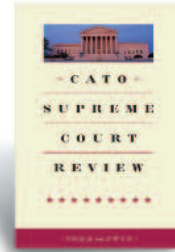




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The Sad State of Cyber-Politics

BY ADAM THIERER

I don't know if it would make him smile or grimace, but someone should give T. J. Rodgers a prize for his predictive powers. Back in 2000, Rodgers, the president and CEO of Cypress Semiconductor, penned a prescient manifesto for the Cato Institute with a provocative title: [“Why Silicon Valley Should Not Normalize Relations with Washington, D.C.”](#)

“The political scene in Washington is antithetical to the core values that drive our success in the international marketplace and risks converting entrepreneurs into statist businessmen,” he warned. “The collectivist notion that drives policymaking in Washington is the irrevocable enemy of high-technology capitalism and the wealth creation process.”

Alas, no one listened. Indeed, Rodgers's dystopian vision of a highly politicized digital future has taken just a decade to become reality. The high-tech policy scene within the Beltway has become a cesspool of backstabbing politics, hypocritical policy positions, shameful PR tactics, and bloated lobbying budgets.

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ADAM THIERER, formerly president of the Progress and Freedom Foundation and director of telecommunications studies at the Cato Institute, blogs at [techliberation.com](#).

“We will go through our federal budget—page by page, line by line—eliminating those programs we don't need.”

— PRESIDENT-ELECT BARACK OBAMA, NOVEMBER 2008

With all due respect
Mr. President, we're still waiting.

It's been nearly two years since you made that pledge, Mr. President. Since then, you've signed into law an \$800 billion “stimulus” package and a massive new health care entitlement—adding trillions of dollars in unfunded liabilities to our grandchildren's tab.

Our looming debt crisis threatens to destroy the American dream for future generations. Yet your administration continues piling up deficits of over a trillion dollars a year. By 2012, our national debt will be larger than the entire U.S. economy. Isn't it past time you identified the programs you'd cut?

In all fairness, both parties got us into this mess. “Deficits don't matter,” Vice President Dick Cheney scoffed as the Bush administration and a Republican Congress led one of the biggest spending sprees in American history, nearly doubling federal outlays over eight years. Our bipartisan flight from responsibility is a national disgrace—and it's fast becoming a national disaster. Vague promises to eliminate “waste, fraud, and abuse” won't cut it any more. Both parties need to step up with specific and substantial cuts.

As a start, they can consult [DownsizingGovernment.org](#), where the Cato Institute has begun posting the results of our page by page, line by line review of the federal budget. With the Constitution as our guide, we've identified scores of agencies to eliminate and programs to zero out, putting America on the path toward fiscal sanity:

Education Subsidies

Education is a state, local, and private matter—and that's where the Constitution left it. Federal K-12 education programs have cost American taxpayers \$1.85 trillion since 1965 without noticeably improving outcomes. Eliminating them will save **\$40 billion annually**.

Farm Subsidies

Far from “saving the family farm,” federal agricultural subsidies are environmentally destructive corporate welfare, with more than 70 percent of aid going to the largest 10 percent of agribusinesses. Zeroing out farm welfare will save **\$25 billion annually**.

Military Overreach

The Constitution envisions a U.S. military that “provide[s] for the common defence” of the United States, not one that serves as the world's policeman and nation-builder. By withdrawing our troops from Iraq and Afghanistan, we could save at least **\$125 billion** next year. Eliminating other unnecessary overseas missions would allow for a leaner force structure and defense budget, saving at least **\$100 billion a year** without undermining U.S. security.

Transportation Programs

The federal government has no business funding the state and local projects that make up the bulk of federal transportation spending. Federal involvement results in pork-barrel spending, excess bureaucracy, and costly one-size-fits-all regulations. Moving funding for activities such as highways to the states and air traffic control to the private sector would spur greater innovation while also saving **\$85 billion a year**.

Housing Subsidies

Federal interference in housing markets has done enormous damage to our cities and the economy at large. HUD subsidies have concentrated poverty and fed urban blight, while Fannie Mae and Freddie Mac stoked the financial crisis by putting millions of people into homes they couldn't afford. Getting the government out of the housing business will save **\$45 billion annually**.

