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# Cato Policy Report

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## Lessons from the Fall of RomneyCare

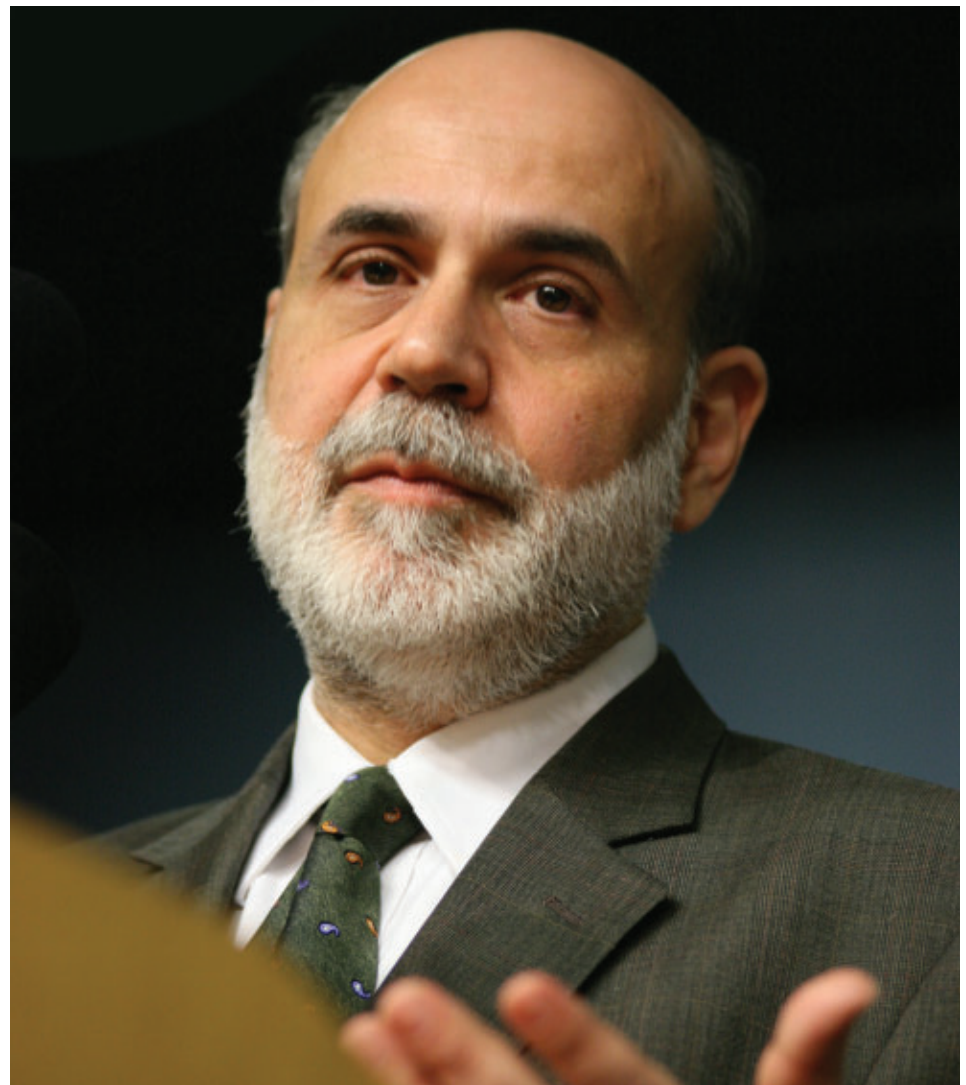
BY MICHAEL TANNER

**W**hen then-Massachusetts governor Mitt Romney signed into law the nation's most far-reaching state health care reform proposal, it was widely expected to be a centerpiece of his presidential campaign. In fact Governor Romney bragged that he would "steal" the traditionally Democratic issue of health care. "Issues which have long been the province of the Democratic Party to claim as their own will increasingly move to the Republican side of the aisle," he told Bloomberg News Service shortly after signing the bill. He told other reporters that the biggest difference between his health care plan and Hillary Clinton's was "mine got passed and hers didn't."

Outside observers on both the Right and Left praised the program. Edmund Haislmaier of the Heritage Foundation hailed it as "one of the most promising strategies out there." And Hillary Clinton adviser Stuart Altman

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**MICHAEL TANNER** is director of health and welfare studies at the Cato Institute. He is the author of *Leviathan on the Right: How Big-Government Conservatism Brought Down the Republican Revolution* and coauthor of *Healthy Competition: What's Holding Back Health Care and How to Free It*, just released in a new edition.



**F**ederal Reserve Chairman Ben Bernanke unveiled a number of reforms aimed at increasing Fed transparency at the Cato Institute's 25th Annual Monetary Conference. The *Washington Post* characterized his speech as "the first major change to how the Fed communicates with the outside world that Bernanke has taken as chairman." **PAGE 14**



BY DAVID BOAZ

“Libertarians believe in the centrality of law. As John Locke so memorably put it, “Where there is no Law, there is no Freedom.””

## Editorial Are You Now or Have You Ever Been a Libertarian?

We’ve grown accustomed to the cartoonish misrepresentation of the idea of individual liberty. E. J. Dionne Jr. of the *Washington Post*, for instance, has written that modern libertarians believe that “individuals come into the world as fully formed adults who should be held responsible for their actions from the moment of their birth.” Columnist Charles Krauthammer wrote that the libertarian vision (except for Charles Murray’s) is of “a race of rugged individualists each living in a mountaintop cabin with a barbed wire fence and a ‘No Trespassing’ sign outside.” And then there’s former Bush speechwriter Michael Gerson, who thinks that the “virtual world” *Second Life* (a computer game to us older folks) is “a large-scale experiment in libertarianism.” And that libertarian world “is highly sexualized,” with “frequent outbreaks of terrorism . . . strip malls everywhere, pushing a relentless consumerism, [and] . . . an inordinate number of vampires.”

It’s not only avowed critics of libertarianism who mischaracterize our ideas, but even some friends who offer a subtler critique. They are people who give an overly radical definition of libertarianism so that they can present themselves as the reasonable advocates of limited government, not the crazy libertarians.

I’ll start with the followers of Ayn Rand, or Objectivists. Rand condemned libertarians as “hippies of the right,” who lacked a sound philosophical foundation for their defense of capitalism and individual rights. But anyone who believes in individual rights, free enterprise, and strictly limited government—as Objectivists do—is a libertarian.

Another example is Mickey Edwards, a former congressman and former chairman of the American Conservative Union. In his new book *Reclaiming Conservatism*, Edwards explains that he sees “conservatism” as a philosophy of liberty, the dignity of the individual, and limited government. He then writes: “I am not a libertarian in the purist sense. I believe there are important roles for government, but like many conservatives I believe in a government constrained by certain fundamental and overarching principles, and in a framework that holds those principles in place: the diffusion and balancing of governmental powers and an unassailable system to protect the individual liberties of the American people.”

Similarly, the historian Matthew Dallek writes that Sen. Barry Goldwater, a hero to many libertarians and small-government conservatives, “was no strict libertarian. Appealing to those on the right who longed to recapture lost certitudes, he argued that the state had a duty to maintain order and promote virtue. ‘Politics,’

Goldwater wrote, is ‘the art of achieving the maximum amount of freedom for individuals that is consistent with the maintenance of social order.’”

Goldwater may not have been a strict libertarian. But that quotation from *The Conscience of a Conservative* certainly doesn’t disprove the claim. Seeking to achieve “the maximum amount of freedom for individuals that is consistent with the maintenance of social order” is a core concern of a libertarian.

And I’ll bet that Mickey Edwards knows that most libertarians believe in a government constrained by a constitutional framework based on fundamental principles including the diffusion of power.

Through such “triangulation,” positioning himself between the extremes of anarchy and overweening government, a writer can place himself in the sensible center, always a good and reasonable place to be.

But libertarians believe in the centrality of law. As John Locke so memorably put it, “Where there is no Law, there is no Freedom.” It just isn’t accurate to say that you’re not a libertarian because you believe in liberty under law.

Libertarianism is the view that each person has the right to live his life in any way he chooses so long as he respects the equal rights of others. Libertarians defend each person’s right to life, liberty, and property—rights that people have naturally, not as gifts from government. In the libertarian view, human relationships should be voluntary; the only actions that should be forbidden by law are those that involve the initiation of force against those who have not themselves used force—actions such as murder, rape, robbery, kidnapping, and fraud. Legitimate governments act to protect us from others and do not themselves violate rights.

Libertarians believe in the presumption of liberty. In contemporary politics, they want to make government a lot smaller in order to expand the scope of human liberty.

