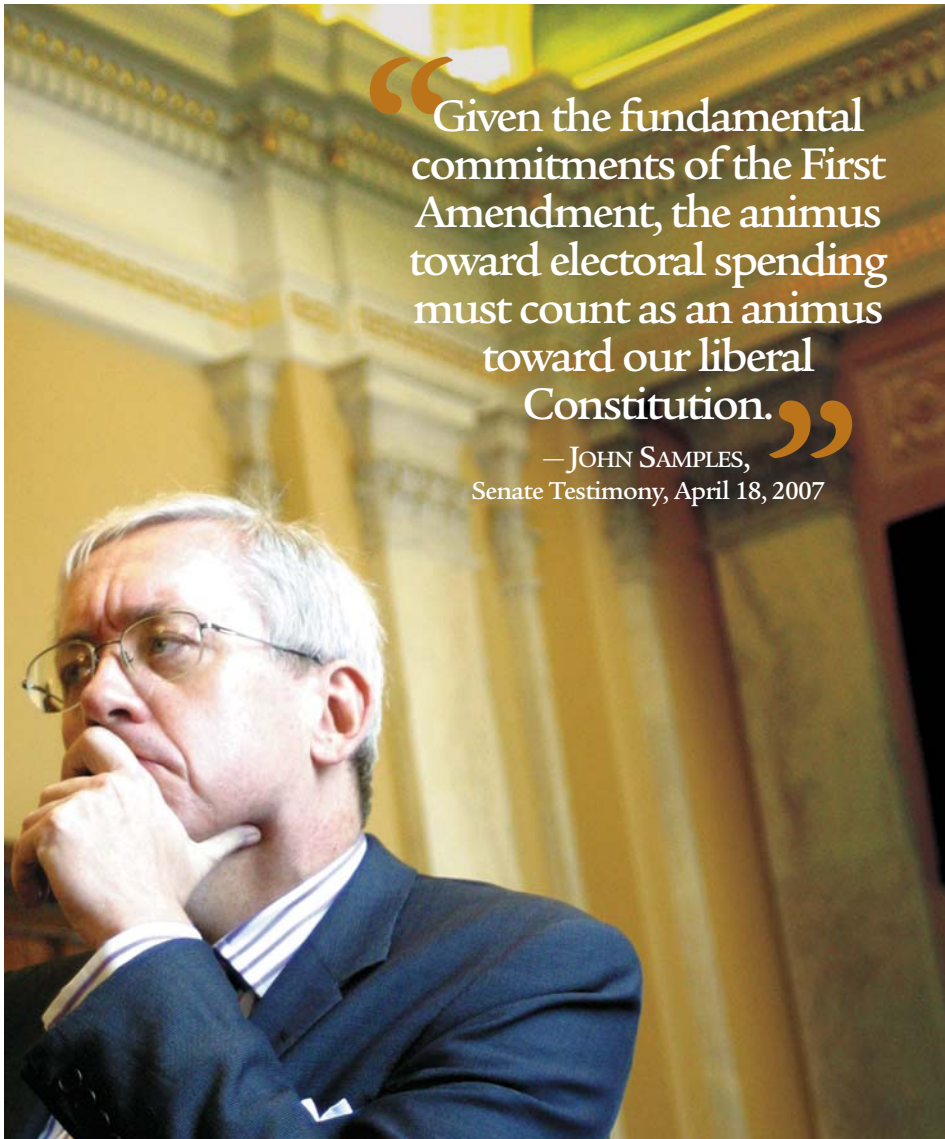
MAY 23: Freeing the Farm: A Farm Bill for All Americans, a Capitol Hill Briefing

MAY 24: Are Civil Liberties at Risk in the War on Terror?

MAY 24: Health Savings Accounts: Not Entirely Consumer Directed (Yet)

MAY 30: *The Age of Abundance: How Prosperity Transformed America's Politics and Culture*

MAY 31: *Lies, Damned Lies, and Drug War Statistics: A Critical Analysis of Claims Made by the Office of National Drug Control Policy*



“Given the fundamental commitments of the First Amendment, the animus toward electoral spending must count as an animus toward our liberal Constitution.”

—JOHN SAMPLES,
Senate Testimony, April 18, 2007

C A T O C A L E N D A R

6TH ANNUAL CONSTITUTION DAY CONFERENCE

Washington • Cato Institute
September 17, 2007

Speakers include Judge Janice Rogers Brown, Marcus Cole, and Samuel Estreicher.

CATO CLUB 200 RETREAT

Laguna Beach, CA • Surf and Sand Resort
September 27–30, 2007

Speakers include Nathaniel Branden and Michael Shermer.

POLICY PERSPECTIVES 2007

New York • Waldorf-Astoria
October 23, 2007

25TH ANNUAL MONETARY CONFERENCE

Washington • Cato Institute
November 14, 2007

Speakers include Ben Bernanke, Eddie Yue, Fred Hu, Anna J. Schwartz, and Arnold Harberger.

20TH ANNUAL BENEFACITOR SUMMIT

Las Vegas • Four Seasons
February 6–10, 2008

MILTON FRIEDMAN PRIZE PRESENTATION DINNER

New York • Waldorf-Astoria
May 15, 2008

Defending taxpayers, health freedom, civil liberties

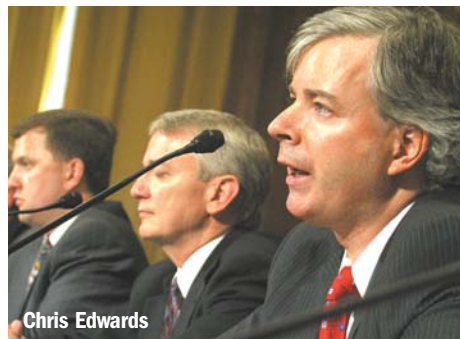
Sometimes Cato Is the Lone Voice for Liberty

Nature abhors a vacuum, but that isn't true in Washington. In a recent Cato Policy Analysis, "Budgeting in Neverland: Irrational Policymaking in the U.S. Congress and What Can Be Done about It," political scientist James L. Payne wrote about the ideological vacuum in which the federal government operates. In many instances, he found, only the side that supports bigger and bigger government gets a say. It's not surprising then that Cato scholars, through their media appearances and participation in public debates, often find themselves the only voices calling for limited government and free markets.

When David Boaz, Cato's executive vice president, testified before the U.S. Senate Committee on Appropriations on July 11, 2005, he began his remarks by thanking the committee for inviting him "to provide a little diversity at this table." Those words sum up the often-lonely position of Cato scholars. The committee was considering funding for the Corporation for Public Broadcasting, and Boaz was the only witness it heard who was not affiliated with public broadcasting. Predictably, the other witnesses, such as Patricia Harrison, president of the CPB, urged Congress to maintain and increase funding for their own activities. Boaz argued that, just as we are disturbed by state-run newspapers, we should be disturbed by state-supported television and radio and therefore urged the committee to end funding for public broadcasting.

Chris Edwards, director of tax policy studies, stood alone against an IRS crackdown on taxpayers in order to close the "tax gap." The crackdown was predictably supported by two representatives of the IRS itself and one from the Department of the Treasury, at a February 16 hearing of the House Budget Committee. A few months later, on May 24, Edwards addressed a hearing of the Senate Subcommittee on Energy, Natural Resources, and Infrastructure. He argued that Congress should remove tax barriers to energy pro-

duction and efficiency but also said that Congress should not clutter the tax code with various incentives and credits, a form of micromanagement of the economic decisions of Americans.