Federal Worker Pay

Federal workers enjoy far greater job security than their private-sector counterparts—and far better total compensation: an average of \$120,000 a year in wages and benefits. Cut federal compensation by 10 percent to save **\$20 billion annually**.

Energy Subsidies

The 30-year legacy of federal energy subsidies is replete with corporate cronyism and failed “investments.” Entrepreneurs with their own capital have incentives to develop viable alternative energy sources. Ending federal energy subsidies would save **\$20 billion a year**.

Government-run Health Care

Medicare and Medicaid are driving the explosion in federal debt. The 2010 health care law should never have been passed. The same level of Medicare cost savings could have been realized by moving to a consumer-driven health plan through vouchers, which would protect the elderly from government rationing. Medicaid should be converted to a fixed block grant to save money and encourage state innovation. Total savings would be more than **\$1 trillion** over the next decade.

Drug War

Since the start of the federal War on Drugs in 1970, we've spent hundreds of billions on a futile crusade that's done little to curb drug use and much to impair our civil liberties. In fact, a Cato study showed that Portugal's decriminalization of drugs actually lowered drug-related problems. Returning drug policy to the states—where it belongs—would save at least **\$15 billion annually**.

Social Security

As the Baby Boom generation retires, our largest entitlement program lurches toward crisis. Social Security should be phased out as a mandatory program and an alternative voluntary system of private accounts, providing for ownership and inheritability, should be offered. Current obligations can be reduced by tying annual benefit growth to price inflation rather than wage growth, saving **\$50 billion annually** by 2020.

Visit [DownsizingGovernment.org](#) for a free download of the Cato Institute's acclaimed book *The Struggle to Limit Government*.



In September the Cato Institute called President Obama to task for failing to honor his campaign pledge to “go through the federal budget page by page, line by line—eliminating those programs we don't need.” Full-page ads setting out hundreds of billions in budget cuts—cuts explained in greater detail at [DownsizingGovernment.org](#)—ran in major newspapers nationwide, including the *Wall Street Journal*, the *Washington Post*, the *Los Angeles Times*, the *New York Times*, the *Washington Examiner*, *Politico*, the *Houston Chronicle*, the *Dallas Morning News*, the *Minneapolis Tribune*, the *Burlington Free Press*, the *Oregonian* (Portland), the *Santa Barbara News Press*, the *Charlotte Observer*, the *Baton Rouge Morning Advocate*, and the *Lexington Herald-Leader*.

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Perhaps we shouldn't find it surprising that so many players in the tech policy arena now look to throw each other under the Big Government bus to gain marketplace advantages. After all, that's the story of many other industries that got under the covers with Washington. But the sheer rapidity with which this sorry state of affairs has unfolded in the tech policy world is shocking, even to the most jaded among us.

AS THE WORLD TURNS

Lest you think I am exaggerating, here's a quick rundown of the cast of characters in this Silicon-era soap opera and some of the steamy plotlines:

- In recent years, telecommunications and cable companies both asked the FCC to intervene to harm the other in the [“winback wars”](#)—skirmishes involving marketing efforts to capture or retain consumers. Many years earlier, both sides advocated “open access” mandates be applied to each other's networks while insisting there was no reason such regulations needed to cover their own systems.
- But those physical infrastructure guys have kissed and made up as part of their unified effort to get the FCC to help them extract better contractual terms from the content creators and broadcasters for their video content. In the battle over [“retransmission consent,”](#) cable, satellite, and telco video distributors have made an unholy alliance with traditional regulatory advocates like Public Knowledge and New America Foundation, asking the FCC to intervene in contractual disputes about program carriage and pricing. Rather than focusing on dismantling the many other legal privileges granted to broadcasters and programmers, video distributors and regulatory advocates would instead essentially force broadcasters and content owners to cut deals they might not find acceptable.
- But the broadcasters don't exactly have clean hands, either. They [pulled out all the stops](#) in an attempt to block their

“The high-tech policy scene within the Beltway has become a cesspool of backstabbing politics, hypocritical policy positions, shameful PR tactics, and bloated lobbying budgets.”

struggling satellite radio industry competitors (Sirius and XM) from merging. They'd [previously begged](#) Congress and the FCC to block those satellite operators from offering competing local programming—an exercise in naked protectionism. Recently, broadcasters [have asked](#) lawmakers to mandate that all cell phones and mobile devices include FM radio tuners. Broadcasters argue this should be required for “public safety” purposes, but it's really just an attempt to hold on to fleeing audiences, even if there is little demand for such tuners or the added cost such a mandate would entail for consumers. And then there's the broadcast industry's long-standing love affair with [“must-carry”](#) mandates, which abridge the property rights of video distributors by forcing pay TV providers to carry channels they might not want (and which the public probably doesn't demand).