We need to continue to work to correct the mischaracterizations of libertarianism presented by critics such as Dionne, Krauthammer, and Gerson. But it would also be useful if there were some agreement on terms, that a libertarian is someone who believes in liberty, not in chaos; in the rule of law, not in lawlessness; and in a voluntary social order, not in anomie and isolation. Libertarianism is the heart and soul of the modern world. There’s no reason to run away from it.

Cato's Bob Levy spearheads precedent-setting lawsuit

## Supreme Court to Take up Second Amendment

Thanks to the work of Cato's Robert A. Levy and his two co-counsels Alan Gura and Clark Neily, on November 20, 2007, the Supreme Court agreed to hear *District of Columbia v. Heller*, the first time in 68 years that the Court has taken up a Second Amendment case.

The Cato Institute and Joyce Lee Malcolm, history professor at George Mason University, will be filing an amicus brief authored pro bono by C. Kevin Marshall of Jones Day. Marshall was coauthor of a comprehensive 2004 memorandum by the Office of Legal Counsel for then-attorney general John Ashcroft setting out the Executive Branch's interpretation of the Second Amendment as securing an individual right.

The Cato Institute has commissioned *Reason* editor Brian Doherty to chronicle the case in a book to be released shortly following the decision.

Directly at issue is Washington, D.C.'s, prohibition on handgun ownership, which also includes provisions against keeping functional rifles and shotguns in the home. Robert Levy, senior fellow and member of the Board of Directors at the Cato Institute, initiated the case at the dis-

trict level in February 2003 and continues to serve as co-counsel.

Writing in the *Cato Handbook on Policy*, 6th edition, Levy pointed out how despite the D.C. gun ban, the city was for many years the murder capital of the nation. He stressed how the placement of the Second

“It's not often that the Supreme Court takes up the core meaning of an entire Amendment of the Bill of Rights.”

Amendment within the Bill of Rights, as well as its explicit reference to “the right of the people,” indicates that the Second Amendment—like the First and Fourth—speaks to an individual right.

In a landmark decision in March 2007, the U.S. Court of Appeals for the D.C. Circuit declared Washington's 31-year-old gun ban unconstitutional. “We conclude that the Second Amendment protects an individual right to keep and bear arms,”

read the strongly worded 58-page majority opinion from Senior Judge Laurence H. Silberman. Washington mayor Adrian Fenty called the ruling “outrageous” and vowed to do everything in his power to overturn it.

But in appealing to the Supreme Court, Fenty opened the door for gun control laws far beyond the District to be called into question.

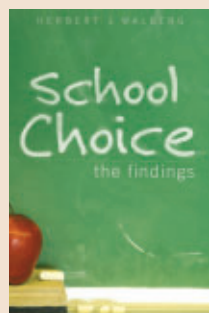
In *D.C. v. Heller*, the Court will address whether law-abiding citizens nationwide have a constitutionally protected right to keep functional firearms in their homes. While “reasonable” regulations would remain in the case of a victory, laws that effectively disarm honest citizens would be struck down.

Michael O'Shea, quoted in the 2006–2007 *Cato Supreme Court Review*, says the dearth of previous jurisprudence makes a “home run” decision likely. “It's not often that the Supreme Court takes up the core meaning of an entire Amendment of the Bill of Rights, in a context where it writes on a mostly clean slate from the standpoint of prior holdings.”

A decision will come down before the end of the current term in June 2008.

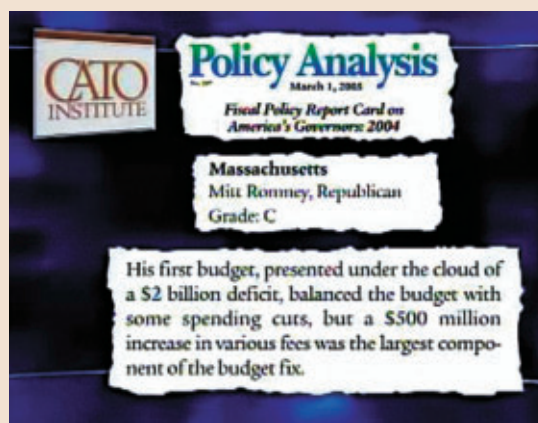
### NEWS NOTES

The Cato Institute and the HEARTLAND INSTITUTE teamed up to distribute 75,000 copies of a pocket edition of *School Choice: The Findings* by



HERBERT WALBERG as an insert in *Heartland's School Reform News*. Copies went to all private and charter school principals in the country, the school board chairman of all 14,000 U.S. school districts, members of Congress and state legislators, education reporters, and other key players in education policy. *School Choice: The Findings*, a careful review of the evidence on school choice, is available from Cato for \$14.95 in paperback.

Cato's biennial “Fiscal Policy Report Card on America's Governors” is getting a workout in the presidential primaries. Fred Thompson repeatedly declared that Mike Huckabee was “one of the highest taxing governors that we had in this country and rivaling Bill Clinton in terms of the Cato ratings.” A press release from the Rudy Giuliani campaign blared, “Just the Facts #3: Cato Institute Rated Romney ‘C’ in 2006 for His Tax Policy.” And Giuliani himself declared in New Hampshire: “[Romney] had one of the weaker records of any governor on economics. The Cato Institute said he was ‘C’ for governors.” On the December 16 broadcast of *Meet the Press*, Tim Russert challenged Mitt Romney: “As you campaign around the country, you talk about your record in Massachusetts with budgets and taxes



and so forth. The Cato Institute . . . gave you a C as governor of Massachusetts.” (*Meet the Press* visual, above) Similarly, when Huckabee appeared two weeks later, Russert challenged him: “You raised taxes, and the Cato Institute gave you a D and an F for your tenureship as governor.” The next “Fiscal Policy Report Card” will be issued this fall.



**R**OBERT D. NOVAK delivered a frank assessment of the Republican presidential field at Cato's Chicago seminar on November 29. Attendees also heard from Cato senior fellows Randal O'Toole ("The Best-Laid Plans"), Jerry Taylor ("Ethanol: 200 Proof Liquid Baloney"), and Daniel J. Mitchell ("Will America Become a French-Style Welfare State?").



**S**late's "Dear Prudence" columnist EMILY YOFFE joined Tyler Cowen, author of *Discover Your Inner Economist*, at a November 15 forum on whether and how an understanding of incentives can actually improve your life.



**I**s that in East Germany or Portland? At a Cato Book Forum on October 24, RANDAL O'TOOLE said city planning is making housing (including the apartment pictured) scarcer, more expensive—and uglier, too.



Universities—especially publicly funded ones—should choose their student bodies based on merit, not race. WARD CONNERLY (top), founder and chairman of the American Civil Rights Institute, made equality under the law at our nation’s higher education institutions a reality with a number of well-crafted state ballot initiatives. In 1996, he helped get Proposition 209—a landmark initiative that banned public institutions from discriminating on the basis of race, sex, or ethnicity in California—on the state ballot and subsequently passed. In 1998, Connerly and ACRI won in Washington State with Initiative 200. At Cato’s San Francisco City Seminar, Connerly spoke on his latest victory for equality under the law. Despite ads by Colin Powell, Bill Clinton, and Barack Obama against it, the Michigan Civil Rights Initiative passed overwhelmingly last year.

Cato’s WILL WILKINSON (right) and adjunct scholar Tyler Cowen debated Jeffrey Sachs of Columbia and Betsey Stevenson of the Wharton School on whether America is failing in the pursuit of happiness at a New York event sponsored by *The Economist*. The audience indicated by show of hands at the start that it was about two-to-one on the affirmative side. But at the end of the evening there was a slight margin in favor of the Cowen-Wilkinson position.

Meanwhile, JERRY TAYLOR (below right) ventured deep into corn country to debate the value of ethanol at the University of Nebraska before 2,400 people and four other sites watching by simulcast. Taylor reports that “corn wasn’t the only thing being husked in Nebraska that night,” a claim that might be taken with a grain of salt were it not for the editorial two days later in the *Daily Nebraskan*: “Corn ethanol’s image as an energy savior . . . took a beating at the Lied Center for Performing Arts during an E. N. Thompson Forum debate between Jerry Taylor, senior fellow at the Cato Institute, and Douglas Durante, executive director of the Clean Fuels Development Coalition. Taylor threw out point by point and quoted study after study in his attack on ethanol subsidies, while Durante mostly shrugged his shoulders and said ethanol never promised to be a panacea.”





Taiwan is being more provocative toward China, while at the same time it spends very little on defense, a recipe that invites a military challenge by China, argued Cato defense scholars TED GALEN CARPENTER and JUSTIN LOGAN at a Capitol Hill Briefing. Carpenter recommended ending any implicit defense commitment by the United States to avoid any chance of being caught up in what would be a disastrous conflict.



Strength of property rights, rule of law, and stability of a nation's currency are components of a nation's economic freedom score. At a November 9 Cato Forum JAMES GWARTNEY, coauthor of the 2007 edition of *Economic Freedom of the World*, said that from 1980 to 2000, nations with greater economic freedom scores attracted more investment, grew more rapidly, and achieved higher levels of income than their peers.

