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Putin Meeting Caps Moscow Conference

Cato senior fellow José Piñera gives copies of his pamphlets on Social Security privatization to Russian president Vladimir Putin. Putin met for four and a half hours with Piñera, Cato president Ed Crane, and other market liberals at his residence outside Moscow at the conclusion of Cato's April 8–9 conference, "A Liberal Agenda for the New Century: A Global Perspective."

A four and one-half hour meeting with President Vladimir Putin was the highlight of the Cato Institute's third conference in Russia, "A Liberal Agenda for the New Century: A Global Perspective." Andrei Illarionov, Putin's senior economic adviser, assembled some of the world's leading free-market reformers, including former Estonian prime minister Mart Laar; José Piñera, architect of Chile's successful pension reform; and Cato president Ed Crane, for a marathon discussion of Russia's problems and the urgent need for free-market reforms.

A front-page article in the *Moscow Times,* headlined "World's Reformers Pay Putin a Visit," began this way:

> President Vladimir Putin brainstormed with some of the world's leading practitioners of liberal economic reform late into the evening Friday as he steps up his drive to meet his pledge of doubling GDP within 10 years. Among those gathered round an oval table for nearly four hours of discussion at Putin's tree-surrounded Novo-Ogaryovo residence were economists whose implementation of liberal reforms in their countries fueled the rapid growth Putin has been seeking to achieve here.
>
> Calling on Putin to take more radical action were José Piñera, the former labor and social minister of Chile, often dubbed the "Father of Pension Reform" for pioneering private pension reforms that sparked rapid economic growth; and Ruth Richardson, New Zealand's former finance minister whose tough stance on curbing inflation and bureaucracy helped prompt an economic boom.

Participants reported that Putin said, "I

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In This Issue

Star Parker takes on the plantation, p. 7

Four Hours with Putin

Two achievements of the Cato Institute of which I am most proud are our conferences in China and the U.S.S.R. in 1988 and 1990, respectively. In each case we held events devoted to free markets and individual liberty for what I believe was the first time in the history of either Communist regime. In Shanghai we brought Milton and Rose Friedman, George Gilder, Jim Dorn, and the late economist Don Lavoie. What a great event that was!

The energy among our Chinese attendees was palpable as they followed Milton around like he was a rock star. There were so many questions for him that he asked us to hold a press conference so he could answer them all at once. We had to halt the conference as everyone wanted to listen to Uncle Miltie. And Gilder got a huge round of applause as he ended his speech with, "Let a billion flowers bloom!" With Tiananmen Square barely nine months away, I really didn't appreciate how courageous the Chinese speakers were.

The event in Moscow was also a stirring experience. We brought Nobel laureate Jim Buchanan, Charles Murray, Gilder and Dorn, and the future first winner of the Friedman Prize, the late Peter Bauer. Among the Soviet speakers were Moscow mayor Gavriil Popov, St. Petersburg mayor Anatoly Sobchak (the mentor to Russian president Vladimir Putin), and Grigory Yavlinsky, still one of Russia's leading liberals.

I had first gone to the Soviet Union in 1981 (and actually wrote an article predicting the collapse of the Evil Empire). Not much had changed by 1990. Communism had sucked the spirit out of the population. There were no products on the shelves, no energy in the streets, and, worse, no sense of hope. Well, perhaps a little hope, as I was able to present a bust of F. A. Hayek to Yevgeny Primakov, the chairman of the Council of the Union of the Supreme Soviet. The presentation took place at the Oktyabrskaya Hotel, used exclusively by the Communist Party Central Committee. We handed out Cato Institute pins to the hotel staff that had, in addition to our logo, printed in Cyrillic, "private property" on the top and "capitalism" on the bottom. That they were a hot item for the workers was probably a good indication that the end of communism was at hand.

All of which brings us to the remarkable week Cato had in Russia at the beginning of April. We held a two-day conference in Moscow, attended by some 300 people, half of whom came from outside Russia (there were two dozen nations represented), and a one-day event in St. Petersburg for about 250 people. Ian Vàsquez of Cato and Andrei Illarionov, the libertarian economic adviser to Putin, put together an outstanding program. The theme was what developing nations need to do to create prosperous civil societies. Via videotape, Milton Friedman started each event off with an excellent admonition that the Russians, Eastern Europeans, Chinese, and Latin Americans in the audience look to the institutions in place in the United States and Great Britain one hundred years ago when the tremendous growth of our societies was creating the wealth that today allows us to waste it on unnecessary bureaucracies and regulations.

The many distinguished speakers included noted economist Al Harberger of UCLA; Daniel Yergin, coauthor of *The Commanding Heights: The Battle for the World Economy*; José Piñera, world leader in the fight for private Social Security accounts; Mart Laar, former prime minister of Estonia; Ruth Richardson, former finance minister of New Zealand; and Illarionov. But more impressive even than the conferences, at least to me, was the energy and vitality in the streets of both Moscow and St. Petersburg. It is hard to describe, but people had a bounce in their step and a smile on their face. Economic activity was everywhere. Retail stores of every variety were apparently flourishing and restaurants offered wonderful food (in contrast to the forced diet of the 1990 conference). As Cato Club 200 member August Meyer, who has a major investment in a very successful Costco-type chain of superstores in St. Petersburg, put it, "It's like watching civil society bloom before your very eyes."

"Putin said, 'I want to make Moscow the center of liberal debate in Europe.'"

For me the highlight of the trip was a four and one-half hour meeting with President Putin at his residence outside Moscow. Nine of us from the conference went to the meeting, which was covered by some 30 journalists. Among those at the meeting were Piñera, Yergin, and Richardson. José of course pushed Putin to simplify and radicalize the Social Security program in Russia. Yergin emphasized how important it was to believe in the power of ideas to change the world. Richardson urged the Russian president to speed up liberal reforms. And I said it was important to have confidence in the political and economic outcomes of a free society. I paraphrased the great Taoist philosopher Lao Tse to the effect that truly strong leaders leave the people alone. I also noted that to attract foreign capital, which Putin must do to double the Russian economy in 10 years, as he's pledged, Russia must have the perception and reality of the rule of law, uncorrupted courts, and protection of contracts.

Finally, I said that another often overlooked aspect of attracting foreign investment is a free press. True, a free press is first and foremost a civil liberties issue. But foreign investors look to a free press in developing nations as an institutional protection for their investments. I suggested that the outside world is concerned that Putin's administration has intimidated the media in Russia and that this would inhibit economic growth. Overall, President Putin struck me as a man of serious intelligence with a very strong presence. Putin said at one point, "You should come back next year. I want to make Moscow the center of liberal debate in Europe." A four and one-half hour meeting suggests he may well mean it.

Ed Crane

—Edward H. Crane

Cato's Plan for Reforming Social Security

by Michael Tanner

Recently, Washington was sent into one of its periodic spasms of shock and indignation when Federal Reserve chairman Alan Greenspan commented that Social Security cannot continue to pay its promised level of benefits with its currently projected levels of revenue. Greenspan was not saying anything new, but politicians of every stripe reacted as if he had announced that the sun was about to stand still in the sky.

In their latest report the Social Security system's own trustees have reaffirmed the truth of Greenspan's statements. In doing so, they offer us another opportunity to have an honest debate about how to reform Social Security and ensure a safe and secure retirement for our children.

The trustees confirm that Social Security will begin to run a deficit by 2018, just 14 years from now. Thus, while politicians dithered and tried to pretend the issue would go away, we moved another year closer to disaster. But the truly frightening numbers are found further into the report and make clear the magnitude of the fiscal train wreck awaiting us.

The figure most widely cited in the media is the "present value" of Social Security's unfunded liabilities—$3.7 trillion—which is the amount needed to cover shortfalls after the Trust Fund is exhausted in 2042. That number is an increase of $200 billion since the 2003 report. (Present value is the amount that would have to be put away today, at normal interest rates, to fund the coming shortfalls.) An additional $1.5 trillion would be needed to redeem the bonds in the trust funds, for a total unfunded liability of $5.2 trillion over the 75-year actuarial period. Looking at the problem over an infinite horizon, the present value of Social Security's unfunded liabilities is roughly $11.9 trillion. To put this in context, in 2018, the first year that Social Security will run a cash deficit, the shortfall will be approximately $16 billion, or roughly the equivalent of the current budgets for Head Start and the WIC nutritional program. In another two years, Social Security's shortfalls will nearly exceed not just those two programs but also the entire Departments of Education, Commerce, and Interior, and the Environmental Protection Agency. By 2030 or so, you can throw in the Departments of Energy, Housing and Urban Development, and Veterans Affairs. And the biggest deficits would be still to come.