- But broadcasters stand firm on their own property rights. The spectrum they've occupied for decades may be worth [up to a trillion dollars](#), and they obviously don't want anyone else getting their paws on it. But the wireless industry covets thy neighbor's wife, or at least the spectrum that is hers. It [wants the FCC to pressure](#)—or even force—broadcasters to vacate their spectrum so it can be re-auctioned for other purposes, especially wireless broadband.
- In the name of protecting copyright, many in the entertainment industry have called for various forms of techno-

logical engineering—such as a mandated [“broadcast flag”](#) to protect the transmission of high-definition video, or restrictions on [“remote-storage” digital video recorders](#), which would allow consumers to save shows on servers run by cable TV companies. Some also want network operators and digital device makers to “do more”—potentially through force of law—to police their systems for piracy or help ensure content can be monetized. Some news-gathering institutions also want other Internet intermediaries, especially search providers, to help ensure that readers and advertisers don't abandon them entirely. Which brings us to Google.

- Everybody—and I do mean everybody—wants Google dead, right now. Google currently serves as the Great Satan in this drama—taking over the role Microsoft filled a decade ago—as just about everyone views it with a combination of envy and enmity. Of course, in a sense, Google had it coming. The company [has been the biggest cheerleader](#) in the push to impose “Net neutrality” regulation on the Internet's physical infrastructure providers, which would let the FCC toss property rights out the window and regulate broadband networks to their heart's content. Meanwhile, along with Skype and others, Google [wants the FCC to impose “openness” mandates](#) on wireless networks that would allow the agency to dictate terms of service. It's no surprise, then, that the cable, telco, and wireless crowd are firing back and now hinting we need [“search neutrality”](#) to constrain the search giant's growing market power. File it under [“mutually assured destruction” for the Information Age](#).
- Google had it coming in another sense, having joined the decade-long effort by myriad Silicon Valley actors to hobble Microsoft [through incessant antitrust harassment](#). Google has hammered Microsoft in countless legal and political proceedings here and abroad. But revenge is a dish best served cold, and Microsoft now relishes its role as

the ringleader of the rising War on Google! Microsoft is [using against Google](#) the same antitrust playbook once used against them. Whether it's the legal battle over Google Books, Department of Justice reviews of various Google acquisitions, or other fights, Microsoft now stalks Google at every turn.

● Finally, there's the subsidy circus, with more high-tech companies lining up at the taxpayer-funded trough than ever. One [government report](#) after [another](#) lambasts the waste, fraud, and abuse that runs rampant in America's "universal-service" system, which is supposed to guarantee that wireline telephone service be widespread and affordable. Just about everyone who wants a hard-wired phone has one these days, and Americans are "cutting the cord" faster than ever. And yet, those old government programs just keep growing. Many had hoped increasing wireless competition would alleviate the need for such subsidies. Instead, the wireless industry's lobby is content to demand a subsidy system that "[ensures competitors have equal access to support.](#)" AT&T, the biggest recipient of such funds, [justifies being on the subsidy gravy train](#) in typical 'better-us-than-them' fashion: "In a competitive business like wireless, it's not easy to sit idly by while your competitors tap into a new revenue stream. Nor is it consistent with your shareholders' interests."

● And the High-Tech Pork Barrel is about to get a lot bigger. In March, the FCC released a 360-page [National Broadband Plan](#) (none dare call it an industrial policy) that will invite even more of this behavior, with its calls for significant expansion of subsidies for the diffusion of broadband services. Amazingly, [the agency says its plan is costless](#), claiming that the bulk of the bill will be covered by increased spectrum auc-

“Perhaps we shouldn't find it surprising that so many players in the tech policy arena now look to throw each other under the Big Government bus to gain marketplace advantages.”

tions. That's nonsense, of course, and the scheme will only grow more expensive for consumers in the long-run as more companies line up for handouts. Worse yet, the more checks government writes, the more opportunities it will have to exercise control—subtle or blatant—over more layers of the Internet and the speech that travels over it.