Chris Edwards

“The most adamant voice against tribunals was that of Timothy Lynch, director of the project on criminal justice at the Cato Institute.”

—NEW YORK TIMES, November 30, 2001



Timothy Lynch

Timothy Lynch, director of Cato's Project on Criminal Justice, found himself in a similar minority position during his testimony before the Senate Judiciary Committee on December 24, 2001. Although some of the other witnesses, such as Laurence Tribe of Harvard Law School, were critical of the Bush administration, Lynch was the only witness to argue that military tribunals are inappropriate in the war on terror. This issue's profile greatly increased in the following years, but the

debate in Congress, as seen in the recent passage in the Senate and House of a bill setting standards for detainee treatment, has focused solely on the question of how military tribunals should be regulated—not the more fundamental question of their constitutionality. The Project on Criminal Justice has been active, however, in providing one of the few voices that criticize military tribunals themselves as threats to liberty in this conflict. As Lynch argued in Cato's brief in the case of *Hamdan v. Rumsfeld*, using tribunals to prosecute suspected enemy combatants who are not members of any government's military could weaken the Sixth Amendment right to a trial by jury for civilians—including American citizens.

The free market and limited government tend to be unpopular in Washington, so even in discussions with other free-market-oriented organizations, Cato fills a void. Cato scholars have been some of the few vocal opponents of Massachusetts governor Mitt Romney's plan to require mandatory health insurance, which is based on an idea promulgated by scholars from the Heritage Foundation. At a September 21 event sponsored by the *National Journal*, Michael Tanner, Cato's director of health and welfare studies, participated in a panel discussion that followed a presentation from Governor Romney. While other panelists either praised the Massachusetts plan or criticized it for not spending more, Tanner said the plan is a surrender to the philosophy of socialized medicine. The Massachusetts subsidies, Tanner predicted, will inevitably grow beyond their initial purpose, as government programs tend to do. Tanner was apparently the only panelist uncomfortable with more dependence on government.

It is lonely at times to be a Cato scholar. But Cato's principles of individual rights would be much lonelier—indeed, absent—in many public debates if not for these instances when Cato stands alone.

Promoting human rights: free trade, toleration, and the rule of law

Cato Launches Global Freedom Initiative

Mart Laar, the former prime minister of Estonia who brought prosperity to his once-communist country through liberalizing reforms, said that he discovered the ideas of liberty when he stumbled upon an Estonian translation of *Free to Choose* by Milton Friedman. If a single book can change the fate of an entire country, what could a multilingual library, in print and online, of great works by Bastiat, Mises, Hayek, and others, translated into a number of languages, do?

Such a library of liberty is just one of the many projects that Cato's newly launched Center for the Promotion of Human Rights will pursue to bring the philosophy of personal freedom and free enterprise to

the people of the world who hear about it the least. Appropriately enough, the center was launched on July 4, 2007. Tom G. Palmer, vice president for international programs at Cato and head of the center, explains that he wants the center to apply sound business practices to the spread of freedom. His goal is to form "a worldwide libertarian movement that

effectively advances otherwise widely disparate societies toward the universal enjoyment of freedom." The Center for the Promotion of Human Rights works with the also recently launched Center for Global Liberty and Prosperity and the Center for Trade Policy Studies to advance Cato's Global Freedom Initiative.

In recent years, Cato has maintained three foreign-language programs, each

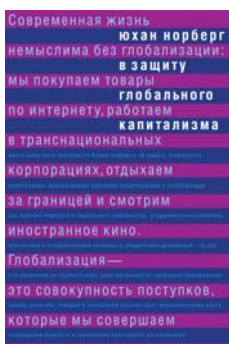
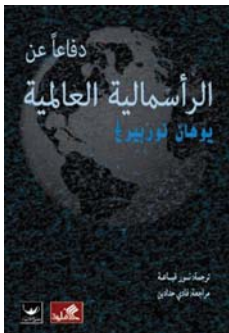


(Top) Ghaleb Hijazi, who has placed hundreds of Cato op-eds in Arabic newspapers, Amela Karabegovic, economist at the Fraser Institute, and Fadi Haddadin, editor of *misbahalhurriyya.org*, Cato's Arabic-language website, display the Arabic translation of the 2006 *Economic Freedom of the World* report. (Bottom) Cato vice president Tom G. Palmer answers questions from students and faculty after a lecture at Suleimani University in Iraqi Kurdistan. At right is Peshwaz Faizulla, who writes for Cato's Kurdish program. (Far left) Arabic and Russian translations of *In Defense of Global Capitalism* by Cato senior fellow Johan Norberg.

with its own website as a brand name: Cato.ru in Russian, Elcato.org in Spanish with a focus on Latin America, and *misbahalhurriyya.org* (the Lamp of Liberty) in Arabic. The center has added a new Chinese program in partnership with the Cathay Institute for Public Affairs (www.jtuding.org). Coming this year are Kurdish (chiraiazadi.org), Persian (cheraghezadi.org), and French programs. Each program publishes books—for example, Johan Norberg's *In Defense of Global Capitalism* was published in June in Arabic and Russian. The programs also syndicates articles to the media. For example, from April 2006 to May 2007, 300 op-eds by Cato scholars and associated writers were published in dozens of Arabic newspapers around the Middle East, and more than 200 articles were published in Spanish newspapers in 2006.

Palmer also emphasizes developing "the power of friendships and personal networks" to advance freedom. In addition to intellectual ammunition, the various websites of the center will develop social networks among libertarians around the world to facilitate the friendships and communication that Palmer sees as key to social change. Cato.ru, for example, will hold a summer school September 2–8 in Crimea, and the Chinese project will sponsor an Adam Smith Academy for students in October.

Today, thanks to Cato's Center for Promotion of Human Rights, anyone can go online and read Adam Smith's *The Wealth of Nations* in Russian, Frederic Bastiat's *The Law in Kurdistan*, and F. A. Hayek's *The Road to Serfdom* in Arabic. This is just an early accomplishment in a large effort to inspire the future Mart Laars of the world.



“Proponents correctly argued that a flat tax would improve America’s economic performance and boost competitiveness.”

Continued from page 1

Taxes on other types of income would have been calculated using the second postcard, which would have been filed by every business regardless of its size or structure. Simply stated, there would have been a 17 percent tax on net income, which would have been calculated by subtracting wages, input costs, and investment expenditures from total receipts.

While the simplicity and low tax rate were obvious selling points, the flat tax also eliminated various forms of double taxation, ending the bias against income that was saved and invested. In other words, the IRS got to tax income only one time. The double tax on dividends would have been completely eliminated. The death tax also was to be wiped out, as was the capital gains tax, and all saving would have received “Roth IRA” treatment.

Another key feature of the flat tax was the repeal of special tax breaks. With the exception of a family-based allowance, there would have been no tax preferences. Lawmakers no longer would have been able to swap loopholes for campaign cash. It also would have encouraged businesses to focus on creating value for shareholders and consumers instead of trying to manipulate the tax code. Last but not least, the flat tax would have created a “territorial” system, meaning that the IRS no longer would have been charged with taxing Americans on income earned—and subject to tax—in other jurisdictions.

Proponents correctly argued that a flat tax would improve America’s economic performance and boost competitiveness. And after Republicans first took control of Congress, it appeared that real tax reform was possible. At one point, the debate was about, not whether there should be tax reform, but whether the Internal Revenue Code should be replaced by a flat tax or a national sales tax (which shared the flat tax’s key principles of taxing economic activity only one time and at one low rate).