To look at it in terms of taxes, in the first year after Social Security starts running a deficit, the government must acquire revenues equivalent to nearly $200 per worker. By 2042, the additional tax burden increases to almost $2,000 per worker, and by 2078 it reaches a crushing $4,200 per worker (in constant 2004 dollars). And it continues to rise thereafter. Functionally, that would translate into either a huge increase in the payroll tax, from the current 12.4 percent to as much as 18.9 percent by 2078, or an equivalent increase in income or other taxes.

This doesn't begin to take into account Social Security's other problems: a poor and declining rate of return for younger

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Seminars on civil liberties, nanotechnology, immigration, and Iraq

Eight Cato Briefings on Capitol Hill

◆**February 2:** It is hard to overestimate F. A. Hayek's influence on the intellectual history of the 20th century, argued two authors at a Cato Book Forum. Alan Ebenstein, author of ***Hayek's Journey: The Mind of Friedrich Hayek,*** said that Hayek's most famous work, *The Road to Serfdom,* moved the debate beyond the age-old disagreement over whether human beings were virtuous enough for socialism to the more practical question of whether socialism can perform as advertised. Bruce Caldwell, author of ***Hayek's Challenge: An Intellectual Biography of F. A. Hayek,*** stressed Hayek's nonpolitical accomplishments, noting that soon after writing *The Road to Serfdom,* he did equally groundbreaking work in the field of cognitive psychology. Former House majority leader Dick Armey praised Hayek for laying the intellectual foundations for the modern free-market movement.

◆**February 3:** At an Atlanta luncheon to promote his new book, ***Give Me a Break: How I Exposed Hucksters, Cheats, and Scam Artists and Became the Scourge of the Liberal Media,*** ABC News anchor John Stossel said that the media establishment is suffocatingly liberal. *Give Me a Break* tells the story of Stossel's transformation from a liberal to a libertarian.

◆**February 4:** The Constitution found at the National Archives is not the Constitution currently being enforced as the law of the land, charged Cato senior fellow Randy Barnett, author of ***Restoring the Lost Constitution: The Presumption of Liberty,*** at a Cato Book Forum. The original document, crafted by the Founders to create a government of limited powers, has been gradually rewritten by a judiciary intent on preserving the pretext of constitutional government while ignoring its substantive restrictions on state power. Walter Dellinger, acting solicitor general under President Clinton, warned that Barnett's ideas could lead to unwarranted judicial activism. Judge David Sentelle of the U.S. Court of Appeals for the D.C. Circuit disputed Barnett's claim that the Constitution's legitimacy must rest on its protection of individual rights rather than on the "consent of the governed." Earlier that day Barnett discussed his book at a luncheon for journalists, including commenter Jeffrey Rosen of the *New Republic*.

Top: Former House majority leader Dick Armey discusses the legacy of F. A. Hayek at a February 2 Book Forum.

Clinton administration solicitor general Walter Dellinger and Judge David Sentelle of the U.S. Court of Appeals for the D.C. Circuit critique Randy Barnett's *Restoring the Lost Constitution* at a February 4 Book Forum.

◆**February 5:** Ruth Richardson, former finance minister of New Zealand, was the principal architect of that country's second wave of free-market reforms in the early 1990s. At a Roundtable Luncheon, **"New Zealand's Free-Market Reforms: Why Squander the Legacy?"** she described the fiscal, monetary, trade, and other policies that have made New Zealand one of the freest and fastest-growing economies in the world.

◆**February 6:** Douglas Holtz-Eakin, director of the Congressional Budget Office, presented his office's analysis of President Bush's 2005 budget at a Cato Hill Briefing, **"The Federal Budget Outlook."** The president's proposal, he said, would lead to a 10-year deficit of $1.9 trillion and a tax burden that will increase from 16 to 20 percent of GDP over the next decade. However, he noted, the CBO projections assume—implausibly—that Congress adopts the Bush budget and makes no changes for the 10 years that follow. Chris Edwards, Cato's director of fiscal policy studies, warned that 10-year projections mask a much grimmer long-term picture.

◆**February 11:** At a Cato Roundtable Luncheon, **"Amending China's Constitution to Protect Private Property Rights,"** Chinese legal reformer Cao Siyuan argued that private property is an important component of human rights, and advocated amending the Chinese constitution to protect it. Shortly after his Cato visit, news reports said that Cao would be subject to arrest when he returned to China, but he assured friends that the reports were exaggerated and that he would continue to work for political and economic reforms.

◆**February 18:** The American tradition of excluding the military from civilian police work is crumbling, argued senior editor Gene Healy in a Cato Policy Forum, **"Deployed in the U.S.A."** Some policymakers have proposed loosening the restrictions of the 1878 Posse Comitatus Act, which bars military law enforcement in the United States. That would be a disaster, Healy argued, because the military is fundamentally trained for violent conflict, not peaceful law enforcement. David Klinger of the University of Missouri argued that an exception to the act is needed to allow the military to assist in the apprehension of

At a Baghdad conference on civic education in February, Cato's Tom Palmer shows how to use the Constitution as a teaching tool. South African legal scholar David McQuoid-Mason listens.

Columnist Debra Dickerson comments on Star Parker's book *Uncle Sam's Plantation* at a March 25 Book Forum.

domestic terrorists. Former Rep. Bob Barr (R-GA) warned that such militarization would be a disaster because the definition of "terrorist" would quickly be stretched to encompass a wide variety of domestic law enforcement activities.

◆**February 19:** At a Cato Roundtable Luncheon, Jeffrey Rosen, professor of law at George Washington University and legal affairs editor of the *New Republic,* discussed his new book, ***The Naked Crowd: Reclaiming Security and Freedom in an Anxious Age.*** He argued that libertarians have been "heroes" in resisting efforts to give government excessive powers after September 11 but have been less effective in developing appropriate policies for preventing terrorism. Participants included Stuart Taylor and Jonathan Rauch of the *National Journal,* David Plotz of *Slate,* Declan McCullagh of News.com, and Paul Rosenzweig of the Heritage Foundation.

◆**February 24:** When it comes to economic reforms in the Third World, the simpler the plan, the better, argued Robert E. Anderson, author of ***Just Get Out of the Way: How Government Can Help Business in Poor Countries*** at a Cato Book Forum. Many privatization efforts, for example, get bogged down in complex rules that leave the state entangled in private decisions for years. Simeon Djankov of the World Bank argued that well-intended regulation can easily become excessive, driving economic activity into the informal sector or strangling a developing economy altogether.

◆**February 25:** Advances in missile technology have raised the specter of terrorists taking down commercial aircraft using shoulder-fired surface-to-air missiles. Experts debated possible defenses at a Cato Policy Forum, **"Flying the Unfriendly Skies: The Threat to Commercial Aircraft."** Alvin Schnurr, from defense contractor Northrop Grumman, described one possible response to this threat: a truck-mounted, laser-based anti-missile system that could be deployed at airports. David Forbes, of Boyd-Forbes Security, expressed skepticism at the need for such expensive countermeasures and warned that weapons manufacturers would adapt rapidly to them. Cato director of defense policy studies Chuck Peña said that the government has a responsibility to protect its citizens but questioned whether the countermeasures would be worth the cost.

◆**February 25–29:** Cato's annual **Benefactor Summit** was held at the L'Auberge Del Mar Resort and Spa near San Diego. Cato Benefactors heard from senior Cato scholars and distinguished guests. Greenpeace founder Patrick Moore criticized the environmentalist movement's distortion of science. Cato senior fellow Randy Barnett argued for a restoration of limited, constitutional government. Fox News commentator Andrew Napolitano discussed recent attacks on civil liberties. Benefactors also enjoyed the beautiful California weather, participating in biplane rides, hiking, mountain biking, tennis, and golf.

◆**February 26:** Experts discussed the growing quagmire in Iraq and the prospects for U.S. withdrawal from the region at a Cato Policy Forum, **"Transition in Iraq: The July 1 Deadline and Beyond."** Esther Schrader of the *Los Angeles Times* said that military officials are privately conceding that troops will be in Iraq for several years. Amb. Edward Peck, former chief of the U.S. mission in Baghdad, warned that imposing democracy on an Iraqi populace that has no experience with democratic values is an exercise in futility. Johanna Mendelson-Forman of the UN Foundation stressed the importance of setting clear goals for the Iraqi occupation. Without decisive action, she said, the United States will lose the sympathy of the Iraqi people and will face an increasingly hostile populace. Cato's Chris Preble said that he was cautiously optimistic about the deadline but pessimistic about the long-term prospects for Iraqi democracy and U.S. withdrawal from the region.