Economist WARREN COATS spoke on his new book *One Currency for Bosnia: Creating the Central Bank of Bosnia and Herzegovina* at a November 2 Cato luncheon. Coats argued that much-maligned dollar and euro “pegs” can serve as a great benefit to developing nations, which can free-ride on the sound monetary practices of the developed world.



**OCTOBER 4:** *The Antitrust Religion: How Blind Faith in Antitrust has Led to Confusing and Arbitrary Enforcement*

**OCTOBER 9:** Taiwan's Defense Budget: How Taipei's Free Riding Risks War

**OCTOBER 19:** Roundtable luncheon featuring Donald Tsang, Chief Executive of Hong Kong

**OCTOBER 23:** New York City Seminar featuring Steve Forbes

**OCTOBER 24:** The Best-Laid Plans: Why Congress Should Repeal Federal Planning Laws

**OCTOBER 25:** Should American Workers Fear or Embrace Globalization? Featuring Jagdish Bhagwati

**OCTOBER 29:** *Is the Welfare*

*State Justified?*

**OCTOBER 30:** *The Best-Laid Plans: How Government Planning Harms Your Quality of Life, Your Pocketbook, and Your Future*, Portland, Oregon

**NOVEMBER 9:** How Nations Prosper: Economic Freedom and Doing Business in 2008

**NOVEMBER 14:** 25th Annual Monetary Conference featuring Ben Bernanke, chairman of the Federal Reserve

**NOVEMBER 15:** *Discover Your Inner Economist: Use Incentives to Fall in Love, Survive Your Next Meeting and Motivate Your Dentist*

**NOVEMBER 15:** Thriving or Threatened? Perspectives on the State of U.S. Manufacturing in a Global Economy

**NOVEMBER 20:** *War, Wine, and Taxes: The Political Economy of Anglo-French Trade, 1689-1900*

**NOVEMBER 26:** *After War: The Political Economy of Exporting Democracy*

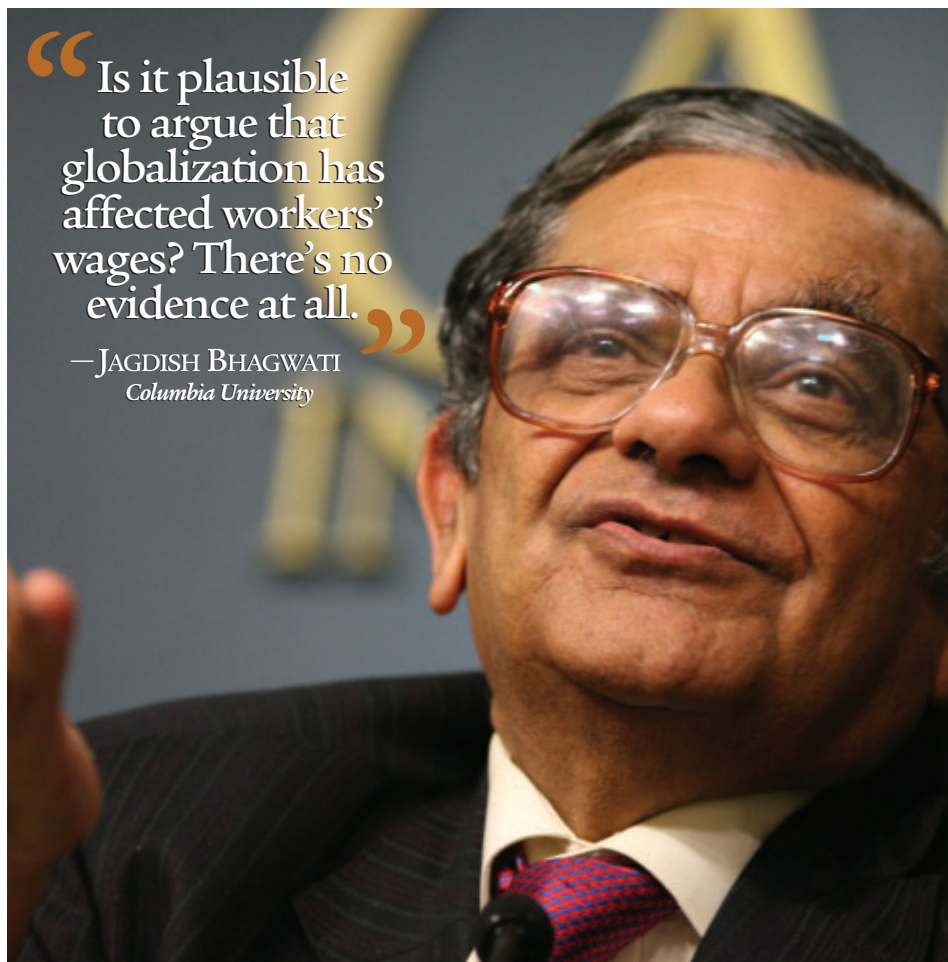
**NOVEMBER 27:** San Francisco City Seminar featuring Ward Connerly

**NOVEMBER 27:** Hard Truths about Energy

**NOVEMBER 28:** *Does Feminism Discriminate Against Men? A Debate*

**NOVEMBER 29:** Chicago City Seminar featuring Robert Novak

**NOVEMBER 30:** Market Bailouts and the "Fed Put," featuring William Poole, president, Federal Reserve Bank of St. Louis



“Is it plausible to argue that globalization has affected workers' wages? There's no evidence at all.”

—JAGDISH BHAGWATI  
Columbia University

## CATO CALENDAR



THE  
MILTON  
FRIEDMAN  
PRIZE FOR  
ADVANCING LIBERTY

### MILTON FRIEDMAN PRIZE PRESENTATION DINNER

New York • Waldorf=Astoria  
May 15, 2008

Speakers include Frederick W. Smith.

### CATO UNIVERSITY SUMMER SEMINAR

San Diego • Rancho Bernardo Inn  
July 20–25, 2008

### CATO CLUB 200 RETREAT

Kiawah Island, S.C.  
The Sanctuary at Kiawah  
September 18–21, 2008

“Over the next 10 years, projections suggest that RomneyCare will cost about \$2 billion more than was budgeted.”

*Continued from page 1*

said, “The Massachusetts plan could become a catalyst and a galvanizing event at the national level, and a catalyst for other states.”

Today, however, Romney seldom mentions his plan on the campaign trail. If pressed he maintains that he is “proud” of what he accomplished, while criticizing how the Democratic administration that succeeded him has implemented the program. Nevertheless, he now focuses on changing federal tax law in order to empower individuals to buy health insurance outside their employer, and on incentives for states to deregulate their insurance industry. He would also use block grants for both Medicaid and federal uncompensated care funds to encourage greater state innovation. He encourages states to experiment, but does not offer his own state as a model.

## A Double Failure

There’s good reason for his change of position. The Massachusetts plan was supposed to accomplish two things—achieve universal health insurance coverage while controlling costs. As Romney wrote in the *Wall Street Journal*, “Every uninsured citizen in Massachusetts will soon have affordable health insurance and the costs of health care will be reduced.” In reality, the plan has done neither.

Perhaps the most publicized aspect of the Massachusetts reform is its mandate that every resident have health insurance, whether provided by an employer or the government or purchased individually. “I like mandates,” Romney said during a debate in New Hampshire. “The mandate works.” But did it?

Technically the last day to sign up for insurance in compliance with that mandate was November 15, though as a practical measure Massachusetts residents actually had until January 1, 2008. Those without insurance as of that date will lose their personal exemption for the state income tax when they file this spring. In 2009, the

penalty will increase to 50 percent of the cost of a standard insurance policy.

Such a mandate was, of course, a significant infringement on individual choice and liberty. As the Congressional Budget Office noted, the mandate was “unprecedented,” and represented the first time that a state has required that an individual, simply because they live in a state and for no other reason, must purchase a specific government-designated product.

It was also a failure.

When the bill was signed, Governor Romney, the media, state lawmakers, and health care reform advocates hailed the mandate as achieving universal coverage. “All Massachusetts citizens will have health insurance. It’s a goal Democrats and Republicans share, and it has been achieved by a bipartisan effort,” Romney wrote.

Before RomneyCare was enacted, estimates of the number of uninsured in Massachusetts ranged from 372,000 to 618,000. Under the new program, about 219,000 previously uninsured residents have signed up for insurance. Of these, 133,000 are receiving subsidized coverage, proving once again that people are all too happy to accept something “for free,” and let others pay the bill. That is in addition to 56,000 people who have been signed up for Medicaid. The bigger the subsidy, the faster people are signing up. Of the 133,000 people who have signed up for insurance since the plan was implemented, slightly more than half have received totally free coverage.