Notwithstanding this momentum in the mid-1990s, there ultimately was no

serious legislative effort to reform the tax system. In part, that was because of White House opposition. The Clinton administration rejected reform, largely relying on class-warfare arguments that a flat tax would benefit the so-called rich. But President Clinton wasn’t the only obstacle. Congressional Democrats were almost universally hostile to tax reform, and a significant number of Republicans were reluctant to support a proposal that was opposed by well-connected interest groups.

The Flat Tax around the World

One of the stumbling blocks to tax reform was the absence of “real-world”

examples. When Arney first proposed his flat tax, the only recognized jurisdiction with a flat tax was Hong Kong. And even though Hong Kong enjoyed rapid economic growth, lawmakers seemed to think that the then-British colony was a special case and that it would be inappropriate to draw any conclusions from it about the desirability of a flat tax in the United States.

Today, much of the world seems to have learned the lessons that members of Congress didn’t. Beginning with Estonia in 1994, a growing number of nations have joined the flat tax club. There are now 17 jurisdictions that have some form of flat tax, and two more nations are about to join the club. As seen in Table 1, most of the new flat tax nations are former Soviet republics or former Soviet bloc nations, perhaps because people who suffered under communism are less susceptible to class-warfare rhetoric about “taxing the rich.”

FLAT TAX JURISDICTIONS	YEAR OF ENACTMENT	TAX RATE
Jersey	1940	20 percent
Hong Kong	1947	16 percent
Guernsey	1960	20 percent
Estonia*	1994	22 percent
Latvia	1995	25 percent
Lithuania**	1996	27 percent
Russia	2001	13 percent
Serbia	2003	14 percent
Slovakia	2004	19 percent
Ukraine***	2004	15 percent
Iraq	2004	15 percent
Romania	2005	16 percent
Georgia	2005	12 percent
Iceland	2007	35.7 percent
Mongolia	2007	10 percent
Kyrgyzstan	2007	10 percent
Macedonia	2007	12 percent
FUTURE FLAT TAX JURISDICTIONS	GOES INTO EFFECT	TAX RATE
Montenegro	2007 (July)	15 percent
Mauritius	2009	15 percent

*Originally 26 percent. **Originally 33 percent. ***Originally 13 percent.

“Beginning with Estonia in 1994, a growing number of nations have joined the flat tax club.”

Flat Tax Lessons

The flat tax revolution raises three important questions: Why is it happening? What does the future hold? Should American policymakers learn any lessons?

The answer to the first question is a combination of principled leadership, tax competition, and learning by example. Flat tax pioneers such as Mart Laar (prime minister of Estonia), Andrei Illarionov (chief economic adviser to the president in Russia), and Ivan Miklos (finance minister in Slovakia) were motivated at least in part by their understanding of good tax policy and their desire to implement pro-growth reforms. But tax competition also has been an important factor, particularly in the recent wave of flat tax reforms. In a global economy, lawmakers increasingly realize that it is important to lower tax rates and reduce discriminatory burdens on saving and investment. A better fiscal climate plays a key role both in luring jobs and capital from other nations and in reducing the incentive for domestic taxpayers to shift economic activity to other nations.

Moreover, politicians are influenced by real-world evidence. Nations that have adopted flat tax systems generally have experienced very positive outcomes. Economic growth increases, unemployment drops, and tax compliance improves. Nations such as Estonia and Slovakia are widely viewed as role models since both have engaged in dramatic reform and are reaping enormous economic benefits. Policymakers in other nations see those results and conclude that tax reform is a relatively risk-free proposition. That is especially important since international bureaucracies such as the International Monetary Fund usually try to discourage governments from lowering tax rates and adopting pro-growth reforms.

The answer to the second question is that more nations will probably join the flat tax club. Three nations currently are pursuing tax reform. Albania is on the verge of adopting a low-rate flat tax, as is

East Timor (though the IMF predictably is pushing for a needlessly high tax rate). A 15 percent flat tax has been proposed in the Czech Republic, though the political outlook is unclear because the government does not have an absolute majority in parliament.

It is also worth noting that countries with flat taxes are now competing to lower their tax rates. Estonia's rate already is down from 26 percent to 22 percent, and it will drop to 18 percent by 2011. The new prime minister's party, meanwhile, wants the rate eventually to settle at 12 percent. Lithuania's flat rate also has been reduced, falling from 33 percent to 27 percent, and is scheduled to fall to 24 percent next year. Macedonia's rate is scheduled to drop to 10 percent next year, and Montenegro's flat tax rate will fall to 9 percent in 2010—giving it the lowest flat tax rate in the world (though one could argue that places like the Cayman Islands and the Bahamas have flat taxes with rates of zero).

The continuing shift to flat tax systems and lower rates is rather amusing since an IMF study from last year claimed: “Looking forward, the question is not so much whether more countries will adopt a flat tax as whether those that have will move away from it.” In reality, there is every reason to think that more nations will adopt flat tax systems and that tax competition will play a key role in pushing tax rates even lower.

Could It Happen Here?

For American taxpayers, the key question is whether politicians in Washington are paying attention to the global flat tax revolution and learning the appropriate lessons. There is no clear answer to this

question. Policymakers certainly are aware that the flat tax is spreading around the world. Mart Laar, Andrei Illarionov, Ivan Miklos, and other international reformers have spoken several times to American audiences. President Bush has specifically praised the tax reforms in Estonia, Russia, and Slovakia. And groups like the Cato Institute are engaged in ongoing efforts to educate policymakers about the positive benefits of global tax reform.

But it is important also to be realistic about the lessons that can be learned. The United States already is a wealthy economy, so it is very unlikely that a flat tax would generate the stupendous annual growth rates enjoyed by nations such as Estonia and Slovakia. The United States also has a very high rate of tax compliance, so it would be unwise to expect a huge “Laffer Curve” effect of additional tax revenue similar to what nations like Russia experienced.

It is also important to explain to policymakers that not all flat tax systems are created equal. Indeed, none of the world's flat tax systems is completely consistent with the pure model proposed by Professors Robert Hall and Alvin Rabushka in their book, *The Flat Tax*. Nations such as Russia and Lithuania, for instance, have substantial differences between the tax rates on personal and corporate income (even Hong Kong has a small gap). Serbia's flat tax applies only to labor income, making it a very tenuous member of the flat tax club. Although information for some nations is incomplete, it appears that all flat tax nations have at least some double taxation of income that is saved and invested (though Estonia, Slovakia, and Hong Kong get pretty close to an ideal system). Moreover, it does not appear that any nation other than Estonia permits immediate expensing of business investment expenditures. (The corporate income tax in Estonia has been abolished, for all intents and purposes, since businesses only have to pay withholding tax on dividend payments.)

“Among developed nations, the top personal income tax rate is 25 percentage points lower today than it was in 1980.”

Policymakers also should realize that a flat tax is not a silver bullet capable of solving all of a nation's problems. From a fiscal policy perspective, for instance, the Russian flat tax has been successful. But Russia still has many problems, including a lack of secure property rights and excessive government intervention. Iraq is another example. The U.S. government imposed a flat tax there in 2004, but even the best tax code is unlikely to have much effect in a nation suffering from instability and violence.

With all these caveats, the flat tax revolution nonetheless has bolstered the case for better tax policy, both in America and elsewhere in the world. In particular, there is now more support for lower rates instead of higher rates because of evidence that marginal tax rates have an impact on productive behavior and tax compliance. Among developed nations, the top personal income tax rate is 25 percentage points lower today than it was in 1980. Similarly, the average corporate tax rate in developed nations has dropped by 20 percentage points during the same period. Those reforms are not consequences of the flat tax revolution. Margaret Thatcher and Ronald Reagan started the move toward less punitive tax rates more than 25 years ago. But the flat tax revolution has helped cement those gains and is encouraging additional rate reductions.