◆**March 5:** Jeremy Leonard, a consultant with the Manufacturers Alliance/MAPI, warned that the United States must reform its economic policies to regain its manufacturing competitiveness at a Cato Hill Briefing, **"Manufacturing, U.S. Competitiveness, and the Global Economy."** American businesses, he said, are burdened by high taxes, frivolous lawsuits, and skyrocketing health care costs. Cato senior fellow Alan Reynolds agreed and argued that free trade was not to blame for American job losses. Cato's Chris Edwards noted that punitive corporate income tax rates

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EVENTS *Continued from page 5*

are discouraging companies from setting up shop in the United States.

◆**March 8:** Pennsylvania State University professor Richard Gordon blamed the decline of nuclear power on sky-high construction costs and the availability of cheaper alternatives like natural gas at a Cato Policy Forum, **"Whither Nuclear Power?"** Increasing safety regulations and persistent cost overruns drove up costs to utilities, which stopped ordering new plants after 1973. Peter Bradford of Yale argued that the Nuclear Regulatory Commission's liability limitations, coupled with a light regulatory hand, fueled an unsustainable boom in nuclear power plant construction in the late 1960s. James Hewlett, an analyst at the U.S. Energy Information Administration, blamed the cost-plus financing method of many nuclear plant contractors for the soaring costs.

◆**March 10:** The publication of F. A. Hayek's ***The Road to Serfdom*** in 1944 helped spark a revival in the market liberal vision. At a Cato Book Forum, Nobel laureate James Buchanan argued that Hayek's vision of a free society helped sustain that movement over the last six decades. Hayek's founding of the Mont Pelerin Society in 1947 helped to bring his era's leading champions of a free society together. Cato president Ed Crane said Hayek, who accepted the title of distinguished senior fellow at Cato, had a great influence on the Institute. Historian Leonard Liggio credited Hayek with encouraging free-market scholars to focus more on empirical results. Daniel Yergin, coauthor of *The Commanding Heights: The Battle for the World Economy,* presented a short video—adapted from the PBS series based on his book—on the intellectual argument between Hayek and John Maynard Keynes.

At a March 18 Hill Briefing, Bill Barr, attorney general in the first Bush administration, argues that Congress and the FCC must take a stronger deregulatory stance to spur continued innovation in the telecom sector.

◆**March 15:** At a Cato Policy Forum, **"Military Manpower Requirements: Too Much or Not Enough?"** National Defense University's Janice Laurence warned that the war in Iraq and other military commitments are placing unprecedented stress on the men and women of the U.S. military. Chris Preble argued that the United States must reduce its military commitments around the world, focusing its resources on bringing al Qaeda to justice. Michael Vlahos of Johns Hopkins University warned that "military transformation" is a euphemism for nation building, and such a change would reduce the military's effectiveness at its primary task, which is to prevail in combat. All three agreed that instituting a draft would be a mistake, as the needs of today's highly skilled military would not be well served by a flood of raw conscripts.

◆**March 15:** The United States economy will "go critical" if dramatic changes are not made to its entitlement programs, warned Laurence J. Kotlikoff, coauthor of ***The Coming Generational Storm: What You Need to Know about America's Economic Future,*** at a Cato Book Forum. Kotlikoff argued that fundamental reforms of Social Security and Medicare are needed to plug a projected fiscal gap in the tens of trillions of dollars. Barry Bosworth of the Brookings Institution argued that Kotlikoff's book had a hysterical tone, and insisted that the gaps in Social Security's finances could be bridged with technical adjustments to the program. Medicare is a more serious concern, he conceded, but charged that Kotlikoff's plan fails to provide any credible mechanisms for controlling costs. Kevin Hassett of the American Enterprise Institute warned that entitlements threatened European-level taxes and economic stagnation.

◆**March 15–17:** Cato kicked off the 2004 session of Social Security University with a Cato Hill Briefing entitled **"Social Security 101: The Program and the Problem."** Mike Tanner, director of Cato's Project on Social Security Choice, described the inequities in the current Social Security system and the threats to its long-term solvency. The system will be insolvent within 40 years, he said, but budgetary strains will begin much earlier. The second day, entitled **"Personal Accounts: Fact and Fantasy,"** featured William Shipman, co-chairman of Cato's Project on Social Security Choice. Shipman contrasted market-oriented reforms with the status quo, noting that the long-term rate of return from pay-as-you-go systems is limited to the rate of growth of real wages, which is currently about 2.5 percent. Mike Tanner wrapped things up on day three, with **"Evaluating Proposals for Social Security Reform,"** in which he compared a dozen different plans for Social Security reform. Tanner highlighted several common themes among the plans. First, there are no painless solutions—all the plans involved some combination of tax hikes, benefit cuts, or new debt. Second, plans that included personal accounts had lower long-term costs and offered a higher rate of return than those that did not. Finally, while it is possible to achieve solvency without personal accounts, the plans that do so are an extraordinarily bad deal for younger workers.

◆**March 18:** Former U.S. attorney general Bill Barr joined Cato's Adam Thierer to survey the state of telecom regulation at a Cato Hill Briefing, **"Telecom Reform after the D.C. Circuit Decision: Is It Time for a New Telecom Act?"** Barr, now general counsel at Verizon, argued that technological change is blurring traditional distinctions among video, data, and telephony services. Barr argued that technological innovation in the telecom sector has been most rapid in areas where regulators have pursued a hands-off strategy. Thierer argued that Congress should consider passing a new Telecommunications Act to clarify regulatory uncertainty and to take a stronger deregulatory stance.

◆**March 23:** Winning the war on terrorism will require more than military victory in the Middle East or the capture of Osama bin Laden. If violent terrorism is to be eradicat-

At a February 4 Book Forum, Randy Barnett explains how a string of bad Supreme Court decisions have undermined the system of enumerated powers and limited government crafted by the Founders.

Kenyan activist June Arunga blasts Africa's kleptocratic leaders for destroying hope and opportunity on the continent. She spoke at a March 30 policy forum featuring her new BBC documentary, "The Devil's Footpath: A Young Person's Journey through Africa."

ed permanently, the spread of violent Islamist ideas must be stopped. Panelists at a Cato Policy Forum, **"Nurturing Minds or Fostering Hatred? U.S. Involvement in Education in Muslim Countries,"** discussed how the United States could best promote the spread of liberty and individual rights in the Muslim world. Andrew Coulson of the Mackinac Center argued that many parents send their children to madrassas—religious schools that often teach violent anti-American dogma—because they cannot afford to send their children to better schools. Omer Taspinar of the Brookings Institution argued that just the kind of growth Coulson describes was achieved with Turkey's export-led growth model. The Carnegie Endowment for International Peace's Husain Haqqani offered an historical perspective on the madrassas and stressed that political reform is a precondition for educational reform.

◆**March 24:** Cato chairman William A. Niskanen presented the findings of his new book, ***Autocratic, Democratic, and Optimal Government: Fiscal Choices and Economic Outcomes,*** at a Cato Book Forum at George Mason University. He presented three different theoretical models of governance and concluded that democratic governments tend to dramatically outperform autocratic ones, but both fall short of the theoretical ideal. Richard Wagner, professor of economics at George Mason University, praised Niskanen's ability to construct simple models of complex situations in a way that leads to reasonable and useful empirical results.

◆**March 25:** The welfare state has spawned social chaos in the underclass, charges Star Parker in ***Uncle Sam's Plantation: How Big Government Enslaves America's Poor and What We Can Do about It.*** Columnist Debra Dickerson argued that although some white racism exists, society today offers minority youths many more opportunities than in past decades. Manhattan Institute senior fellow John McWhorter argued that those who see racism as the root of every social problem are fanatics, driven by self-loathing and a weak grasp of reality. Fortunately, he said, younger generations are less likely to succumb to such fanaticism.

◆**March 25:** Wayne Crews, Cato's director of technology policy, and computer industry experts debated how industry and government could best deal with rising threats to cybersecurity at a Cato City Seminar in Silicon Valley, **"Digital Pearl Harbor: How Real Is the Cybersecurity Threat, and Who's Responsible Anyway?"** Howard Schmidt of eBay argued that with the vast majority of Internet infrastructure in private hands, the government has a limited ability to ensure its security by fiat. Larry Clinton of the Internet Security Alliance countered that government could create positive incentives through tax credits for good security procedures. But we shouldn't expect the Internet to be perfectly secure, argued VeriSign's Ben Golub. Crews warned that government funding could be a mixed blessing, as government largesse inevitably comes with strings attached.