It’s important to note that the subsidies in Massachusetts are extensive and reach well into the middle class—available on a sliding scale to those with incomes up to 300 percent of the federal poverty level. That means subsidies would be available for those with incomes ranging from \$30,480 for a single individual to as much

as \$130,389 for a married couple with seven children. A typical married couple with two children would qualify for a subsidy if their income were below \$63,000.

What we don’t know is how many of those receiving subsidized insurance were truly uninsured and how many had insurance that either they or their employer was paying for. Studies indicate that substitution of taxpayer-financed for privately funded insurance is a common occurrence with other government programs such as Medicaid and the State Children’s Health Insurance Program (S-CHIP). Massachusetts has attempted to limit this “crowd-out” effect by requiring that individuals be uninsured for at least six months before qualifying for subsidies. Still some substitution is likely to have occurred.

The subsidies may have increased the number of Massachusetts citizens with insurance, but as many as 400,000 Massachusetts residents by some estimates have failed to buy the required insurance. That includes the overwhelming majority of those with incomes too high to qualify for state subsidies. Fewer than 30,000 unsubsidized residents have signed up as a result of the mandate. And that is on top of the 60,000 of the state’s uninsured who were exempted from the mandate because buying insurance would be too much of a financial burden.

## Billion-Dollar Overrun

According to insurance industry insiders, the plans are too costly for the target market, and the potential customers—largely younger, healthy men—have resisted buying them. Those who have signed up have been disproportionately older and less healthy. This should come as no surprise since Massachusetts maintains a modified form of community rating, which forces younger and healthier individuals to pay higher premiums in order to subsidize premiums for the old and sick.

Thus, between half and two-thirds of those uninsured before the plan was imple-



“In actuality, insurance premiums in the state are expected to rise 10–12 percent next year, double the national average.”

mented remain so. That’s a far cry from universal coverage. In fact, whatever progress has been made toward reducing the ranks of the uninsured appears to be almost solely the result of the subsidies. The much ballyhooed mandate itself appears to have had almost no impact.

The Massachusetts plan might not have achieved universal coverage, but it has cost taxpayers a great deal of money. Originally, the plan was projected to cost \$1.8 billion this year. Now it is expected to exceed those estimates by \$150 million. Over the next 10 years, projections suggest that Romney-Care will cost about \$2 billion more than was budgeted. And the cost to Massachusetts taxpayers could be even higher because new federal rules could deprive the state of \$100 million per year in Medicaid money that the state planned to use to help finance the program.

Given that the state is already facing a projected budget deficit this year, the pressure to raise taxes, cut reimbursements to health care providers, or cap insurance premiums will likely be intense. Romney likes to brag that he accomplished his health care plan “without raising taxes.” Unless something turns around, that is not likely to be the case much longer.

Moreover, the cost of the plan is also likely to continue rising, because the Massachusetts reform has failed to hold down the cost of health care. When Romney signed his plan he claimed “a key objective is to lower the cost of health insurance for all our citizens and allow our citizens to buy the insurance plan that fits their needs.” In actuality, insurance premiums in the state are expected to rise 10–12 percent next year, double the national average.

## The Bureaucratic Connector

Although there are undoubtedly many factors behind the cost increase, one reason is that the new bureaucracy that the legislation created—the “Connector”—has not been allowing Massachusetts citizens to buy insurance that “fits their needs.”

Although it has received less media attention than other aspects of the bill, one of the most significant features of the legislation is the creation of the Massachusetts Health Care Connector to combine the current small-group and individual markets under a single unified set of regulations. Supporters such as Robert E. Moffit and Nina Owcharenko of the Heritage Foundation consider the Connector to be the single most important change made by the legislation, calling it “the cornerstone of the new plan” and “a major innovation and a model for other states.”

The Connector is not actually an insurer. Rather, it is designed to allow individuals and workers in small companies to take advantage of the economies of scale, both in terms of administration and risk pooling, which are currently enjoyed by large employers. Multiple employers are able to pay into the Connector on behalf of a single employee. And, most importantly, the Connector would allow workers to use pretax dollars to purchase individual insurance. That would make insurance personal and portable, rather than tied to an employer—all very desirable things.

However, many people were concerned that the Connector was being granted too much regulatory authority. It was given the power to decide what products it would offer and to designate which types of insurance offered “high quality and good value.” This phrase in particular worried many observers because it is the same language frequently included in legislation mandating insurance benefits.

At the time the legislation passed, Ed Haislmaier of the Heritage Foundation reassured critics that “the Connector will neither design the insurance products being offered nor regulate the insurers offering the plans.” In reality, however, the

Connector’s board has seen itself as a combination of the state legislature and the insurance commissioner, adding a host of new regulations and mandates.

For example, the Connector’s governing board has decreed that by January 2009, no one in the state will be allowed to have insurance with more than a \$2,000 deductible or total out-of-pocket costs of more than \$5,000. In addition, every policy in the state will be required to phase in coverage of prescription drugs, a move that could add 5–15 percent to the cost of insurance plans. A move to require dental coverage barely failed to pass the board, and the dentists—along with several other provider groups—have not given up the effort to force their inclusion. This comes on top of the 40 mandated benefits that the state had previously required, ranging from in vitro fertilization to chiropractic services.

Thus, it appears that the Connector offers quite a bit of pain for relatively little gain. Although the ability to use pretax dollars to purchase personal and portable insurance should be appealing in theory, only about 7,500 nonsubsidized workers have purchased insurance through the Connector so far. On the other hand, rather than insurance that “fits their needs,” Massachusetts residents find themselves forced to buy expensive “Cadillac” policies that offer many benefits that they may not want.

Governor Romney now says that he cannot be held responsible for the actions of the Connector board, because it’s “an independent body separate from the governor’s office.” However, many critics of the Massachusetts plan warned him precisely against the dangers of giving regulatory authority to a bureaucracy that would last long beyond his administration.

## ClintonRomneyEdwardsCare

Despite the problems being encountered in Massachusetts, the Romney plan continues to receive a surprising amount of support as a model for reform. The health

care plans advocated by all three of the leading Democratic presidential candidates—Hillary Clinton, John Edwards, and Barack Obama—are all substantially the same as Romney’s. They are all variations of a concept called “managed competition,” which leaves insurance privately owned but forces it to operate in an artificial and highly regulated marketplace similar to a public utility. All of their plans include an individual mandate (only for children in Obama’s case, and for everyone in Clinton’s and Edwards’s plans), increased regulation, a government-designed standard benefits package, and a new pooling mechanism similar to the Connector.

Romney denounces Senator Clinton’s plan as “government run health care,” but there really is very little difference between the Romney and Clinton plans.

In addition, several states have been seeking to use Massachusetts as a model for their own reforms. In California, Gov. Arnold Schwarzenegger added an employer mandate to a plan that otherwise looked

“Romney denounces Senator Clinton’s plan as “government run health care,” but there really is very little difference between the Romney and Clinton plans.”

very much like the Massachusetts plan. Other states considering similar proposals include Alaska, Kansas, Louisiana, Maryland, Michigan, New York, Oregon, and Washington, as well as the District of Columbia. Although none of these proposals has made it into law, several remain under active consideration.

No one can deny that the U.S. health care system needs reform. Too many Americans lack health insurance and/or are unable to afford the best care. More must be done to lower health care costs and increase access to care. Both patients and providers need better and more useful information. The system is riddled with waste, and quality of care is uneven. Government health care programs like Medi-

care and Medicaid threaten future generations with an enormous burden of debt and taxes. Given these pressures, the temptation for a quick fix is understandable.

But, as Massachusetts has shown us, mandating insurance, restricting individual choice, expanding subsidies, and increasing government control isn’t going to solve those problems. A mandate imposes a substantial cost in terms of individual choice but is almost certainly unenforceable and will not achieve its goal of universal coverage. Subsidies may increase coverage, but will almost always cost more than projected and will impose substantial costs on taxpayers. Increased regulations will drive up costs and limit consumer choice.

The answer to controlling health care costs and increasing access to care lies with giving consumers more control over their health care spending while increasing competition in the health care marketplace—not in mandates, subsidies, and regulation. That is the lesson we should be drawing from the failure of RomneyCare.