Moreover, there is now increased appreciation for reducing the tax bias against income that is saved and invested. Indeed, Sweden and Australia have abolished death taxes, and Denmark and the Netherlands have eliminated wealth taxes. Other nations are lowering taxes on capital income, much as the United States has reduced the double taxation of dividends and capital gains to 15 percent. And although the United States is a clear laggard in the move toward simpler and more neutral tax regimes, the flat tax revolution is helping to teach lawmakers about the benefits of a system that does not penalize

or subsidize various behaviors.

The flat tax revolution also suggests that the politics of class warfare is waning. For much of the 20th century, policymakers subscribed to the notion that the tax code should be used to penalize those who contribute most to economic growth. Raising revenue was also a factor, to be sure, but many politicians seem to have been more motivated by the ideological impulse that rich people should be penalized with higher tax rates. If nothing else, the growing community of flat tax nations shows that class-warfare objections can be overcome.

Building a High-Tax Cartel

Although the flat tax revolution has been impressive, there are still significant hurdles. Most important, international bureaucracies are obstacles to tax reform, both because they are ideologically opposed to the flat tax and because they represent the interests of high-tax nations that want tax harmonization rather than tax competition. The Organization for Economic Cooperation and Development, for instance, has a “harmful tax competition” project that seeks to hinder the flow of labor and capital from high-tax nations to low-tax jurisdictions. The OECD even produced a 1998 report stating that tax competition “may hamper the application of progressive tax rates and the achievement of redistributive goals.” In 2000 the Paris-based bureaucracy created a blacklist of low-tax jurisdictions, threatening them with financial protectionism if they did not change their domestic laws to discourage capital from nations with oppressive tax regimes.

The OECD has been strongly criticized for seeking to undermine fiscal sovereignty,

but its efforts also should be seen as a direct attack on tax reform. Two of the key principles of the flat tax are eliminating double taxation and eliminating territorial taxation. These principles, however, are directly contrary to the OECD's anti-tax competition project—which is primarily focused on enabling high-tax nations to track (and tax) flight capital. That necessarily means that the OECD wants countries to double tax income that is saved and invested, and to impose that bad policy on an extraterritorial basis.

The OECD is not alone in the fight. The European Commission also has a number of anti-tax-competition schemes. The United Nations, too, is involved and even has a proposal for an International Tax Organization. All of those international bureaucracies are asserting the right to dictate “best practices” that would limit the types of tax policy a jurisdiction could adopt. Unfortunately, their definition of best practices is based on what makes life easier for politicians rather than what promotes prosperity.

Fortunately, these efforts to create a global tax cartel have largely been thwarted, and an “OPEC for politicians” is still just a gleam in the eyes of French and German politicians. That means that tax competition is still flourishing, and that means that the flat tax club is likely to get larger rather than smaller.

**Like
Cato Policy Report?**

We've been changing our format in recent issues. If you like something about *Cato Policy Report*, or don't like something, or have any suggestions, contact the editor, David Boaz, at dboaz@cato.org.

Escaping the Trap: The Case for Withdrawal from Iraq

President Bush vetoed a bill that called for the withdrawal of American troops from Iraq by March 2008, but the debate over the exit strategy for U.S. forces in Iraq continues. On March 14 Ted Galen Carpenter, vice president for foreign policy and defense studies at Cato; Steven Simon, senior fellow for Middle East studies at the Council on Foreign Relations; and Lt. Gen. William Odom, senior fellow at the Hudson Institute and former director of the National Security Agency, addressed whether and how the United States should leave Iraq.

TED GALEN CARPENTER: It is human nature to be reluctant to admit that an enterprise in which one has invested a great deal of time, effort, and money is doomed to fail. Americans have that characteristic in special abundance. We do not like to admit failure. In most aspects of life, that is a very good thing. But in foreign policy, that normal virtue can become a serious defect. It can cause a government to cling to policies long after any hope of success has evaporated. That is what we are doing in Iraq today.

The United States needs to withdraw from Iraq and needs to do so in a matter of months, not years. This is a venture that has failed, is failing, and has no reasonable prospect of success. Therefore, the wisest course of action is to cut our losses.

Why do we need to leave Iraq? The broadest metric is the amount of violence and chaos in that country. In Iraq approximately 120 people a day are dying as a result of political violence. One must put that in context: Iraq is a country of barely 26 million people. A comparable figure for the United States would be between 1,400 and 1,500 people a day, or something close to half a million people a year. If that were happening in the United States, there would be little discussion about whether or

not we were involved in a civil war.

Another metric is the complexity of the violence. The National Intelligence



“What the United States is being asked to do militarily at this point is to referee a complex multisided civil war.”

Estimate that came out in early February noted that it was only partially correct to refer to the situation in Iraq as a civil war

because the situation is vastly more complex than that. This was not simply a civil war in which two or three well-defined factions face off. This is almost a Hobbesian struggle of all against all—a fight among various factions within the Sunni and Shiite communities and criminal gangs that have no particular ideology but are taking great advantage of the violence.

What the United States is being asked to do militarily at this point is to referee a complex multisided civil war. I cannot think of a more utterly futile and thankless task than that. Yet that is the situation in which we find ourselves.

I will be the first to concede that withdrawing from Iraq is not going to be without cost. Opponents of withdrawal constantly bring that up. They advance a variety of horrors, ranging in plausibility from the extremely unlikely to the rather likely, that are going to occur.

One allegation is that, if we leave Iraq, al-Qaeda is going to gain a safe haven, and it will be just like Afghanistan before 9/11. That is actually the least likely danger. Al-Qaeda, according to the Iraq Study Group, has a grand total of about 1,300 fighters in Iraq today, compared to the thousands it had in Afghanistan before 9/11. In addition, in Afghanistan the al-Qaeda units had the protection of an entrenched friendly government.

In Iraq they will have nothing of the sort. The government is dominated by Kurds and Shiites who are almost unanimous in their hatred of al-Qaeda. A poll conducted by the University of Maryland in September 2006 found that better than 99 percent of Shiite and Kurdish respondents had a negative view of al-Qaeda. But what was surprising about that poll and other indications is that al-Qaeda does not have a good reputation even among Sunnis, its supposed allies in the country. That same poll found that 94 percent of

Sunnis had a negative view of al-Qaeda.

Where is al-Qaeda going to gain protection when the organization is so widely hated in Iraq? At best, al-Qaeda would have a harried existence in a few isolated areas of Iraq, where it might find a handful of allies among Sunnis who are still willing to support the organization after its indiscriminate violence against Muslim civilians.

A second allegation, which has a little more truth to it, is that radical Islamists worldwide will take heart if the United States withdraws from Iraq with something other than a definitive victory. There is no question that al-Qaeda and its allies will portray a U.S. withdrawal from Iraq as a triumph.

We can mitigate that somewhat by redoubling our effort in Afghanistan, still the main headquarters of al-Qaeda, and completing our effort to disrupt its operations in that country, which we have largely forgotten about during our obsession with Iraq. But there is no question that radical Islamists are going to be gratified by anything less than a U.S. victory in Iraq. They will say, with some justification, that they have defeated the U.S. superpower.

Unfortunately, that cannot be helped. It is a problem whether we withdraw from Iraq six months from now or 10 years from now if we have not achieved a definitive victory. That is why any country, and particularly the United States, ought to be hyper-cautious about getting involved in elective wars in the first place. Even a superpower will pay a price for a stupid commitment.