◆**March 29:** A flawed review process has allowed the publication of papers that are not scientifically credible, argued Pat Michaels at a Cato Hill Briefing, **"Extinctions of Logic: Is There a Link between Human-Caused Global Warming and Mass Extinction?"** Many studies purporting to show that global warming contributes to species extinction fail to ask basic questions, such as whether the temperature in the area being studied had actually risen.

◆**March 30:** Cato's Roger Pilon and the American Enterprise Institute's John Calfee faced off at a Cato Debate, **"Resolved: Congress Should Remove the Ban on Drug Reimportation."** Pilon argued that the issue is a simple matter of free trade: although foreign price controls are troubling, they don't justify restricting the freedom of American consumers to purchase drugs at the best price available. Calfee warned that reimportation would increase foreign pressure for worldwide price controls, and domestic pressure from consumers demanding "antidiscrimination" provisions to prevent drug companies from charging Americans more than foreigners.

◆**March 30:** The creative energy of Africa's people is being stifled by the greed of its leaders, charged Kenyan activist June Arunga at a Cato Policy Forum. Arunga presented clips from her recent BBC documentary, **"The Devil's Footpath: A Young Person's Journey through Africa."** George Ayittey of American University stressed the importance of supporting the African people while strongly condemning their leaders when they behave unjustly. ■

Immigration: President Bush's Proposal

In October 2002, Dan Griswold, associate director of Cato's Center for Trade Policy Studies, published Willing Workers: Fixing the Problem of Illegal Mexican Migration to the United States, *a Policy Analysis advocating the creation of a temporary worker visa that would give foreign workers the opportunity to work legally in the United States. Rep. Jeff Flake (R-AZ) wrote guest worker legislation that drew heavily on Griswold's paper, and President Bush unveiled a proposal based on the Flake bill in early 2004. Cato held two events on the subject. At the first, a January 16 Policy Forum entitled "President Bush's Immigration Proposal: Too Much, Too Little, or About Right?" Margaret Spellings, assistant to the president for domestic policy, described and defended the president's plan. Frank Sharry of the National Immigration Forum and Steven Camarota of the Center for Immigration Studies provided commentary on the proposal. The second event was a January 28 Cato Hill Briefing featuring Griswold and Representative Flake. Excerpts from their remarks follow.*

Margaret Spellings: I think it's important to lay out a few facts about the state of the world. First, we in the administration believe there are about 8 million people here illegally. Millions of them are working. Roughly 70 percent of them are Mexican. Second, there is currently no legal way for people to come to this country and work in many low-skill sectors. Third, U.S. employers want and need workers to grow their businesses. Fourteen percent of our workforce is foreign born. Fourth, in our day of heightened homeland security concerns, it's critically important that we know who is here, why they're here, and how long they're going to be here. We are a nation of laws, and we need to know who is here if we're going to be effective at securing our borders.

The president has called for the enactment of a temporary worker program that would be non–sector specific and would match a willing worker with a willing employer when no American is available to fill a job. It could include nurses, teachers, hotel workers, agriculture workers, and even students. The program would be open to new foreign workers who currently reside abroad and who wish to come to the United States, provided that an American cannot be found to fill those jobs, and to the millions of undocumented men and women who are here working today.

We believe this program will serve the economy by matching willing workers and willing employers. We believe that it will promote compassion by affording to these undocumented workers who would join the temporary worker program the same protections that American workers enjoy, such as minimum wage, workplace safety, and the like. We believe it will protect the right of legal entrants, those people who are currently in the green card queue, by not giving these temporary workers the advantage over them as previous amnesty programs have done.

Margaret Spellings: "The president has called for the enactment of a temporary worker program that would match a willing worker with a willing employer when no American is available to fill a job."

Frank Sharry: The president's analysis of what immigration means to America and how the current system needs to be fixed was right on point. However, the diagnosis of the problem was better than his prescription. Let me point out a few of our differences. The president emphasized circularity—the idea of people coming and then going back. And certainly for a number of immigrants, particularly migrants from Mexico and Central America, that is the desire. But as we have seen throughout our history, there is also a strong desire for some to settle here and become citizens and full Americans.

If this is going to be a realistic approach that's going to draw people into the legal channels, you have to promote not only circularity but citizenship. The American immigration success story is built on people coming, settling, pledging allegiance, and becoming full Americans. The path to citizenship and permanence in the president's plan needs to be fleshed out. The president's plan for those undocumented workers here is likely to draw into the program those who have been here just a few years, who aren't particularly stable here and have their families back home. The folks who have been here 10 years, whose kids are going to school, who are paying off credit card debt, are unlikely to sign up for a three-year work permit with an uncertain prospect of renewal.

We think there needs to be a better approach to make sure that U.S. workers are given first shot at jobs. In particular, we are going to need to have at least prevailing wage protections. You cannot have a $10-an-hour worker suddenly replaced by a $6-an-hour worker under a legal temporary worker program. It's not going to be politically sustainable and it is not economically smart. And I don't think that is what the responsible employer community wants. They want to make sure they can fill jobs as our demographics create more and more opportunities and there are fewer and fewer Americans to fill them.

I also think it needs to be a bit more narrowly tailored to the objective of replacing the current illegal flow with a legal flow. If we swing the door too far open, we might end up having an illegal flow plus a new legal flow. And that's not the objective. The objective is to bring this under the rule of law.

Finally, the president talked about the need for enforcement, and this is going to be critical. If we are going to legalize more of the flow and make legality the prevailing norm and we set limits that are more realistic and more market sensitive, as we should, then we are going to have to make sure that the public has confidence that those limits are being enforced.

Now, it will be a lot easier when more people have incentives to come here legally. But there is going to be a need not for

“Unfortunately, there is no administrative system to force people who are denied residence to leave the country.”

the disappearance of the Border Patrol but for a Border Patrol that can really target the smuggling rings that have popped up in the last decade and become so lucrative. It is going to require that the United States demand more of the sending countries with respect to cooperation on enforcement.

Steven Camarota: This proposal fundamentally mocks the law abiding. By giving legal status to illegal aliens, we say to those who wait their turn that they are dupes for taking our own laws seriously and playing by the rules. That is a horrible message to send to people here or to those thinking about coming.

I also don't believe the president's proposal addresses the administrative capacity question at all. A recent GAO report showed that the backlog of unresolved applications for citizenship and green cards and change of status has grown from 3.9 million to 6.2 million in two years, a 59 percent increase. There is no way for them to handle millions more applications that would result from this proposal unless we are prepared to spend a lot of money and wait the several years it would take to train personnel and set up new computer systems so that each applicant can be carefully vetted. The only way to process millions of applicants under the current system would be to rubber stamp them as quickly as possible. In that environment, we are guaranteed to give one of these guest worker amnesties to a terrorist.

We've done it before. In 1986, we gave out 2.7 million green cards to illegal aliens as part of the last big amnesty. One of the people who got amnesty was Mahmud Abouhalima, a leader of the 1993 attack on the World Trade Center. He was legalized as a seasonal agricultural worker—even though he drove a cab in New York City—because the system was so overwhelmed that no attempt was made to verify his story. As a result, once he got his legal status, he traveled abroad to Afghanistan, where he received the terrorist training that he then came back and used in the 1993 attack.

Let me touch on another issue about administrative capacity. Consider the case of Mohammad Salameh, who rented the truck in that attack. He applied for the same amnesty as his friend Mahmud, but he didn't get it. That's good news, right? Unfortunately, there is no administrative system to force people who are denied residence to leave the country. So he simply stayed in the United States, living and working illegally, until the day he helped blow up the Trade Center. Hundreds of thousands of other people have had their day in court and been ordered to leave, but we don't know if they've gone.

Another concern deals with the fiscal costs. Large numbers of unskilled workers necessarily impose huge costs on taxpayers, because the modern American economy offers very limited opportunities to workers with little education. There is an absolute consensus on the effect of unskilled immigrants on public coffers. The National Academy of Sciences estimated that immigrants without a high school education imposed a net fiscal drain of $89,000 on taxpayers during the course of their lifetime. For those with only a high school education, the net fiscal drain was $31,000. Put simply, there is a very high cost to cheap labor. But, of course, employers don't see these costs. They hire someone at a low wage and the costs are borne by everyone.