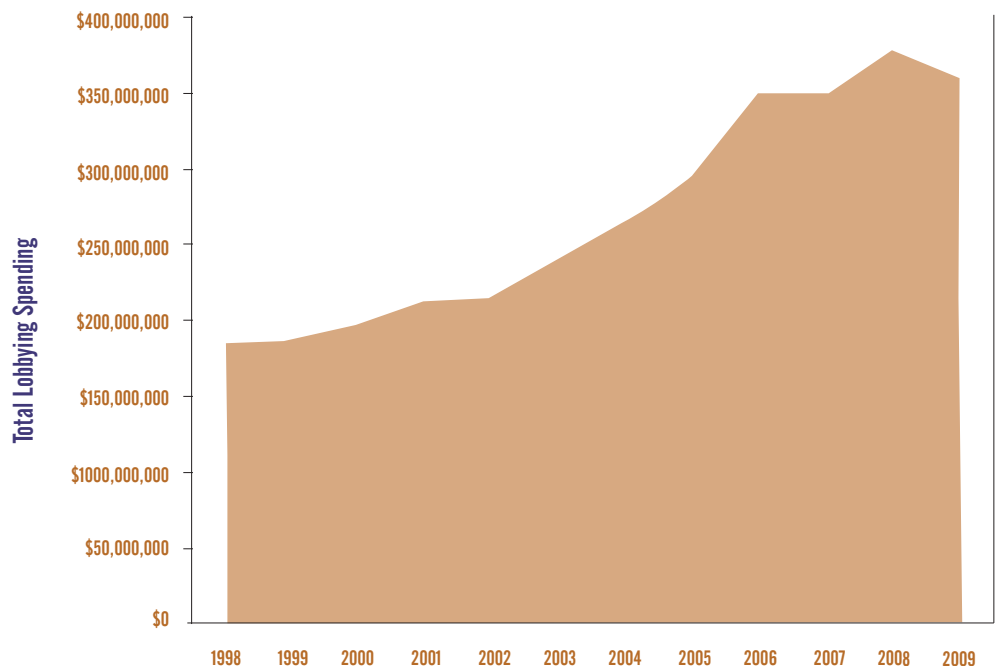
AT LEAST THE LOBBYISTS BENEFIT

Unsurprisingly, as a result of this intensifying political warfare, [the high-tech lob-](#)

[bying frenzy](#) is now completely out of control. "The [high-tech] sector doubled its federal lobbying effort in a decade from \$185 million in 1998 to a record \$377.5 million in 2008," [reports](#) the Center for Responsive Politics. "The biggest share of that increase came from the computer and Internet industry and the TV, movies and music industry." Only the health care and financial/insurance/real estate sectors have spent more lobbying Washington in recent years. Like other sectors, the recent recession resulted in a slight downturn in tech lobbying activity, but most expect things to return to normal shortly. According to *National Journal*, 4 of the top 20 spenders on federal lobbying in the first half of 2010 were broadband companies.

Although few Silicon Valley firms even had a D.C. office a decade ago, today legions of their lobbyists descend on the Capitol and regulatory-agency hearing rooms each day. House and Senate Commerce Committee hearings on high-tech and media policy issues are packed like rock concerts and have lines out the door that stretch literally around the buildings some days.

Lobbying & Political Spending by Communications & Electronics Sector



Source: Center for Responsive Politics.

“Net neutrality regulation of the Internet’s physical infrastructure providers would let the FCC toss property rights out the window and regulate broadband networks to their heart’s content.”

Indeed, [an entire cottage industry of \\$11–35/hour line-sitters](#) has developed, largely to serve tech lobbyists’ need to make sure they could get in the hearing room and get face-time with lawmakers and Hill staff.