Some of the people who advocate that we stay in Iraq point to how radical Islamists took heart from our withdrawals from Lebanon and Somalia. But what are they recommending—that we should have stayed in Lebanon and Somalia? We could have enjoyed everything we have experienced for the last four years in Iraq in Lebanon two decades ago or in Somalia a decade ago. Those are classic examples of the kind of harebrained missions that the United States should not undertake. Iraq is merely the latest in an unfortunate series.

The third allegation, which has the greatest degree of truth, is that, if we leave, there is a serious danger that the war could

intensify and spread and become a Sunni-Shiite proxy war, perhaps drawing in Iran, Saudi Arabia, and other neighboring states.

Unfortunately, there is some danger of that happening. But again, the prospect of a wider war is likely to be a problem if we withdraw six months from now or 10 years from now. Iraq is a totally unstable, fragile entity, and its neighbors have a tremendous interest in what goes on in that country. They also have a tremendous temptation to meddle.

“Every day we stay we spend more in blood and treasure for what we have already achieved.”



I think we should try to mitigate meddling to the extent we can. What that means is trying to get together with Iraq's neighbors to formulate a mutual nonintervention policy and making it clear to them that if they meddle, they risk this war spiraling out of control, something that would ultimately not be in the best interest of any of Iraq's neighbors. There is certainly no guarantee that a U.S. effort to quarantine the violence would succeed. But I think it would be worthwhile to at least confront Iran, Saudi Arabia, and the other neighbors with the very real danger of uncontrolled escalation.

Again, I stress that the United States is going to pay a price whenever it withdraws from Iraq, because we are never going to achieve a definitive victory there. But that cost has to be measured against the cost of staying—something that the supporters of the current policy never, ever talk about.

Our presence in Iraq has weakened our overall position in the war against radical Islamic terrorism. An earlier National Intelligence Estimate conceded that Iraq had become both the inspiration for radical Islamic terrorists and a perfect training ground to hone their murderous craft. Occupying Iraq was a strategic blunder on the part of the United States, and the sooner we end it the better.

Then there are the tangible costs. This war has already cost us well in excess of \$350 billion in direct outlays. That is not even taking into account indirect costs such as the long-term care of the thousands of American soldiers who have been wounded, often severely, in this elective war. Some estimates put the ultimate figure at between \$1 trillion and \$3 trillion. The truth is that nobody really knows, but it is a lot of money, even by Washington, D.C., standards.

Finally, the most important cost is the loss of life. Almost 3,200 U.S. soldiers have been killed in this war. Many others have been so severely wounded that, if the medical care that had existed even at the time of the first Gulf War had been in effect, we would be talking about 6,000 or 8,000 dead in Iraq, not 3,200.

If the nation's security were at stake, if our vital interests had to be protected, 3,200 lives, as tragic as that would be, would be a price that we would have to pay. But for an elective war, it is a price that should never have been paid. We need to end this tragedy. The notion of Iraq as a stable, united, secular, pro-Western democracy that would be a model for the Middle East was always an illusion. We should not ask any more Americans to die for that illusion.

STEVEN SIMON: The reason for leaving Iraq is that we have accomplished everything we are going to accomplish. Arguably, we have given Iraq a shot at democracy. I am not

one to think that the Iraqis had a chance of exploiting that opportunity, at least in a meaningful time frame from the kickoff of the war, but, nevertheless, they have had a shot at doing that. Whatever feverish dreams some Iraqis may have had about acquiring weapons of mass destruction have probably been foreclosed by the war for a long time to come. And Saddam Hussein is dead. So, to the extent that he was an issue for Iraqis, well, the Wicked Witch is dead.

So those are the major accomplishments. I do not think that they can be improved upon, which means that every day we stay we spend more in blood and treasure for what we have already achieved.

As long as we are there, we are culpable but not capable—which is to say, we will be held responsible for what happens in Iraq without having the capability to shape events in a positive direction. That is not a great place to be. It leaves us as a bystander to pogroms and ethnic cleansing, large-scale murder, terrorist attacks, and so forth, which accounts in part for the wall-to-wall agreement among Iraqis, including Kurds, that the United States ought to get out.

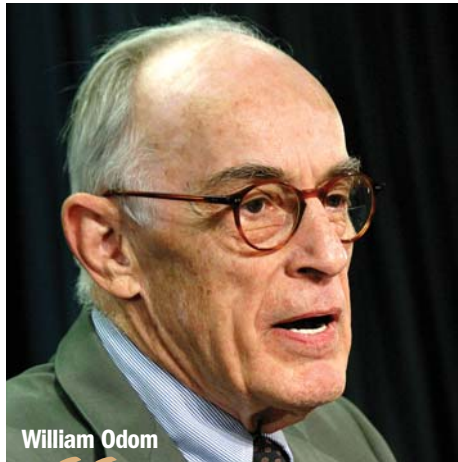
One of the problems with tying up your army is that troops are not available for other uses. So, if the United States needed to coerce other adversaries or potential adversaries, the means of doing so simply would not be available.

There is a similar crowding-out effect at the level of national decisionmaking. If you have a crisis like Iraq happening, decision-makers—the cabinet, the National Security Council, departments, and agencies—simply do not have the time to focus on other issues. That is bad because the world is not getting any simpler.

The war in Iraq is siphoning resources away from Afghanistan. That raises the prospect of two strategic defeats in south-west Asia instead of one.

One reason for staying that the administration has put forward is that a U.S. withdrawal would hand a strategic victory to Iran and al-Qaeda. That argument stems from one particular way of diagnosing Iraq's problems.

There are two paradigms that have been used to explain what is going on in Iraq. On the one hand, there is the outside paradigm. In this paradigm you have responsible nationalist Iraqis of sound mind and body who want to create a post-Baathist state in a democratic fashion, but they are being undermined at every turn by outsiders—Iran on the one side, al-Qaeda on the other. In this view, if those Iraqis are deserted militarily by the United States, then Iran and al-Qaeda will be handed a victory.



William Odom

“We have gone to war, not in our own interests, but primarily in the interests of Iran and al-Qaeda.”

But there is another paradigm for understanding what is going on in Iraq. In this paradigm, you have had 37 years of Baathist rule, during most of which civil society, that essential transmission belt between society and the establishment of a democracy, was stamped out. It was extirpated by the Baathists. Then you had 12 years of UN sanctions, which gutted the middle class, chased it out of the country or impoverished it. A middle class is essential for normal politics. And then there was the decapitation of the Iraqi government by the U.S.-UK invasion, which did not replace any of the lost governmental capac-

ity, and that in turn gave rise to militias.

So in this paradigm, the problem is not outsiders. The problem is an environment that cannot produce normal politics. In a situation like that, opportunists move in, not just from inside like the militia leaders but from outside like Iran and al-Qaeda. But as the new National Intelligence Estimate has said quite explicitly, the violence in Iraq is now internal and self-sustaining, and outsiders have very little to do with it.

Another fear is regional chaos. This is something that National Security Advisor Steve Hadley has spelled out in a number of places, most recently in the *Washington Post*. The idea is that, if the United States withdraws from Baghdad, it will be the end of the world as we know it. If you look historically at the experience of the Middle East, though, civil wars do not turn into regional wars. If you look at Algeria, Yemen—even Lebanon, where the Israeli and Syrian piece of it was very carefully controlled by both governments—you did not get a regional war from a civil war.

WILLIAM ODOM: I remember the Vietnam War in which I was one of the pacification development planners, much engaged in counterinsurgency. I would like to talk about what Iraq looks like through the Vietnam prism. Sure, there are huge differences, but historical analogies are always imperfect. The question is whether they are instructive. I find a very instructive analogy if you break the Vietnam War into three periods.