Jeff Flake: "Right now we have a law that is divorced from reality. And so we need to enforce the law. But first we need a law that we can enforce."

Now, how would we enforce the law? I think we could do it very easily. We police the border. We go after the employers. We deny the documents to the illegal aliens. We don't give them drivers licenses. We don't give them in-state college tuition. And we make sure that everyone knows that the immigration law is back in business.

Once we did that, then we could come back and talk about an amnesty. Until then we're putting the cart miles before the horse.

Rep. Jeff Flake: I grew up on a farm in northern Arizona, where we employed a lot of illegal aliens to work on the farm and on the ranch. At that point, it wasn't illegal to hire them. There was a circular migration of people, who would come up and work on the farm and then return home for the year, or return home after a couple of months. The border was easy to cross at that point, so you had a circular pattern of migration.

We don't have a circular pattern anymore. The border still leaks like a sieve, but it only leaks one way. People are coming, they just aren't going home. And migrants are far more likely to bring their families along now than they used to be. The *Wall Street Journal* a few months ago interviewed illegals in Stockton, California. They all said basically the same thing: "If we could go home, we would. If we could come here just to work and return home to our families, we would. But we can't. And so we bring our families once."

It's simply not feasible to seal the border. If you go into Yuma, Arizona, early in the morning, you'll see thousands of migrants come through the legal entry points from San Luis into Yuma to work in the lettuce fields and other areas and then return home that night. They're either U.S. citizens or have green cards to work here, but it's cheaper to live there. In addition, even if we could seal the border, at least 40 percent of those who are here illegally first entered the country legally. So we have to deal with those who are here illegally at present.

Our bill is based on the notion that you match willing employers with willing workers. The president has taken that same position. He has said consistently during his

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“Our dysfunctional immigration system is colliding with a couple of very powerful economic and demographic trends.”

POLICY FORUM *Continued from page 9*

campaign and since then that he wants a plan that matches willing employers with willing workers. And I think our bill matches what he wants most closely.

Now some will say, “Hey, we have more than 10 million unemployed in the U.S. and 10 million illegals. Just switch them.” That suggests that it is the role of the federal government to take an unemployed schoolteacher in Maine and say, “Hey, you’re going to go roof houses in Arizona, whether you like it or not.” That’s a much greater role for the federal government than I’m comfortable with. The Soviet Union tried that for years. Cuba is still trying it, and it hasn’t worked very well. Neither is an example that we want to emulate.

A lot of people are asking: “How can we enforce a new law when we can’t enforce the laws that we already have? Let’s enforce the law that we already have before we have a guest worker program.” I would suggest that those who are saying that should come along with me and the INS and the Department of Justice to any resort in Phoenix or to any roofing contractor, drywall hanger, or landscaping company, and arrest the employer and put the employer in jail or assess a fine of $10,000 per occurrence, as the law requires.

If anybody actually wants to do that, and would feel good about it, then I would agree and say, “Hey, let’s enforce the law as it is.” The truth is we have a law today that simply isn’t going to be enforced. We don’t have the political will. Right now we have a law that is divorced from reality. And so we need to enforce the law. But first, we need a law that we can enforce.

Daniel Griswold: President Bush and Representative Flake deserve an enormous amount of credit for taking on this issue, which is a political risk. Their approach is compassionate conservatism at its best. It would help the economy by making work legal, allowing willing workers and willing employers to get together in the marketplace voluntarily. It would allow the government to devote more of its resources to its constitutional duties of protecting the homeland. And it would help the least among us, the illegal workers who are toiling in the shadows, and bring them under the protection of the law.

Our dysfunctional immigration system is colliding with a couple of very powerful economic and demographic trends. Our economy continues to produce opportunities for low-skilled workers, but the pool of Americans willing to take those jobs continues to shrink. We’re getting older and better educated. By the end of this decade, the average age of an American in the work force is going to be over 40 years. In 1960, a majority of American workers lacked a high school degree; today, it’s below 10 percent, and falling. The result is a mismatch between the jobs available and the pool of Americans willing to take those jobs. Yet our immigration system has virtually no legal channel for low-skilled workers.

Daniel Griswold: “Legalization would lift the working conditions of people, legal and illegal, native-born and foreign-born alike.”

We have tried enforcing the existing law, and it has failed. The 1986 Immigration Act imposed sanctions on U.S. employers for the first time. In the last decade, we’ve quintupled spending on border enforcement. We’ve built walls at the border and raided workplaces. The only result has been a deadly diversion of migration, from the traditional urban crossing points out into the desert. The result has been headaches for landowners in Arizona, but it has been downright deadly for thousands of people. Since 1998, 2,000 people have died terrible deaths trying to come across the U.S. border. They have died of dehydration in the desert. They have died in sealed boxcars and railcars. That is too high a price to pay for trying to get a better job.

The large underground pool of labor that we have today drags down working conditions and wages on the lower rungs of the economic ladder. Legalization would lift the working conditions of people, legal and illegal, native-born and foreign-born alike. We also know from experience that legalized workers are more likely to invest in their language and their job skills.

And I would also disagree with the charge that immigrants hurt American workers generally. They don’t drive down wages or cause unemployment. Look at our recent history. In the 1990s, more foreign-born workers—legal and illegal—came to the United States than at any time in a century. And yet we achieved record-low unemployment, large-scale job creation, and rising wages up and down the income scale.

Critics ignore the fact that the demand for low-skilled labor is increasing. Large and important sectors of the U.S. economy need foreign-born workers to grow. There are five to six million of those illegals doing important work—harvesting food; building homes; cleaning offices; and serving customers in restaurants, hotels, and retail stores. These sectors of our economy would probably grind to a halt if they were deprived of those workers overnight.

Immigration reform is in our national security interest. It’s telling that the first administration official to broach the subject in December was Tom Ridge, the Homeland Security secretary. He realizes that legalization along the lines of what President Bush has called for would make his job easier. Immigrants would be more likely to cooperate with law enforcement officials. We could start draining the swamp of smuggling and document fraud. We could shift more of our limited resources to catching people who genuinely intend to do us harm. I am sure Secretary Ridge would rather have his personnel chasing down terrorists than busting janitors at Wal-Mart.

This proposal is not an amnesty. In the 1980s, we basically said, “If you’ve

"The financing of the transition is a one-time event that actually serves to reduce government's future liabilities."

POLICY FORUM *Continued from page 10*

been here four years or more, here is your green card." That was an amnesty. But in this case, the legalized workers would not, and should not, get automatic citizenship or even permanent residency. They would receive only a temporary visa, renewable for a limited time. They would have to pay a fine, which would not be chump change to somebody on a low-skilled wage. They would have to get in line with everybody else to apply for permanent status under existing law.

I think we should be careful to avoid the mistake of previous guest worker programs. It is absolutely essential that these visas be portable. That was the mistake of previous programs. They tied the workers too closely to the employer. It gives the employer too much leverage. The best worker protection is the ability to change jobs and to look for a job that has better conditions and better pay.

As I see it, we have three options before us. We can muddle through with the status quo. Nobody is happy with that. Nobody wants massive illegal immigration. Or we can redouble our efforts. We can quintuple spending again, seal the border, and build a three-tiered wall from San Diego to Brownsville. And that will not solve the problem.

Or we can recognize reality and create a legal channel, so that, in the words of President Bush, willing workers and willing employers can get together to serve the social and economic needs of both our countries.

In his farewell address in 1989, Ronald Reagan said he saw the United States as a shining city on a hill, "God-blessed and teeming with people of all kinds, living in harmony and peace. A city with free ports that hummed with commerce and creativity. And if there had to be city walls, the walls had doors. And the doors were open to anyone with the will and the heart to get here."

The fundamental, philosophical issue at stake is whether we will keep those doors open to peaceful, hardworking people with the will and the heart to get here, or slam the door shut, at great cost to our economy and our tradition as a free and open society. ■

SOCIAL SECURITY *Continued from page 3*

workers; the unfairness of the program for minorities and working women; the impact on wealth creation; and, most importantly, the lack of legal ownership and control over one's benefits.

A Proposal for Individual Accounts

Social Security's problems have led to a growing movement for reform, including proposals to allow younger workers to privately invest some or all of their Social Security taxes through individual accounts.

Unfortunately, many of these proposals fell short of what was needed to truly fix Social Security. Many proposals contained only tiny accounts, leaving the majority of workers' retirement income subject to government control. Other plans promised too much, pretending that every retiree could become a millionaire with no cost to the taxpayers and no tough decisions.