## Briefs Defend Habeas Corpus, Religious Freedom in Supreme Court

The war on terror has presented U.S. courts with many thorny legal issues relating to civil liberties and national security. On one hand, what right does the president have to hold people indefinitely without recourse to judicial review? On the other, does the Constitution really require that everyone picked up by our military in wartime have access to our courts? Tim Lynch, director of Cato’s Project on Criminal Justice, acknowledges the difficult tradeoff confronting policymakers during the war on terror but says that now more than ever is the time to defend the distinctly American right to a safe and speedy trial. On December 5, the Supreme Court took up *Boumediene v. Bush*, which centers on the right of “enemy combatants” held in Guantanamo Bay to have their detention reviewed by American civilian courts. In question is the Military Commissions Act of 2006, a Bush-spearheaded

bill which holds that if prisoners are housed on foreign soil, then federal courts lack jurisdiction to consider habeas corpus claims of wrongful imprisonment. But this right cannot be abrogated in the absence of a “rebellion” or “invasion,” according to the Bill of Rights, and thus the Military Commissions Act is unconstitutional, Lynch argues in Cato’s amicus brief on the case. This isn’t the first time Lynch has lent his pen to defend habeas corpus rights. He has also written briefs in the cases of Salim Ahmed Hamdan (2006), Jose Padilla (2004), and Yaser Esam Hamdi (2004).

For decades the Supreme Court has repeatedly held that religious speech is, like other types of speech, protected by the Free Speech Clause. Accordingly, the Court has consistently held that the government may not silence such speech simply because it expresses a religious viewpoint. Despite this well-settled law, local officials in Contra-

Costa County, California, specifically barred religious speech from a forum that the county had opened broadly for expressive activities: although the county opened library meeting rooms for every manner of educational, cultural, or community-related meetings or programs, it expressly excluded from those forums any speech that amounted to a “religious service.” In Cato’s brief on *Faith Center Church Evangelistic Ministries v. Glover*, a team of lawyers from Gibson, Dunn & Crutcher urge the Supreme Court to review a decision of the Ninth Circuit ratifying this blatant viewpoint discrimination. Cato’s brief also highlights the need for the Supreme Court to clarify its public-forum doctrine, a doctrine that, although fundamental in a large swath of free-speech cases, has led to widespread confusion among the Courts of Appeals as to the amount of protection the Free Speech Clause provides when speech occurs on public property.

# Can We Export Democracy?

The United States has attempted to export liberal democratic institutions through military occupation and reconstruction throughout its history, with mixed results. For every West Germany or Japan, there is a Cuba, Haiti, Somalia, or Vietnam. Why do we observe such different outcomes in military interventions? Do efforts to export democracy help more than they hurt? At a November 26, 2007 Cato Book Forum, Christopher J. Coyne, assistant professor of economics at West Virginia University and author of *After War: The Political Economy of Exporting Democracy*, and Tamara Cofman Wittes, senior fellow at the Brookings Institution, examined the problems with installing democracy.

**CHRISTOPHER J. COYNE:** Occupiers and policymakers suffer from a fundamental knowledge problem. We know what a liberal democracy looks like. We know the characteristics of a liberal democracy—protection of private property, protection of civil rights, protection of political rights, the rule of law, constraints on political actors, and so forth. But we know much less about how to go about getting those characteristics where the foundations are not already in place. This is the fundamental problem of trying to export democracy, but let me try to break it down further.

In *Democracy in America*, Alexis de Tocqueville emphasized the art of association that underpinned democracy in America. Americans, he maintained, have a habit for self-governance, for forming associations that allow them to solve problems that government can't. To Tocqueville this is a key aspect of why liberal democracy worked in America.

Cooperation and self-governance is a habit. Where citizens voluntarily cooperate around liberal democratic institutions, they

will tend to be self-sustaining. But when those values and underlying beliefs are absent, constant coercion and intervention will be needed to sustain formal institutions.

Meanwhile, a host of incentive problems confront the occupier as well as the occupied.

Every public policy is influenced by special interest groups, who attempt to direct benefits to their members, while dispersing costs among the taxpayers. So even if policymakers know the policies that would be beneficial to the reconstruction effort, interest groups will attempt to lobby government to shift policies toward their own ends.

Another perverse incentive created by the political system is the influence of voter opinion. Voters who initially support a reconstruction may ultimately change their minds. For instance, now we see many polls showing U.S. voters are turning against the reconstruction of Iraq. Even if it makes sense to stay the course in Iraq, or with any other reconstruction effort, for an extended period of time, voter opinions and voter demands will influence policy. In

other words, elected officials will respond to the demands of voters. And if those voter opinions don't align with the end goals of the reconstruction, it will contribute to its ultimate failure.

A final incentive problem is the temporal disconnect that elected officials face. Elected officials basically attempt to maximize the benefits while they're in office, either before an election or before their term is up, even if the costs associated with those policies will not come to fruition until years down the line.

In 2002, Lawrence Lindsey, President Bush's chief economic adviser, estimated the cost of the Iraq war to be \$100 billion to \$200 billion. Of course, the Bush administration said this was absurd; he was exaggerating. And not long afterward, he left the administration.

Current estimates place the cost of the war somewhere between \$1 trillion and \$2 trillion. This is a perfect example of the underlying logic that elected officials tend to downplay long-term costs.

So the main takeaway here is that even if we have good intentions going in, we have little reason to believe that the policies that support this benevolent intervention will actually be implemented. Stated differently, we have good reason to believe that the incentives created by the U.S. domestic political institutions will generate perverse policies.

Notice this says nothing about the malevolence of any U.S. policymaker or bureaucrat. It is simply a statement that they respond to incentives, just like everyone else.

Ultimately, occupiers and policymakers face an array of constraints that make reconstruction efforts more likely to fail than to succeed. Moreover, the magnitude of these constraints is likely to be greatest in those countries that are most in need of the social, political, and economic change which reconstruction efforts attempt to engender.

The failure of reconstruction efforts is not a matter of political ideology. It's not a matter of trying harder. Failure is due to the fundamental inability of the U.S. government, or any other government for that matter, to centrally plan the complex array of social, political, and economic institutions that characterize a liberal democratic society.

So where does that leave us? What should U.S. foreign policy be? What I advocate is a principled position of nonintervention and free trade. I contend the United States, as a default position, should refrain from intervening abroad to export liberal democratic institutions, and it should unilaterally engage in free trade with all countries.

If you go back to the Founding Fathers of America—George Washington, Thomas Jefferson, John Quincy Adams—all of them enunciated a position of economic ties with all and political ties with none. They realized that when you engaged in political alliances, you would get tangled up in international conflicts.

If the United States is sincerely committed to helping the poorest countries in the world, the easiest way to accomplish this is not foreign aid, it's not money, it's not sending humanitarian assistance abroad. It's not sending military troops abroad. It is allowing poor people access to our well-established markets.

Then there are the cultural benefits of free trade. When parties trade, it exposes them to the values, beliefs, and other cultural aspects of their trading partner. If we are really concerned with exporting Western-style institutions values of liberty, what better way than to allow people that don't have them access to our markets so that they can see how a free country actually operates?

Now, an argument against this is that if we give free access to our markets—for instance, to Iran or to North Korea—we are propping up these illiberal regimes and in so doing preventing social change. But it's just the opposite. First, if we allowed these countries access to our markets, it would raise the cost of attacks against America. Trading partners are less likely to engage in

war with each other. Second, it would free up resources if we stuck to simply defending our border. Finally, unlike aid, which goes to government, and thus actually does enrich illiberal regimes, the benefits of trade accrue to citizens. These citizens are often poor and sometimes tyrannized, making the case for free trade all the more important.

In sum, the argument is not that free



Christopher J. Coyne

“The United States should refrain from intervening abroad to export liberal democratic institutions, and it should unilaterally engage in free trade with all countries.”

trade is a panacea. Instead, the argument is it is the best of a constrained set of alternatives. And my main contention is that nonintervention and free trade provides the United States with the best chance of establishing the foundations of global peace and global freedom.

**TAMARA COFMAN WITTES:** Dr. Coyne cites a knowledge problem facing occupiers. He argues that we know what we are aiming for in attempting to inculcate democracy, we just don't know how to

accomplish it. If it were a question of how only—well, that's a technical question. We can develop analysis, we can develop expertise. We can eventually gain answers on how to inculcate these values and build these institutions.

But what Coyne's analysis really helps us do is save us from going down that path, by pointing out how many of the variables that are relevant to success or failure are actually outside the control of the occupier. And that is not just humbling, it's really an indictment of the whole enterprise.

But that does raise a difficult question for the United States and the international community: If Coyne's analysis informs our future policy, then we should indeed reject military interventions and reconstruction missions abroad as hopelessly complex enterprises in which we don't have the ability to influence the most important factors that determine success or failure, so that success is essentially a matter of picking the right cases and understanding what cases have the capacity for success.

But what of those overseas interventions motivated not mainly by the desire to spread democracy but on behalf of more self-interested objectives? Sometimes the motivating force is national interest, and promoting democracy is how policymakers sell the war—and subsequent occupation—to the American public.

We can expect that even were the U.S. government to forswear democracy promotion at the point of a gun, it would still engage in military interventions in cases where the national interest is at stake. We could rule out interventions that were purely humanitarian in nature. We could probably rule out interventions in states that while brutal internally were stable and functional and could be engaged in other ways. And this would indeed be an improvement over recent years' policy.