The first period was 1961 to 1965, when the United States was trying to decide what its strategic objective was. What was our strategic purpose? What were our war aims?

They became sloganeered into preventing the dominos from falling or containing China. Anyone who knew the area well knew that the Vietnamese were going to contain China. By 1961 or 1962 we knew that the Soviets and the Chinese were not cooperating. By 1965 it was very clear that a major Soviet objective was to limit China's influence in the region.

So we went to war essentially in support

of the interests of the Soviet Union in the containment of China—not a wise thing to do. The rationale for doing that was phony intelligence about what happened in the Gulf of Tonkin. Phony intelligence and the wrong strategic purpose were the key features of this first period.

The same thing has happened in Iraq. We have gone to war on phony intelligence, and we have gone to war, not in our own interests, but primarily in the interests of Iran and al-Qaeda.

The second phase was from 1965 to about 1968 or 1969. It was no longer possible in the United States in those years to discuss the strategic purpose. That was off limits. Nobody wanted to talk about that. We could only talk about how to fight better. So we forgot the strategy and we went to the tactics. Those of you who lived through it remember all the new counterinsurgency doctrines that we went through. They were not going to change the basic strategic structure of the situation.

That period ended as the Congress

turned against the president. That president, unlike this one, had the grace to yield and to more or less concede that he had it wrong. When the Nixon administration came in, it pretended to follow that change but expanded the war. The slogans were Vietnamization and diplomacy to get us out, assuming the Russians and the North Vietnamese would help us out in negotiations in Paris.

So that period was characterized by phony diplomacy in Paris. There was no reason for the Soviets to help us out. We were self-destructing on our own. We were drawing down from NATO and weakening the alliance. Almost every major Soviet foreign policy objective was being helped by our staying in Viet Nam.

The other part was Vietnamization—standing up the Vietnamese army so we could stand down the U.S. Army. Well, eventually, we flew out of the embassy in helicopters.

In Iraq we are at the end of the second period and beginning to move into the third. The question now is not whether we are going to get out. It is whether we are

going to stay and fly out of the Green Zone in helicopters. Given the path we are on, we will probably fly out of the Green Zone, because we have Iraqization, with all the flaws that has, and we have phony diplomacy in Baghdad over a deal between two sectarian groups and one ethnic group on a constitutional order. A constitutional system requires agreement among the elites on the rules for deciding who rules, on the rules for making new rules, and on the rights the ruler cannot abridge.

Can you imagine that those three groups are going to decide on that? And who are the elites? Anybody with enough guns or money, or both, to violate the rules with impunity.

Constitutional orders have been rare. We have only about two dozen of them right now. The idea that we can go in and create a constitutional order by ventriloquy in this part of the world defies the wildest imaginings about how these things come about. I do not think Americans have a clue as to how constitutions come about. In fact, we do not even talk about constitutions anymore. We talk about democracy.

CATO PUBLICATIONS

Book Challenges Federal Role in Education

In 2002 Secretary of Education Rod Paige stood in front of a quaint, picture-perfect schoolhouse, complete with slanted roofs and bell towers, and proclaimed, “We do not serve a faceless bureaucracy or an unchangeable system. We serve an ideal. We serve the ideal of the little red schoolhouse.”

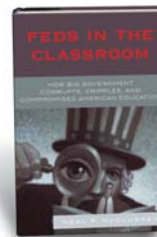
But inside that little building was not what one would expect: simple desks and chalkboards. Instead, inside was the hulking mass of a building that is the Department of Education. The little red schoolhouse was not a schoolhouse at all; it was merely a façade erected in front of the large building to celebrate the enactment of the No Child Left Behind Act.

For Neal McCluskey, policy analyst at Cato’s Center for Educational Freedom, the fact that this idealistic symbol was a fake is appropriate. As he argues in his new book *Feds in the Classroom: How Big Gov-*

ernment Corrupts, Cripples, and Compromises American Education, No Child Left Behind is the latest and worst policy in a recent trend that has empowered faceless bureaucracies and cheated parents and students. His book takes us from the very beginning of education in America up to the present day in which Washington can dictate to most of the schools in this country what will be taught, when, and by whom.

Two centuries ago the Founders rejected federal participation in education and even rejected George Washington’s plan to establish a national university. It should be no surprise, then, that the term “education” appears nowhere in the Constitution. Few early Americans would have considered providing education a proper function of local or state governments, much less some distant federal government.

But history is only part of McCluskey’s book. He navigates the maze of federal education programs to document their increasing cost to taxpayers and then argues that there has been little or no improvement in education as a result of that spending, even if one uses the federal government’s own measurements of achievement. The final chapters of the book provide ways out of this morass, including one that has been with us all along: follow the Constitution, which never gave the federal government any authority over education in the first place. McCluskey outlines for readers the steps America should take so parents and children will no longer have to accept the education that higher powers and experts decide is right for them.



You can order *Feds in the Classroom* at catostore.org for \$19.95 paperback.

Illarionov Leads Russian Fight against Authoritarianism

In a presentation to the spring Cato intern class, senior fellow Andrei Illarionov showed a number of photos from the Dissenters' March, which occurred in Moscow and St. Petersburg when thousands of Russians faced thousands more police and thugs hired by the government as they marched in opposition to the policies of president Vladimir Putin. Illarionov was senior economic adviser to Putin before resigning in 2005.

As he flipped through photos of protesters holding up the Russian constitution as they marched, running in fear from police, and displaying the bruises they received from batons, one photo caused him to pause and give an ironic smile. "This photo is quite appropriate," he said. The picture showed a copy of the Russian constitution dropped in a puddle of mud. Illarionov argues that the government's conduct violated the constitution, which allows for peaceful demonstrations. The march was a harrowing event in Illarionov's mission to make the intellectual case against Putin's governing philosophy heard in the international media.

Illarionov, described by the *Financial Times* as one of the leaders of the march, narrowly avoided arrest during the march in Moscow on April 14. The demonstrators arrived in Pushkin Square, a large public space, only to find that it had already been completely filled by militiamen under the government's control. Government forces numbered about 9,000, which was overwhelming compared to the estimated 3,000 protestors. Illarionov walked at the front of a column of one thousand marchers who split off to walk down a city street to a different public square where they had authorization to demonstrate. This group dispersed in fear as they were rushed by police, who beat them and dragged them off to buses. Illarionov managed to reach the square before he could be arrested.

In an interview in *Der Spiegel Online* shortly after the march, Illarionov said, "Russia is no longer a free country. We are moving in the direction of Zimbabwe." To back up that bold claim, Illarionov often



Andrei Illarionov (second from right) helps lead the Dissenters' March in Moscow on April 14.

points out that, after a long decline during Putin's tenure, Russia's Freedom House rating for political rights is now lower than that of most countries in the Middle East.

An obvious question is, if freedom is in such a terrible state, why do the Russian media still cover Illarionov? For example, the popular radio station Echo of Moscow, which is mostly owned by the state-run natural gas company Gazprom, interviewed Illarionov about the march. Why

did they air his criticisms? Illarionov's answer is that the Russian government has "learned the lesson of communism. If the government shuts off all freedom of the press, then it cannot monitor the society."

As dictatorships continue to evolve in this manner and find new ways to monitor the citizenry and squelch opposition, dissenters like Illarionov who risk their safety to speak out for freedom will only become more important.