Therefore, it was important that Cato's Project on Social Security Choice develop a plan of our own, a proposal that would substantially transform Social Security into a savings and investment system while being fiscally responsible.

After months of hard work, the advisory committee to Cato's project proposed the following:

- Current workers should be given a choice: those who wish to remain in the traditional Social Security system would be free to do so, accepting a level of benefits payable with existing levels of revenue. That is to say, they would not be negatively affected by the creation of the individual account option but would not be paid benefits higher than what Social Security can actually pay today.

  Beginning in 2012, the formula used to calculate the accrual of benefits would be adjusted to be indexed to price inflation rather than national wage growth. It is particularly important to note that this change would have no impact on those people who have already retired, since benefits after retirement are already adjusted according to inflation (that's what Cost of Living Adjustments or COLAs are). Nor would it reduce benefits for those nearing retirement.
- At the same time, workers who wished to enter the new market-based system would be allowed to divert their half of the payroll tax (6.2 percentage points) to individually owned, privately invested accounts. Those people who chose to do so would agree to forgo all future accrual of retirement benefits under traditional Social Security. The remaining 6.2 percentage points of payroll taxes would continue to be paid into Social Security to pay transition costs and to fund disability and survivors' benefits.

Workers choosing the individual account option would no longer accrue future benefits under traditional Social Security but would get a zero–coupon bond in recognition of their past contributions to Social Security. The amount of the bond would provide a benefit based on accrued benefits under the current Social Security system as of the date that the individual chooses an individual account. The bonds would be fully tradable on secondary markets, but all proceeds would have to be fully redeposited in the worker's individual account until the worker became eligible to make withdrawals.

Funds deposited in individual accounts would be invested in real capital assets under a three-tier system: a centralized, pooled collection and holding point; a limited series of investment options, with a lifecycle fund as a default mechanism; and a wider range of investment options for individuals who accumulate a minimum level in their accounts.

At retirement workers would be able to choose between an annuity, a programmed withdrawal option, or the combination of an annuity and a lump sum payment. In addition, if at any time a worker could purchase an annuity equal to 120 percent of poverty, he

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"Small account proposals may prove politically counterproductive by dissipating the enthusiasm of grassroots activists and failing to engage the attention of young workers."

SOCIAL SECURITY *Continued from page 11*

or she could opt out of the system altogether and stop paying the 6.2 percent individual account contribution.

- Finally, the federal government would provide a safety net ensuring that no worker's retirement income would fall below 120 percent of the poverty level. Workers whose accumulations under the private investment option fall below the amount required to purchase an annuity of that level would receive a supplement sufficient to enable them to purchase that annuity.

Some Social Security reform proposals provide much higher benefit guarantees, pledging that no one will receive less than payable or even promised Social Security benefits. Aside from the obvious expense of such guarantees, this approach is flawed in two respects. First, it is wrong to make taxpayers responsible for guaranteeing the investments of high-income workers who do not depend on Social Security for their retirement income. Should a factory worker really be on the hook to guarantee Bill Gates's investment choices? Second, guarantees inevitably create a "moral hazard" issue. Workers would be encouraged to speculate and make risky investment choices, knowing that they would reap the potentially higher gains from such investments while being protected from any possible losses.

The Social Security Administration is currently "scoring" our proposal and will provide a detailed analysis of both its long- and short-term impact on the federal budget. But even without that analysis, we can be fairly certain that the our plan will be substantially less expensive than the current Social Security system and will save money in the long run, there will almost certainly be a short-term requirement for additional revenues.

Where will that transitional financing come from? That is a decision for Congress, which must weigh the relative merits of debt, spending reductions, and increased revenues. But a good starting point would be for Congress to cut corporate welfare and redirect the savings to Social Security.

It is also important to remember that the financing of the transition is a one-time event that actually serves to reduce government's future liabilities. The transition moves the government's need for additional revenue forward in time, but depending on the transition's ultimate design, it would not increase the amount of spending necessary. In effect, it is a case of "pay a little now or pay a lot later."

Why 6.2 Percent Accounts?

Some proposals for creating individual accounts as part of Social Security reform keep most of the traditional Social Security structure in place and allow workers to privately invest just two to three percentage points of payroll taxes.

People who support plans with small individual accounts generally do so for one of three reasons:

- A political calculation that small accounts will avoid charges of "privatizing" Social Security;
- A desire to diversify risk by splitting retirement between markets and government, combining defined contribution and defined benefit programs; or
- Concern over short-term annual cash deficits.

Given the clear advantages of larger accounts, however, none of those reasons holds up.

First, small account size is unlikely to protect proponents of individual accounts from political attack. The recent Medicare reform debate provides a useful example. Despite rollbacks on attempts to introduce market competition to Medicare (the final bill contained only a handful of "demonstration projects," which don't begin until 2010), the bill was still attacked as an attempt to "privatize" Medicare. Opponents of individual ownership can be expected to be just as vociferous in their denunciations of 2 percent accounts as they would be of 6.2 percent accounts.

Moreover, small account proposals may prove politically counterproductive by dissipating the enthusiasm of grassroots activists and others supporting reform and failing to engage the attention of young workers. Opponents of individual accounts are entrenched and well organized. Washington politicians are fearful and reluctant to take on an issue of this magnitude. It will take strong public support to make reform happen. And larger accounts will generate more enthusiasm.

Second, although risk diversification is generally a good thing, continued reliance on a government-provided benefit may actually increase the overall risk to workers. Those making the risk argument generally attach greater risk to the market-based component of a reformed Social Security system (individual accounts) and less or even no risk to the portion provided by government. In reality, this misreads both market and political risks.

Given the long-term investment horizon envisioned for workers choosing individual accounts under this proposal, market investment is remarkably safe. In fact, over the worst 20-year period of market performance in U.S. history, which included the Great Depression, the stock market produced a positive real return of more than 3 percent. At the same time, we know that even under the best of conditions, Social Security will provide below-market returns. Mixing private investments with traditional Social Security is therefore mixing a good investment (private accounts) with a bad one. That's not diversification; it's bad investment policy.

Those concerned with short-term annual cash flows acknowledge that large accounts would save money in the long run but are also concerned with maintaining the program's financial balance on an annual basis. This concern comes both from wariness over the size of projected annual budget deficits and skepticism about the federal government's ability to use money saved in the future to repay debt incurred during the transition rather than for tax cuts or new spending programs. And Congress's recent spending habits have given those skeptics real cause for concern.

However, focusing on short-term cash flows only may be penny wise and pound foolish. It is much like making only the minimum payment on a credit card, while neglecting to pay off long-term debt. Large

"A 6.2 percent account is clear, concise, and easy to understand in an age of eight-second sound bites."

account plans do incur greater short-term costs, but they also result in greater long-term savings.

But Social Security reform is about more than finances. Indeed, if system finances were the only issue, we could simply raise taxes or cut benefits. True Social Security reform must also provide for increased rates of return and higher benefits, correct the inequities of the current system in order to treat working women, African Americans and others more fairly, and give low-income workers a greater opportunity to own and accumulate real wealth. By these measures, large accounts do a far better job of achieving true reform.

Finally, small accounts do little to advance the fundamental goals of reducing reliance on government and giving individuals greater responsibility for and control over their lives.

Of course, one might ask, if big accounts are better than small, why not allow workers to privately invest the full 12.4 percent payroll tax, or at least the roughly 10 percentage points used for retirement benefits?

Although there is no doubt that even bigger accounts would provide higher benefits than those envisioned under our plan, accounts of 10 percent or more may actually result in too much forced savings for many workers.

Most high- and middle-income individuals do not rely on Social Security for their retirement income. In fact, the wealthiest fifth of retirees receives only 20 percent of its income from Social Security. These workers have other (non–Social Security) forms of saving and investment, including IRAs, 401(k) plans, and even individual equity ownership and other investments. Indeed, we can assume that many of these workers have already achieved the level of retirement savings that they desire. Forcing them to save more through Social Security accounts may simply result in their saving less through their other investments. Moreover, in most cases, the non–Social Security investments take place in a less regulated and less constrained environment than that envisioned for individual accounts under Social Security. The end result of excessively large accounts, therefore, might actually be a perverse decrease in investment freedom.

Finally, some observers have suggested progressive accounts, with low-income workers able to invest a higher proportion of their payroll taxes than those with higher incomes. There is a great deal of appeal to such an approach. It would maximize the benefits of individual accounts to low-income workers while holding down overall transition costs and avoiding the problems of over-saving on the part of higher-income workers.