But I think the hardest case is that of failing or failed states, ones that impact regional stability or impact U.S. interests more directly. What should we do in cases like Afghanistan? It is not possible to implement the approach of nonintervention and free trade because it is very difficult to trade effectively with a state that

does not have effective governance. Meanwhile, we're already there for reasons of national self-interest.

Which raises another question: If we intervene to protect our own interests, what should we leave behind? Should we intervene and simply attempt to remain neutral between democracy and dictatorship? If the United States or an international coalition chooses to intervene in a state for security reasons, what obligations do we incur regarding the successor government left behind?

It strikes me that there is another alternative to military intervention, either with a light or a heavy footprint, and the policy of nonintervention and free trade. Indeed, there is a menu of tools for American democracy promotion and democracy assistance abroad that is actually quite wide. These tools include advice and training for political activists and political leaders; networking among human rights activists and political entrepreneurs; technical training for governments and government parties; financial and other forms of support for civic groups that are working to inculcate liberal values in their local environment.

These mechanisms for democracy promotion can work over time to develop the art of association, which Coyne, citing Tocqueville, considers central to the establishment and preservation of democracy.

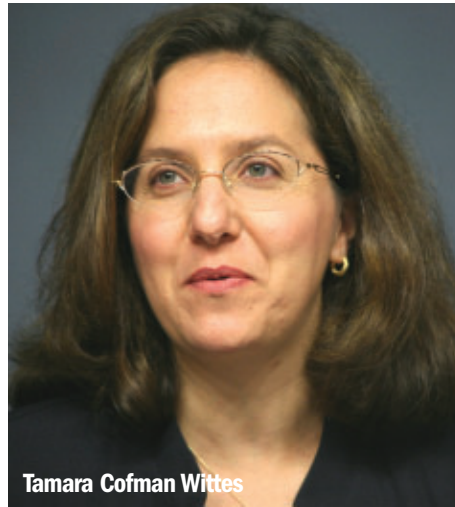
Most of the societies we are talking about have not had historical experiences of liberal democracy on which to draw, but they are undergoing rapid social change. That is why many of them are unstable and conflict ridden. So this type of assistance can help strengthen trends that already exist within these societies, trends toward liberalism.

There have been many good arguments made over the years to suggest that even when we say we are intervening on the basis of liberal values, we are in fact working to protect our own economic or security interests. But there is absolutely no question that from the very beginning of the 20th century, when America began to emerge as a global power, whenever our government has been on the cusp of major overseas engage-

ments, democracy promotion has been a prominent part of the rationale presented by American politicians and embraced by the American people for the necessity of the overseas commitment.

For better or worse, Americans understand their country's role abroad to be closely linked to the spread of democracy.

So if democracy promotion has been a very consistent part of how American polit-



Tamara Cofman Wittes

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ical leaders generate public support for costly and long-term military engagements, if democracy promotion is primarily not about the country being occupied but is rather related to our need to grease our domestic political machinery, then it is very hard to see how we can effectively de-link democracy promotion and military intervention in the way that Coyne would hope to see.

**COYNE:** Dr. Wittes argues that my proposed policy of nonintervention and free trade does not work in the case of failed

states. This is incorrect. When we say the United States trades with China, well, no, it really doesn't. An individual in the United States trades with an individual in China, just like I trade with my local grocer. So trading with individuals living in failed states is not a problem.

We don't want to trade with the government of Afghanistan, or lack of government. We want to trade with individuals in Afghanistan. Again, this is not a panacea. It's the best of a constrained set of alternatives.

Dr. Wittes proposes additional training and funding for political leaders to further the cause of liberal democracy abroad. But there is a dark side to such funding. Many of the same associations that we consider beneficial in the United States—churches, schools, political groups—often fund terrorist activity in foreign countries. So many of the associations that we throw money at are not necessarily good in terms of promoting liberal democracy abroad.

Dr. Wittes' final point, about how democracy promotion at home and foreign policy abroad are inextricably linked, is an interesting one. But again, I think the critical point here is pointing out the costs of U.S. interventions abroad. Many people have emphasized that war is the health of the state. One of the significant costs, of course, is that we get bogged down abroad, but also there is massive growth in the size of government at home.

This is what Robert Higgs calls the ratchet effect. When there is a crisis—like a war—the size of the U.S. government is ratcheted up. And after the war, it drops down slightly, but it's still greater in terms of size than prior to the war. So I think it's important to educate Americans and to explore the significant costs associated with military intervention.

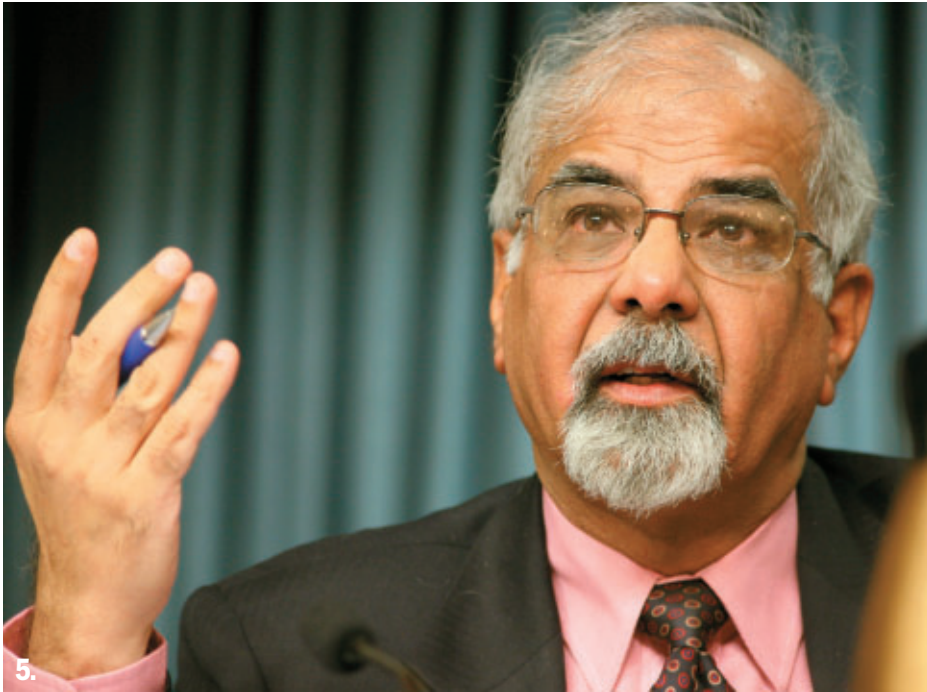
Oftentimes in these interventions the worst case scenario policymakers consider is that we will fail and come home. But there are other things that can happen. We might not just fail. We might make things worse. We might impose significant costs on the people abroad and on U.S. citizens at home, with the effects lasting decades into the future.



## Monetary Arrangements in the 21st Century

With speakers over the years including Federal Reserve chairmen, finance ministers from several continents, and Nobel laureates in economics, the Cato Institute's Annual Monetary Conference has become, in the words of St. Louis Federal Reserve president William Poole, "the forum for presenting new work on the intersection of monetary economics and monetary politics." The 25th annual conference, held in Cato's Hayek Auditorium on November 14, was no exception.





1. A dozen television cameras and an overflow crowd turned out to hear Federal Reserve Chairman **Ben Bernanke's** opening keynote address. 2. **Bernanke** announced new changes aimed at “increasing transparency” at the Fed. 3. **Yi Gang**, assistant governor of the People’s Bank of China, said that China would continue to use the U.S. dollar as its main reserve currency despite its decline. 4. **James A. Dorn**, Cato’s vice president for academic affairs, accepts hearty congratulations from Cato president **Ed Crane**. Dorn has organized Cato’s Annual Monetary Conference since its inception 25 years ago. 5. **Surjit Bhalla**, managing director of Oxus Research and Investments, said China’s artificially undervalued currency means Chinese workers do not reap the benefits of a fast-growing economy. 6. Economist **Antonio Martino**, a member of the Italian Parliament, said that monetary unification—as with the euro—need not lead to political unification. 7. **Anna J. Schwartz** administers a stern rebuke to *New York Times* columnist Paul Krugman for his misleading article on Milton Friedman’s monetary economics. 8. The celebrated development economist **Arnold Harberger** of UCLA spoke on the exchange rate impact of China’s savings glut.

## Joey Coon: From the Army to the Cato Intern Program

Sergeant Joey Coon asked a young Iraqi boy to deliver a letter to the boy's father in November 2005 near the end of Coon's deployment in Iraq as an Army National Guardsman. It read in part, "Your kids remind me of my sisters and brothers back home, and spend-

his senior year of high school. "If I thought my country or family and friends were in any danger I'd be the first to sign up, but I didn't trust my government to make that decision for me," he says.