Regulation and Cato Journal Focus on Wall Street



Featured in *Regulation*

- Houman Shadab on hedge fund complaints
- Lynn Stout on shareholder democracy
- Richard Epstein on aviation reform

Featured in *Cato Journal*

- Donna Card Charron on stakeholder theory
- Kam Hon Chu on financial crises
- Swaminathan Aiyar on China and India

Cato Launches Another Salvo against Corporate Welfare

The federal government spent \$92 billion in direct and indirect subsidies to businesses and private-sector corporate entities—expenditures commonly referred to as “corporate welfare”—in fiscal year 2006. Stephen Slivinski, director of budget studies at Cato, argues in “The Corporate Welfare State: How the Federal Government Subsidizes U.S. Business” (Policy Analysis no. 592) that this spending is wasteful in a variety of ways. In particular, corporate welfare fails to promote “the next big thing” as its advocates suggest, it creates an incestuous relationship between business and government, and it violates this country’s constitutional principles. Slivinski offers case studies of corporate welfare subsidies for agribusiness, high-tech companies, and exporters. In each case, he shows that the public interest justification for the subsidies rings hollow. He proposes that Congress follow the successful model of the military base closure commission. A corporate welfare reform commission would compose a list of corporate welfare programs to eliminate and then present that list to Congress, which would be required to hold an up-or-down vote on the commission’s proposal.

Farmed Out

The opportunity cost to American consumers and taxpayers of the government’s farm subsidies is more than \$1.7 trillion for the last 20 years. Congress has an opportunity to take agricultural policy in a different direction this year when it writes a new farm bill. In “Freeing the Farm: A Farm Bill for All Americans” (Trade Policy Analysis no. 34), Sallie James, policy analyst at Cato’s Center for Trade Policy Studies, and Daniel Griswold, director of the center, write that Democrats have a chance to be the party of fiscal responsibility as they have portrayed themselves. James and Griswold recognize that farm subsidies will not vanish tomorrow, so they propose that in lieu of subsidies the government offer farmers a fixed sum of money, which the farmers could spend however they wished. Although it would require large up-front outlays, the authors argue that a voluntary buyout would save money in the long run, bring consumers cheaper food, and inject dynamism and competition into American agriculture.

The Other Pork

In recent years, members of Congress have

inserted thousands of pork-barrel spending projects into bills to reward interests in their home states. But such parochial pork is only a small part of rising federal spending on traditionally state and local activities. Chris Edwards, director of tax policy studies at Cato, explains the rest of the story in “Federal Aid to the States: Historical Cause of Government Growth and Bureaucracy” (Policy Analysis no. 593). The theory behind aid to the states is that federal policymakers can design and operate programs in the national interest to efficiently solve local problems. But Edwards argues that in practice most federal politicians are not inclined to pursue broad national goals; they are consumed by the competitive scramble to secure subsidies for their states. Federal aid also stimulates overspending by the states, requires large bureaucracies to administer, and comes with a web of complex regulations that limit state flexibility. Edwards recommends that the federal government terminate programs that could be handled on the state or local level or by the private sector in order to create a less wasteful and more accountable system.

CATO POLICY REPORT is a bimonthly review published by the Cato Institute and sent to all contributors. It is indexed in PAIS Bulletin. Single issues are \$2.00 a copy. ISSN: 0743-605X. ©2007 by the Cato Institute. • Correspondence should be addressed to *Cato Policy Report*, 1000 Massachusetts Ave., N.W., Washington, D.C. 20001. • Website: www.cato.org, call 202-842-0200, or fax 202-842-3490.

CATO POLICY REPORT

David Boaz Editor
David Lampo Managing Editor
Matthew Bandyk Editorial Assistant
Jon Meyers Art Director
Kelly Anne Creazzo Photographer

CATO INSTITUTE

Edward H. Crane President and CEO
William A. Niskanen Chairman
David Boaz Executive Vice President
Lesley Albanese Vice President
Ted Galen Carpenter V.P., Defense & Foreign Policy Studies
James A. Dorn V.P., Academic Affairs
William Erickson V.P., Finance and Administration
Brink Lindsey V.P., Research
Tom G. Palmer V.P., International Programs
Roger Pilon V.P., Legal Affairs

Virginia Anderson Director, Web Services
Brandon Arnold Director, Government Affairs
Michael F. Cannon Director, Health Policy Studies
Andrew Coulson Director, Center for Educational Freedom

Yana Davis Director of Sponsor Communications
Jamie Dettmer Director, Media Relations
Chris Edwards Director, Fiscal Policy Studies
Sigrid Fry-Revere Director, Bioethics Studies
Robert Garber Director, Marketing
Jagadeesh Gokhale Senior Fellow
Daniel T. Griswold Director, Trade Policy Studies
Jim Harper Director, Information Policy Studies
Gene Healy Senior Editor
Linda Hertzog Director, Conferences
Daniel J. Ikenson Associate Director, Trade Policy Studies
Andrei Illarionov Senior Fellow
Sallie James Trade Policy Analyst
Elizabeth W. Kaplan Senior Copyeditor
David Lampo Publications Director
Robert A. Levy Senior Fellow, Constitutional Studies
Trisha Line Controller
Timothy Lynch Director, Criminal Justice
Ashley March Director, Foundation Relations
Neal McCluskey Education Policy Analyst
Jon Meyers Art Director
Daniel J. Mitchell Senior Fellow
Mark K. Moller Senior Fellow
Johan Norberg Senior Fellow
Randal O'Toole Senior Fellow
Alan Peterson Director of MIS
Christopher Preble Director, Foreign Policy Studies
Alan Reynolds Senior Fellow
Claudia Ringel Copyeditor

John Samples Director, Ctr. for Representative Govt.
Adam B. Schaeffer Education Policy Analyst
Stephen Slivinski Director of Budget Studies
Michael Tanner Director, Health and Welfare Studies
Jerry Taylor Senior Fellow
Marian Tupy Development Policy Analyst
Peter Van Doren Editor, *Regulation*
Ian Vásquez Director, Global Economic Liberty
Will Wilkinson Policy Analyst

James M. Buchanan Distinguished Senior Fellow
José Piñera Distinguished Senior Fellow
Earl C. Ravenal Distinguished Senior Fellow
Swaminathan Aiyar Research Fellow
Randy E. Barnett Senior Fellow
Lawrence Gasman Senior Fellow in Telecommunications
Ronald Hamowy Fellow in Social Thought
Steve H. Hanke Senior Fellow
John Hasnas Senior Fellow
Penn Jilette Mencken Research Fellow
David B. Kopel Associate Policy Analyst
Christopher Layne Visiting Fellow, Foreign Policy Studies
Patrick J. Michaels Senior Fellow in Environmental Studies
P. J. O'Rourke Mencken Research Fellow
Gerald P. O'Driscoll Jr. Senior Fellow
Jim Powell Senior Fellow
Ronald Rotunda Senior Fellow, Constitutional Studies
Teller Mencken Research Fellow
Cathy Young Research Associate

One-Size-Fits-All Forest Policy

Once they get started, they keep growing and are very difficult to contain. That is an apt description of forest fires, but the same could be said of the spending habits of the Forest Service, the federal agency that fights forest fires. The Forest Service spends close to \$300 million a year treating hazardous fuels and as much as \$2 billion a year preparing for and suppressing fires. In “**The Perfect Firestorm: Bringing Forest Service Wildfire Costs under Control**” (Policy Analysis no. 591), Randal O’Toole, a senior fellow at Cato, argues that the Forest Service’s efforts may do more harm than good. The problem is that forests vary widely, and the Forest Service tends to treat them all the same. O’Toole proposes a number of structural changes to the Forest Service that could help decentralize decisionmaking so power would be in the hands of those who know specific forests well. He suggests that the federal government could turn national forests into fiduciary trusts funded exclusively out of their own user fees or abolish the Forest Service and turn the land over to the states.