However, there are serious practical and implementation problems with such an approach. In particular, progressive account proposals would appear to shift compliance and administrative costs to employers. The additional record-keeping could become a significant burden, particularly for small businesses.

One last point: a 6.2 percent account is a very easy concept to explain to the average worker. The worker could privately invest half of his or her 12.4 percent payroll tax while the employer's half would be used to finance the transition (and fund survivors' and disability benefits). Of course we recognize that from an economic point of view there is no difference between the employer and employee share of the tax. The employee ultimately bears the full cost; but most workers make the distinction in their own minds. A 6.2 percent account proposal, then, is clear, concise, and easy to understand in an age of eight-second sound bites.

Ownership and Control

Although more and more Americans agree on the importance of giving younger workers an opportunity to invest their Social Security taxes privately, advocates of individual accounts have been increasingly divided over how large those accounts should be. Some proposals recommend large accounts but have very large transition costs, diminishing their political viability. Other proposals are less expensive but give workers control and ownership over only a small portion of their retirement funds. The Cato plan distinguishes itself by offering large accounts while protecting future generations of workers and taxpayers. It would restore Social Security to long-term and sustainable solvency and would do so at a lower cost than that of simply propping up the existing program. ■

Dealing with Taiwan, Syria, and Islamic extremism

Kerry, Democrats Revive HillaryCare

In "Mrs. Clinton Has Entered the Race: The 2004 Democratic Presidential Candidates' Proposals to Reform Health Insurance" (Policy Analysis no. 509), Michael Cannon, Cato's director of health policy studies, shows that the health care plans of the Democratic presidential candidates are piecemeal clones of the failed Clinton health care plan of a decade earlier. Although the plans differ in their implementation details, Cannon notes, they share a fundamental commitment to increased government control over the health care system. The Congressional Budget Office estimates that presumptive Democratic nominee John F. Kerry's plan would cost more than those of any of his rivals, save that of long shot Dennis Kucinich. Cannon details how the government interventions featured in the Clinton plan—compulsory insurance, mandatory benefits for insurance plans, price controls, and higher taxes—are present in the plans of the Democratic candidates. Perhaps most troubling, none of the Democratic plans mention any market-oriented reforms, such as the recently enacted health savings accounts, which would give patients greater incentives to be cost conscious.

Michael Cannon

◆Replacing Congress

University of Oklahoma political scientist Ronald Keith Gaddie considers the leading proposals for dealing with the deaths of a large number of members of Congress in a terrorist attack in "Restoring the U.S. House of Representatives: A Skeptical Look at Current Proposals" (Policy Analysis no. 510). The Constitution allows governors to appoint senators in the event of vacancies, but vacant House seats require special elections, which typically take four months. While those elections were being held, the House could be without a quorum and unable to conduct business. Gaddie examines a half-dozen proposed constitutional amendments that would expedite the replacement process. Most empower state governors to appoint temporary representatives who would serve until a special election could be held. Although the proposals have some merit, Gaddie argues, the unlikelihood of the threat makes it unwise to take the drastic step of amending the Constitution, especially since Congress tends to take a back seat to the executive branch during national emergencies like the September 11 attacks.

◆Personal Accounts: Size Matters

Thanks to the leadership of Cato's Project on Social Security Choice, personal accounts have moved beyond think tank drawing boards to become an important part of the mainstream political debate. With momentum building for personal accounts in some form, Cato's Michael Tanner takes the next step in "The 6.2 Percent Solution: A Plan for Reforming Social Security" (Social Security Paper no. 32) by presenting a specific, ambitious reform proposal that would allow workers to divert the full 6.2 percent worker share of the Social Security tax to an individually owned retirement account. Under the plan, the employer share of the payroll tax would finance transition costs, survivor's and disability benefits, and benefits for those who opted to remain in the current system. Unlike some other reform proposals, Tanner says, the Cato plan accounts honestly for transition costs and acknowledges that some spending cuts or new debt will be needed. But, he says, critics forget that the status quo's trillions of dollars in unfunded liabilities are an implicit debt that will need to be paid whether or not we acknowledge it now.

Michael Tanner

◆Social Security: Stuck in the Past

Social Security in its current form is a bad deal for all workers, but it is particularly unfair to working women, argues Leanne Abdnor, a former Cato vice president and a member of the President's Commission to Strengthen Social Security in "Social Security Choices for 21st-Century Women" (Social Security Paper no. 33). The system's benefit structure is a relic of the 1930s, rewarding single-earner households and penalizing spouses with similar incomes. Furthermore, because single-earner households tend to be wealthier than dual-income households, the structure has a regressive effect. In addition, the system pays nothing to homemaking women who divorce after fewer than 10 years of marriage, and women who die before they reach retirement age cannot leave their accrued Social Security contributions to their heirs. A system of personal accounts solves these problems, Abdnor argues, by giving women as well as men personal, portable, and legally protected rights to the benefits of their accumulated contributions, regardless of marital status or spousal income.

Leanne Abdnor

◆The Education Front

Many schools in the Islamic world are producing a steady stream of Muslim youth bent on violent attacks on the United States, argues Andrew Coulson of the Mackinac Center for Public Policy in "Education and Indoctrination in the Muslim World: Is There a Problem? What Can We Do about It?" (Policy Analysis no. 511). The worst of these schools are the madrasas, which focus on religious teachings to the exclusion of vocational or academic subjects. Many madrasas, supported by private donations and subsidies from foreign governments (particularly Saudi Arabia), preach extremist forms of Islam that demonize the United States and Israel and glorify violence. Government schools are often no better. In the 1980s, with the support of the United States, Pakistan began using state schools to indoctrinate Pakistani Muslims about the need to wage jihad against the Soviets in Afghanistan. With the fall of the Soviet Union, that violent and hateful curriculum has been turned against the West. The best schools, Coulson argues, are private, fee-

Andrew Coulson

supported schools that focus on academic and vocational subjects. Such schools are too expensive for many parents in the Islamic world. Partial subsidies to such schools—especially from private donors who can bypass government bureaucrats—can do enormous good in heading off fresh waves of terrorism in the coming decades.

◆Strait Shooting

The Bush administration has pursued the worst possible combination of policies on Taiwan, opposing Taiwanese independence while committing the United States to defending the island in the event of a war in the Taiwan Strait, warns Ted Galen Carpenter in "President Bush's Muddled Policy on Taiwan" (Foreign Policy Briefing no. 82). That approach fails to respect the democratic prerogatives of the Taiwanese people, while endangering national security by potentially dragging us into war with nuclear-armed China. Instead, Carpenter argues, the administration should take no position on the question of Taiwanese independence. The United States should sell weapons to Taiwan if that nation is able to pay for them but make it clear that the United States will not defend Taiwan if it chooses to declare independence.


Ted Galen Carpenter

◆Setting the Record Straight on Jobs and Trade

Recent hysteria over "offshoring" and the U.S. trade deficit mistakes a cyclical downturn for a long-term trend, argues Brink Lindsey in "Job Losses and Trade: A Reality Check" (Trade Briefing Paper no. 19). Nor are imports a significant factor in recent job losses; imports during the downturn have been nearly flat, while exports have dropped substantially. Indeed, concerns about job losses and economic decline have accompanied every economic downturn since the Great Depression, Lindsey notes, and in each era such fears have turned out to be overblown. He concludes that American policymakers should focus on creating jobs by expanding opportunities for American exports, especially in services, where the United States is a global leader.


Brink Lindsey

◆The Wrong Road to Damascus

The recently passed Syria Accountability Act is likely to drive Syria away from cooperating with the United States in anti-terrorism efforts. At the same time, the act does nothing to encourage Syria to fight terrorism more effectively on its own, charges Claude Salhani in "The Syria Accountability Act: Taking the Wrong Road to Damascus" (Policy Analysis no. 512). The law, passed despite promises by Syria's foreign minister to meet all "logical and realistic" demands in the war on terrorism, restricts trade between the United States and Syria, restricts the movement of Syrian officials and aircraft in the United States, and freezes Syrian government property in the United States. Salhani notes that several regional terrorist groups are headquartered in Damascus, and the cooperation of the Syrian government is therefore vital to keeping close tabs on their activities.