But after 9/11, Coon saw a chance to help America protect itself in a dangerous

Coon deeply. In a typical day, he recalls, he might leave encounters with smiling and waving villagers who had happily received the candy soldiers gave them—only to encounter improvised explosive devices on the drive home.

Coon's time in Iraq also deepened his commitment to Cato's principles. Despite the many friendships he made with the "hard-working" people he met in Iraq, Coon firmly believes that the U.S. occupation there is not a good policy for helping Iraqis.

"I have Iraqi friends who are in danger every day. If I thought that by staying we could make them safe, I'd have to rethink my position. Not only do I think it puts them in more danger, but I couldn't possibly ask other American soldiers to put their lives in danger to protect others."

Coon hopes to spread a similar respect for individual liberty in his work at the Cato Institute.



Joey Coon, former sergeant in the U.S. army and now manager of student programs at the Cato Institute, helped provide shoes to Iraqi children during his tour. Roughly 2,000 pairs of shoes and 400 lbs. of clothing were distributed throughout six different villages in central Iraq.

ing time in their company has eased the pain of being so far away from home." Coon had, with the help of friends back home in Oregon, organized a drive to provide shoes from America for the Iraqi children that he and his unit often interacted with while on patrol, or "outside the wire," as they called it.

This was just one example of the many human interactions that made life in Iraq more bearable for Coon as he learned to better appreciate the freedom he returned to in the United States, where he now works as manager of student programs at Cato. In that job he oversees Cato's internship program and has just launched a new website, Cato on Campus, to create awareness of libertarian issues on college campuses.

Coon is the first to admit that he was not the most likely candidate for the military. He gained a healthy skepticism of governmental power after reading *Atlas Shrugged* during

world. He enlisted in the National Guard in late 2001, as the United States prepared to take out Al Qaeda's enablers in Afghanistan. He was not sent overseas until 2004, when the United States had launched a new and much different war, one which Coon did not approve.

Despite his misgivings about the war in Iraq, Coon distinguished himself by rising to the rank of sergeant about halfway through his yearlong deployment near the town of Balad in the Sunni Triangle. He did a variety of jobs as part of a Quick Reaction Force, including talking to local sheiks and providing security as a camouflaged marksman. Removing the pounds of foliage that covered him while being positioned in camouflage was like "grooming a sheep dog," as he described it in the blog he maintained throughout his adventures.

The inconsistency of life and the unpredictable nature of danger in Iraq struck



Another young libertarian who has served in the armed forces is Jermaine Leonard, a fall intern at the Cato Institute who is currently studying public policy at Georgetown University. Like Coon, 9/11 gave him the idea to join the military—in his case, the Army. In April 2002, he shipped out to Afghanistan and spent a year near the Pakistani border gathering intelligence from local villagers to root out anti-coalition forces. When he wasn't working, he passed the time by reading such classic libertarian works as *A Monetary History of the United States, 1867–1960*, and *Commanding Heights: The Battle for the World Economy*.



Also: analysis of Sarbanes-Oxley, the ethanol myth, and global warming

## Regulation: Is Intellectual Property Property?

**W**ant to see a libertarian argue against property rights? Look no further than the pages of *Regulation*, where in the latest issue, Peter Menell, professor of law at the University of California, argues that intellectual goods like software and songs don't need legal protections to thrive. Proponents of intellectual property are doubly wrong in their analysis, argues Menell: First, intellectual property, quite simply, is not property

at all. Unlike a pill, which can only be consumed once, the formula for a pharmaceutical drug can be used any number of times at no extra cost (and at great benefit). Second, while IP proponents like Richard Epstein are correct in pointing out how intellectual property protections encourage innovation, they overlook the fact that—in a rapidly changing digital landscape—they are often just as much a drag on innovation, too. Epstein's already draft-

ing a response for the next issue of *Regulation*—so stay tuned!

Meanwhile, in their contribution, law professors Craig S. Lerner and Moin A. Yahya take on the SarbOx, showing that Sarbanes-Oxley has created an incentive structure that rewards dishonest corporate execs while punishing those who play by the rules. Also appearing in this issue: “the “energy security” argument for ethanol, the draft, and takeover regulation.

Niskanen questions Greenspan

## Cato Journal: How to Rein in Big Government

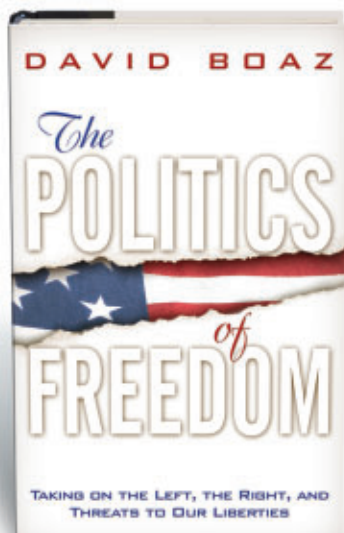
**W**hat accounts for the prosperity of nations? Property rights, rule of law, low and predictable levels of inflation—the story's been the same for ages. But what about nations that lack such stable footing? How can they get ahead? Could it be the case—as Douglas A. Houston argues in the Fall 2007 edition of *Cato Journal*—that a little corruption could help grease the wheels of commerce? Houston, a professor of business at the University of Kansas, contends that in some cases the negative (rent-seeking) effects of corrupt actions are overcome by their beneficial (“economically expansionary”) effects. In other words, bribing an official to evade

a bad law can do a lot of good—especially in nations where legal institutions are weak or absent. But Houston goes further. Echoing Hernando de Soto, winner of the 2004 Milton Friedman Prize for Advancing Liberty, Houston contends that repeated bribes to evade bad laws can form the basis of a bustling, if “informal,” economy. But don't get any ideas. According to Houston's economic analysis, in nations that can handle property rights and contracts, corruption's negative effects outweigh any potential positive effects 50- to 100-fold.

What can nations already featuring good institutions do to ramp up economic growth? Rein in the leviathan state, for one.

In his contribution to the *Journal*, economist Robert Krol writes on ways to do just that—more specifically, which instruments do it best, and which tend to be overcome by public choice considerations in the long run. Krol finds that the line-item veto has had little effect on spending in most instances, whereas balanced-budget rules and tax and expenditure limits show some promise.

More: the IMF's new push to monitor exchange rates, the future of the United States Postal Service in an email world, and the Coase Theorem. Bill Niskanen comes away from Alan Greenspan's *The Age of Turbulence* with more questions than answers.



**“David Boaz has been my guide to the history, economics, and politics of freedom for years.”**

— JOHN STOSSEL

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# Nordic Model Not So Beautiful

**W**elfare state supporters used to acknowledge the tradeoff between a large social safety net and economic growth. Today, however, they cite the prosperity of nations like Norway and Sweden and claim America's economy would do fine with increased social spending. Not so fast, argues senior fellow Dan Mitchell in "What Can the United States Learn from the Nordic Model?" (Policy Analysis no. 603)—Nordic nations pay a price for their social spending largesse. Not only is per capita GDP 13 percent lower there than in the United States, the gap is even larger when comparing disposable income, private consumption, and other measures that reflect real living standards. How then do Nordic nations remain relatively rich? Thank traditional market-friendly features such as transparent rule of law, low levels of regulatory interference, stable currencies, and strong property rights. In addition, most Nordic nations feature low-rate flat tax systems for capital income—something American policymakers would do well to take note of. Certainly there are many lessons to be learned from the "Nordic model"; however, it is important that policymakers learn the right ones.

## Expanding the Size of the Kidney Pie

Here's a curious fact of biology: humans are born with an extra kidney. That is to say, losing one kidney has no adverse effect on human health. More curious, especially in light of that fact, is the vast kidney shortage facing America. The average waiting time for a kidney transplant in the United States approaches 5 years; in some parts of the country, it is closer to 10. A significant number of transplant candidates die while waiting for an altruistic donation that never comes. In "A Gift of Life Deserves Compensation: How to Increase Living Kidney Donation with Realistic Incentives" (Policy Analysis no. 604), Arthur Matas, physician professor at the University of Minnesota, provides a lesson in basic economics. When you artificially price a good at zero, shortages result. And when you artificially price a good capable of saving lives at zero, those shortages are vast and devastating. With 85,000 Americans awaiting potentially life-saving organs, both economics and morality demand lifting the ban on not only kidney sales but organ sales generally. The time has come to allow a market in organ sales, one that would help allocate the scarcest, most important resource we have: life.