Does Coercion Make Us Happy?

Americans have always celebrated the pursuit of happiness, but some policy scholars are now saying that government should guarantee the right to be happy. Several high-profile academics say that research on the nature of happiness shows that government can increase the “average happiness” of society through forced redistribution programs and nanny state policies. In “**In Pursuit of Happiness Research: Is It Reliable? What Does It Imply for Policy?**” (Policy Analysis no. 590), Cato policy analyst Will Wilkinson debunks the idea that happiness research leads to anti-libertarian policy conclusions. He argues that limitations inherent in current measurement techniques mean that happiness research cannot be relied on as an authoritative source of empirical information about happiness, which, in any case, is not a simple empirical phenomenon but a cultural and historical moving target. Wilkinson

contends that, even if we accept the data of happiness research at face value, few of the alleged redistributive policy implications actually follow from the evidence. The data show that neither higher rates of government redistribution nor lower levels of income inequality make us happier, whereas high levels of economic freedom and high average incomes are among the strongest correlates of subjective well-being.

Irrational Ignorance

Winston Churchill said that “democracy is the worst form of government, except all those other forms that have been tried from time to time.” But even if democracy is better than other forms of government, how does it compare with the market? Bryan Caplan, associate professor of economics at George Mason University, argues in “**The Myth of the Rational Voter: Why Democracies Choose Bad Policies**” (Policy Analysis no. 594) that evidence about the misperceptions of voters shows that, if we want better policies, we should leave fewer things up to democracy and more things up to the free market. Many American voters fear the market because they do not understand how it harmonizes private greed and public interest, fear foreigners because of an inherent bias, and have the false belief that the economy is getting worse all the time. As a result, voters tend to oppose good things like free trade and support bad things like minimum wage laws.

Democracy, Out of Africa

Thirteen years ago, South Africa underwent a peaceful transition from white minority rule to majority rule. Today the country is a stable multiparty democracy. It has the largest and the most sophisticated economy in Africa and is also one of the continent’s most economically free countries. But Marian Tupy, policy analyst at Cato’s Center for Global Liberty and Prosperity, worries that recent steps taken by the African National Congress, the governing party since 1994, could threaten

freedom’s future in South Africa. In “**Troubling Signs for South African Democracy under the ANC**” (Development Policy Briefing Paper no. 3), Tupy analyzes how the ANC has attempted to extend its dominance over South African society and institutions. It has transformed the state-owned South African Broadcasting Corporation into an ANC propaganda machine from which some of the government’s most prominent critics are banned. The ANC uses accusations of racism to shut off criticism of its social and economic policies, which are rooted in Marxism. Tupy calls on the international community to speak out against the ANC’s actions in order to shame it into changing course.

No Energy Emergency

Former secretary of state James Baker once said that “jobs, jobs, jobs” necessitated the U.S. intervention in Iraq in 1991. Today the fear that instability in the Middle East and other oil-producing regions will endanger U.S. “energy security” and harm the economy as a result is still a major impetus behind American interventions abroad. In “**Energy Alarmism: The Myths That Make Americans Worry about Oil**” (Policy Analysis no. 589), Eugene Gholtz of the University of Texas at Austin and Daryl G. Press of Dartmouth College address fears about oil supplies one by one and argue that none should be a focus of U.S. foreign or military policy. “Peak oil” predictions about the impending decline in global rates of oil production are based on scant evidence and dubious models of how the oil market responds to scarcity. In fact, even though oil supplies will increasingly come from unstable regions, investment to reduce the costs of finding and extracting oil is a better response to that political instability than is trying to fix the political problems of faraway countries. Furthermore, they argue that political instability in the Persian Gulf poses surprisingly few energy security dangers, and the U.S. military presence there actually exacerbates problems rather than helps to solve them.

“To Be Governed...”

CONGRESS GETS SERIOUS ABOUT ETHICS

One of the changes that House Democrats pushed through at the start of the new Congress is a requirement that all members and staffers get annual ethics training. And for those of you who are lucky enough to be working this week, you can start your training Wednesday, according to a recent memo from the House ethics committee.

Under House rules, all lawmakers and staff must receive one hour of ethics training a year.

—*Politico.com*, Apr. 9, 2007

THIS IS A REPUBLIC. THAT REQUIREMENT WENT OUT IN 1776

So you head off to the Mall or Jamestown or NASA, hoping to catch a glimpse of Queen Elizabeth II on her visit to the States, and suddenly, it happens. You find yourself face to face with the British monarch. She's all pearls and gloves. That face. That hair. That hat. What do you do? . . .

You don't have to curtsy or bow. That requirement went out a generation ago.

—*Washington Post*, Apr. 28, 2007

THIS IS A REPUBLIC. WE HAVE NO COMMANDER IN CHIEF

When nine Republican presidential candidates presented their cases to Iowa activists at a Des Moines dinner this month, only Arizona Sen. John McCain went out of his way to embrace President Bush. “There's only one commander in chief of the United States,

and that's George W. Bush,” he told the crowd.

—*Washington Post*, Apr. 29, 2007

TIME FOR TAXPAYERS TO SING THE BLUES

Under the regulatory system that determines which crops qualify for inclusion in Department of Agriculture support programs, blue corn is an orphan. According to the department rulebook, it isn't even considered corn because it's not yellow or white, the only versions of the food that are eligible for federal agricultural loans and crop payments.

This means that farmers who grow blue corn, which is made into the blue-corn tortilla chips that many of us love to dip into a nice salsa, aren't growing “real” corn, so they don't qualify for loan or other support programs, according to the government. . . .

[House subcommittee chairman Dennis] Cardoza said he hoped it could be addressed in the context of the 2007 farm legislation.

—*Washington Post*, May 8, 2007

SANDY BERGER, MUSIC FAN?

Someone, most likely an aging baby boomer with sticky fingers, has been lifting CDs from the music library at the Voice of America, which uses them for its radio shows. Looks like an inside job. The library is open only to employees. The M.O. is that the person goes into the stacks and takes the CD but leaves the plastic case.

The thefts were noticed recently when someone tried to check out a Judy Collins

disc but found only an empty case. In fact, the entire Collins collection is gone. A check of other collections showed that Peter, Paul and Mary and Bob Dylan recordings were also missing.

—*Washington Post*, Apr. 2, 2007

BUDGET CHUTZPAH

In a letter to lawmakers, the president's budget director, Rob Portman, . . . accused Democrats of doing little to rein in “the unsustainable growth in entitlement spending” on Social Security, Medicaid and Medicare.

—*Washington Post*, May 12, 2007

STATE TO YOUNG PEOPLE: YOU BELONG TO ME

What our nation needs is a system of compulsory universal civil service for young people. . . .

Every department of government could benefit from universal service, as would many other institutions. Our schools are crying out for teacher assistants; our immigrant programs need additional staff; Head Start, the Peace Corps and special education programs need helpers, as do hospitals and nursing facilities. Young people could serve one or two years in a much-needed civilian universal service program run by the Department of Homeland Security, the Department of Health and Human Services, or the State Department. Such service would foster a culture of responsibility for our democracy.

—*Melvin R. Laird in the Washington Post*, May 28, 2007

CATO POLICY REPORT

1000 Massachusetts Ave., N.W.
Washington, D.C. 20001

ADDRESS SERVICE REQUESTED

CATO