The only two major tech companies who’ve generally resisted the urge to “normalize relations” with D.C. are Apple and Sony. They have just a handful of reps inside the Beltway. Ironically, their lack of “engagement” with Washington has been greeted with a combination of puzzlement and ridicule by everyone else in high-tech lobbying circles. The typical response one hears—apart from [subpoena threats](#) from senators angry at their disengagement—is “Don’t they know what happened to Microsoft for being late to Washington?” In other words, we’re supposed to believe that if only Microsoft had employed hoards of lobbyists inside the Beltway in the early 1990s, the antitrust cops wouldn’t have come knocking! Sadly, Google seems to have bought into this myth and is [now hiring new Hill and regulatory lobbyists at a frantic pace](#) as the company prepares for what will no doubt be the mother of all high-tech antitrust battles.

CAPITALISTS AGAINST CAPITALISM

Thus, in just a single decade, high-tech America has not just “normalized relations” with Washington, but gotten into bed with Big Government and cuddled up tight. What this sorry state of affairs proves, as Rodgers aptly noted a decade ago, is “that many businessmen are not capitalists.” They’re only too happy to make peace with Washington if they think it might serve a short-term interest—especially hamstringing a rival.

High-tech America has refused to heed Rodgers’s warning that “Government can do only two things here: take our money, limiting our economic resources; or pass laws, limiting our other freedoms. Even in Washington, alluring subsidies come at a high cost to our industry. Washington’s money is never free.” Instead, the actors in this tragedy scheme to wield the power of Leviathan to humble their competitors or

gain competitive advantage. In that sense, this case study is also a prime example of what Milton Friedman, in the March/April 1999 *Cato Policy Report*, called “[The Business Community’s Suicidal Impulse](#)”: the persistent propensity to persecute one’s competitors using regulation or the threat thereof.

It would be quixotic to believe this situation will be slowed or reversed anytime soon. There’s enormous pressure on the high-tech sector to actually become more entrenched in coming years, at least to remain “competitive” with other companies who have planted a flag inside the Beltway. Recently, for example, Reid Hoffman, founder of LinkedIn, a social networking site for professionals, worried that policymakers tend to ignore high-tech startups. “We don’t have an entrepreneurship lobby,” [he said](#), “because entrepreneurs are off doing it.” As if that was a bad thing! In particular, he fretted about startups not getting their share of recent stimulus funding and argued that “It’s much easier when you’re embedded in the political infrastructure to respond to immediate things” such as nabbing stimulus dollars, he said.

Hoffman’s logic is impeccable; it certainly is easier to get in on the action when you have a small army of lobbyists inside the Beltway shilling for taxpayer handouts. But has he considered the costs? High-tech America’s expanded embrace of Washington will likely take it down the familiar path followed by the agriculture and auto-

motive sectors (among many others), with the State becoming both protector and punisher of industry. The entrepreneurialism that Hoffman and others care most about will then be at serious risk. Today’s dynamic tech industries will increasingly stagnate as they come under the sort of “Mother, May I?” permission-based regulatory regime that has crippled so much of the rest of our economy.

TOWARD REAL INTERNET FREEDOM

There are some reasons for optimism, however. First, it’s mostly been the largest tech players who have normalized relations with Washington. Smaller tech companies have thus far largely resisted the urge. Hopefully that’s for principled reasons, not just due to a shortage of lobbying resources. Second, the esoteric nature of many Internet and digital technology policy discussions frustrates many lawmakers and often forces them to lose interest in these topics. Third, the breakneck pace of technological change makes it difficult for regulators to bottle up innovation and entrepreneurialism. Policymakers can still create plenty of short-term headaches for the tech sector, however, and it would be foolish to think digital technology can magically cut through all the red tape Washington can produce.

For that small remnant of believers in real Internet Freedom—freedom from incessant government techno-meddling—we will never stop hoping that disputes among high-tech companies might be settled in the marketplace instead of within regulatory agencies and congressional committee rooms. And we must continue our push to discourage high-tech companies from an excessive “normalization” of relations with the parasitic culture that dominates Washington by reminding them, as Rodgers noted in 2000, “that free minds and free markets are the moral foundation that has made our success possible. We must never allow those freedoms to be diminished for any reason.”

Let’s hope it’s not too late for high-tech America to learn that lesson.