## The Road Out of Serfdom

After the fall of communism, two schools of thought emerged on the proper pace of economic reform. Some economists argued for a rapid break with the past, whereas others favored a more gradual approach. In "Fifteen Years of Transformation in the Post-Communist World" (Development Policy Analysis no. 4), Oleh Havrylyshyn, former Ukrainian deputy minister of finance, says history comes out on the side of the rapid reformers. Countries that adopted far-reaching reforms have experienced higher growth rates and lower inflation over the past 15 years. Poverty reductions have been more dramatic, income inequality less pronounced. Russia's ambitious reform agenda in 1992 was mostly stalled or reversed, and its macroeconomic stabilization program was not achieved until 1999. Oligarchs were able to take advantage of the government's continued involvement in the economy. A better model for reformers is Estonia. A decade ago, Estonia's economy was in decline: its inflation rate was 1000 percent, unemployment was 30 percent, and 95 percent of enterprises were owned by government. Today, Estonia's inflation is under control, unemployment

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is low, and its businesses have been privatized. Last year Estonia's GDP grew at 11.4 percent.

### **California Planners' Dreamin'**

California's scenic beauty, mild climate, and economic opportunities have attracted more than 36 million people. Unfortunately, California city planners' 30-year love affair with "smart growth" zoning policies has priced out many potential arrivals, and diminished the quality of life of those already there, says Randal O'Toole in "Do You Know the Way to L.A.? San Jose Shows How to Turn an Urban Area into Los Angeles in Three Stressful Decades" (Policy Analysis no. 602). "Smart growth" says cities should grow up, not out. They should have higher population densities. Transportation should focus on public transit, bicycles, and walking. But O'Toole, senior fellow at the Cato Institute and one of *Newsweek's* "leading movers and shakers in the West," says it is thanks to those policies that California cities have the least affordable housing and worst traffic congestion in the country. O'Toole draws on more than 30 years of looking at government plans, from forest and park plans to transportation and city plans, to argue that government planning does far more harm than good. Cities are simply too complicated to plan top-down, and planners do not pay the costs of their formidable errors.

### **American Workers Benefit from Free Trade**

Opponents of trade liberalization have sought to indict free trade by painting a grim picture of the economic state of American workers and households. They claim that real wages have been stagnant or declining as millions of higher paying middle-class jobs are lost to imports. In "Trading Up: How Expanding Trade Has Delivered Better Jobs and Higher Living Standards for American Workers" (Trade Policy Analysis no. 36), Daniel Griswold, director of Cato's Center for Trade Policy Studies, argues that the reality for a broad swath of American workers and households is far different and more benign. Griswold points out that the oft-cited 3.3 million jobs that have "vanished" over the

past decade due to "outsourcing" have been overwhelmed by a net gain of 11.6 million jobs. And these new jobs are in sectors where the average wage is higher than in manufacturing. The large majority of Americans, including the typical middle class family, are measurably better off today after a decade of healthy trade expansion.

### **Chinese Farmers Lack Property Rights**

A critical determinant of China's long-term economic growth will be whether the wealth of its economic boom can reach the majority of its 700 million farmers, who make up approximately 56 percent of the total population. Farmers in China face multiple threats to their land rights from local government and village officials. The most prominent threat is land expropriation or acquisition through eminent domain to satisfy demands of industrial growth or urban expansion. Today, such land-related problems are the number one cause for rural grievances and unrest in China, which reported 17,900 cases of "massive rural incidents" in the first nine months of 2006. In March of 2007, China adopted the promising "Property Law" that aims to strengthen the security of farmers' land rights; the next key step will be full implementation of the law. In "Securing Land Rights for Chinese Farmers: A Leap Forward for Stability and Growth" (Development Policy Analysis no. 3), Zhu Keliang, a Beijing-based attorney, and Roy Prosterman, chairman emeritus of the Rural Development Institute, calculate that securing rural land rights would bring more than half a trillion dollars of value to Chinese farmers and provide much-needed social stability.

### **Medicare Blocks Patient Choice**

Escaping government-run health care is proving increasingly difficult. In "The Freedom to Spend Your Own Money on Medical Care: A Common Casualty of Universal Coverage" (Policy Analysis no. 601), Kent Masterson Brown, a lawyer specializing in health care issues, highlights one troubling example. Patients seeking to purchase Medicare-covered services out-of-pocket effectively cannot do so

today. That's because doctors providing Medicare-covered services outside the Medicare system are barred from accepting Medicare payment for two years. This results in a two-tiered system in which 97 percent of doctors see Medicare patients but refuse service to would-be out-of-pocket buyers, and 3 percent serve the very rich for all their needs. In essence, Medicare has flexed its market power to prevent patient choice. This development is particularly worrying in the face of pending proposals by major Democratic presidential candidates to place much more of medicine under government control. Brown's prescription? Policymakers should end the two-year requirement, and move America away from government-run health care generally.

### **Globalization and Its Discontents**

Through much of the post-World War II era of trade liberalization, organized labor and free traders struck a grand bargain: negotiated agreements that lower tariffs in the United States would be accompanied by extra welfare benefits for those who lost their jobs due to import competition. As many free traders saw it, such programs helped to mollify the opposition to new trade agreements—a sacrifice worth making. But that bargain has broken down. In "Maladjusted: The Misguided Policy of Trade Adjustment Assistance" (Trade Briefing Paper no. 26), Sallie James, policy analyst at Cato's Center for Trade Policy Studies, says it's time to let the case for free trade stand on its own. The very existence of trade adjustment assistance perpetuates the myth that freeing trade creates "victims" who deserve special programs simply because of the reason for their unemployment. But for every worker who is displaced because of competition from imports or "off-shoring," 30 others lose their jobs for reasons such as changes in technology and tastes. Systemic changes that help workers adjust to new opportunities, such as increasing the portability of health insurance and retirement savings, and increasing labor market flexibility to create new jobs, would be a more fitting policy prescription for a free society and a dynamic, service-oriented economy.

# “To Be Governed...”

## **ONLY MASSIVE INHERITED POLITICAL POWER**

“In America, we’ve never liked the idea of massive inherited wealth,” [former First Lady Hillary Rodham] Clinton said last month in New Hampshire.

—*Washington Post*, Nov. 26, 2007

## **SHE MEANS THE FOURTH AMENDMENT. UNLESS SHE ACTUALLY UNDERSTANDS THE EFFECT OF THE SECOND.**

Teenagers and young adults often have no clue why the United States is different from, say, Egypt or Russia; they have little idea what liberty is.

Few young Americans understand that the Second Amendment keeps their homes safe from the kind of government intrusion that other citizens suffer around the world.

—*Naomi Wolf in the Washington Post*, Nov. 25, 2007

## **THOSE WERE THE GOOD OLD DAYS**

“Register Republican [for] Balanced budgets — and smaller government! And no nation building! We’re not the world’s policemen!”

—*Berkeley Breathed, “Opus,”* Nov. 18, 2007

## **LET’S CALL THEM ALL THE “TAXPAYERS’ CENTER”**

Buried deep in the largest domestic spending bill of the year is money for a

library and museum honoring first ladies. The \$130,000 was requested by the local congressman, Representative Ralph Regula, Republican of Ohio. The library was founded by his wife, Mary A. Regula. The director of the library is his daughter, Martha A. Regula.

Other “namesake projects” in the bill include the Charles B. Rangel Center for Public Service at City College of New York, named for the chairman of the House Ways and Means Committee; the Thad Cochran Research Center at the University of Mississippi, named for the senior Republican on the Senate Appropriations Committee; and the Thomas Daschle Center for Public Service at South Dakota State University, honoring the former Senate Democratic leader.

The bill also includes “Harkin grants” to build schools and promote healthy lifestyles in Iowa, where Senator Tom Harkin, a Democrat, is running for reelection.

—*New York Times*, Nov. 13, 2007

## **FAIR AND BALANCED JOURNALISM ON THE LEFT COAST**

Oregon’s working poor will have to wait a while longer to get health-care coverage for their children.

Voters easily defeated Measure 50, a plan to raise tobacco taxes to provide

universal health care for children after a record-shattering negative ad campaign financed by cigarette companies.

—*Statesman Journal (Salem, OR)*, Nov. 7, 2007

## **RUSSIA BECOMING MORE LIKE THE U.S.?**

President Vladimir Putin, Kremlin political consultants and state-controlled news media have found an American to admire: Franklin Delano Roosevelt.

FDR, according to a consistent story line here, tamed power-hungry tycoons to save his country from the Great Depression. He restored his people’s spirits while leading the United States for 12 years and spearheaded the struggle against “outside enemies,” as the mass-circulation tabloid *Komsomolskaya Pravda* put it...

And Roosevelt ran for a third and fourth term because his country needed him. Translation: Putin, too, should stay.

—*Washington Post*, Oct. 19, 2007

## **AMERICA’S HALL MONITOR**

Giuliani managed a friend’s campaign that year, hiring a U-Haul with a loud-speaker to cruise outside the school, but his highest office was hall monitor. He seemed to enjoy wearing a badge and disciplining students for minor infractions, such as talking during a fire drill.

—*Newsweek*, Dec. 3, 2007

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