◆Deadly Pesticide Politics

DDT, long under attack from environmentalists, is an indispensable weapon in the war against malaria, argue Richard Tren of Africa Fighting Malaria and Roger Bate of the American Enterprise Institute in "South Africa's War against Malaria: Lessons for the Developing World" (Policy Analysis no. 513). In fact, when South Africa decided to phase out the use of DDT for malaria eradication in the late 1990s, the result was the worst malaria epidemic in decades. Other insecticides simply aren't as effective. Moreover, DDT is one of the cheapest pesticides available, a fact that's important for African countries with small eradication budgets. Unfortunately, environmental extremists are seeking a global ban and have succeeded in pressuring many developing countries to adopt less effective pesticides. The South Africa example, the authors argue, shows why these efforts must be resisted, as hundreds of thousands of human lives are at stake. ■

Cato Calendar

Cato City Seminar
New York • Waldorf-Astoria
June 10, 2004
Speakers include P. J. O'Rourke and Adrian Wooldridge.

Cato Luncheon
Boston • Harvard Club
June 16, 2004
Speaker: P. J. O'Rourke

The Law and Economics of File Sharing & P2P Networks
8th Annual Technology & Society Conference
Washington • Cato Institute
June 17, 2004
Speakers include Jack Valenti.

Cato University
San Diego • Rancho Bernardo Inn
July 24–30, 2004
Speakers include Nathaniel Branden, Deroy Murdock, Rob McDonald, David Schmidtz, Marcus Cole, Richard Stroup, Jane Shaw, Piotr Kaznacheev, and Estuardo Zapeta.

Constitution Day
Washington • Cato Institute
September 17, 2004
Speakers include Gary Lawson, Tom Goldstein, Mark Moller, and Roger Pilon.

Competitive Markets for Education
Washington • Cato Institute
September 28, 2004
Speakers include John Merrifield, Lisa Snell, John Wenders, Andrew Coulson, Richard Vedder, and Myron Lieberman.

Arguing for Liberty: How to Defend Individual Rights and Limited Government
Cato University
Quebec City • Chateau Frontenac
October 28–31, 2004
Speakers include Tom G. Palmer, Don Boudreaux, Karol Boudreaux, Monte Solberg, Gene Healy, and David Boaz.

Friedman and Schwartz look back in the Cato Journal

A Monetary History 40 Years Later

Forty years ago, Milton Friedman and Anna J. Schwartz penned *A Monetary History of the United States, 1867–1960,* a painstaking survey of United States monetary policy in the century prior to the book's publication.

In celebration of *A Monetary History*'s 40th anniversary, the Winter 2004 issue of *Cato Journal* features retrospectives by the authors and other noted economists on the book's impact. Milton Friedman writes that the Fed seems to finally be learning the lessons of history, as it has successfully kept inflation in check since the mid-eighties using policy prescriptions made by Friedman and Schwartz in the 1960s. Schwartz notes that *A Monetary History* has spawned countless research projects that have fleshed out the claims made by the book in more detail. She gives much of the credit for the book's success to Milton Friedman's tireless advocacy of its thesis. Allan Meltzer of Carnegie Mellon praises the book as a model for economic historians, and William Poole, president of the Federal Reserve Bank of St. Louis, says that the insights in *A Monetary History* are still relevant to policymakers today.

Also in the Winter issue is a critique by Donald Boudreaux of recent arguments against free trade by Paul Craig Roberts. Roberts, in a widely read *New York Times* op-ed with Sen. Chuck Schumer (D-NY), has argued that the increasing mobility of labor and capital undermines traditional arguments for free trade. Boudreaux responds that Roberts does not understand the concept of comparative advantage, as it does not assume fixed factors of production. Roberts also underestimates the potential for capital creation, Boudreaux argues—even if a large amount of American capital were to be transferred abroad, the resulting higher rate of return on domestic capital is likely to induce additional domestic saving. Boudreaux's article was featured in a *Washington Post* story on the reaction of free traders to Roberts's criticisms.

The *Cato Journal,* published three times a year, is an interdisciplinary journal of public policy analysis edited by James Dorn. Issues can be purchased for $8 from the Cato Institute at 800-767-1241 or online at www.catostore.org. One-year subscriptions are available for $24. ■

Armey, Buchanan Highlight Hayek Forums

March marked the 60th anniversary of the publication of *The Road to Serfdom,* by F. A. Hayek, the most influential critique of socialism in history. Published at a time when virtually all Western intellectuals were socialists, it sparked a debate over the feasibility of the socialist project that raged until the collapse of the Soviet Union in 1991.

To celebrate *The Road to Serfdom's* anniversary, the Cato Institute held two book forums. The first, on February 2, featured the authors of two recent studies of Hayek's work, Bruce J. Caldwell and Alan Ebenstein. In his book *Hayek's Challenge: An Intellectual Biography of F. A. Hayek,* Caldwell emphasized the breadth of Hayek's intellectual accomplishments. Prior to the publication of *The Road to Serfdom,* Hayek did groundbreaking work on monetary policy and the business cycle. Afterward, in 1952, he turned his attention to the emerging science of cognitive psychology in *The Sensory Order*, a groundbreaking study of human cognition. The book forum also featured former House majority leader Dick Armey, who hailed Hayek's intellectual courage in standing against the collectivist ideological currents of his era.

At a March 10 Book Forum, Nobel laureate James Buchanan praises F. A. Hayek for sparking and nurturing a renaisance of classical liberal ideas over the last half-century.

The second forum, held on March 10, 60 years to the day after the publication of *The Road to Serfdom,* featured Cato president Ed Crane, Nobel laureate James Buchanan, Leonard Liggio, and Daniel Yergin. Crane recalled Hayek's influence in the early days of the Cato Institute. Hayek accepted the title of distinguished senior fellow at the Institute, and Cato paid the salary of Hayek's secretary from the founding of the Institute in 1977 until Hayek's death in 1992.

Buchanan stressed the importance of idealism to the success of any political movement and credited Hayek with developing an inspiring vision of a free society. In publishing *The Road to Serfdom* and subsequent books laying out that vision, Hayek served as a personalized torchbearer for classical liberal ideas, Buchanan said, providing rallying point for intellectual allies and a target for collectivist opponents.

Liggio, president of the Mont Pelerin Society that Hayek founded in 1947 to bring together the world's leading defenders of free markets, noted that Hayek focused the attention of his ideological allies on the need for better empirical research on the workings of market processes. For example, lighthouses are often cited by economists as an example of a public good that cannot be operated profitably by private entrepreneurs. Yet Ronald Coase, in a groundbreaking 1974 essay, showed that lighthouses can and have been provided by private actors. Hayek's influence can be seen in this growing body of literature from Coase and many others, documenting the practical effectiveness of market processes.

Yergin, coauthor of *The Commanding Heights: The Battle for the World Economy,* presented excerpts from the BBC adaptation of his book. The excerpts focused on the intellectual debate between Hayek and John Maynard Keynes over the necessity of state intervention in the economy.

Both events can be viewed on Cato's website, www.cato.org. Click the "Events" tab, and then choose "Watch or Listen to Archived Events Online." ■

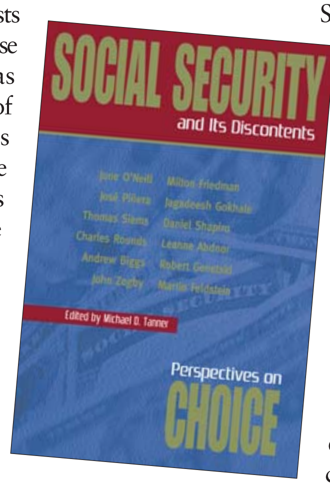
Friedman, Feldstein, O'Neill, Piñera among contributors

New Book Proposes Social Security Reform

Since the publication of *Social Security: The Inherent Contradiction* in 1980, Cato scholars have been warning policymakers and the general public that today's pay-as-you-go Social Security system is unsustainable. Demographic changes and the Ponzi-like structure of the system mean that it can offer only steadily declining returns and long-term insolvency. Cato scholars have argued that the best way to restore the system to long-term solvency is by giving workers individual ownership of their contributions and the freedom to invest them in real, private-sector assets. Cato's efforts have borne fruit: in 2000, candidate George W. Bush backed the idea of personal accounts, and several congressional candidates campaigned on personal accounts and won in 2002.

In January, Cato continued to drive the debate forward by proposing a detailed, credible reform plan that would give workers ownership of the full 6.2 percent employee share of the Social Security payroll tax. Tanner and Project on Social Security Choice co-chair William Shipman promoted the plan and educated congressional staffers on Social Security's problems at a series of Hill Briefings dubbed "Social Security University."

In April, Cato published the edited collection *Social Security and Its Discontents: Perspectives on Choice*. In it, Nobel laureate Milton Friedman argues that concerns about transition costs are misplaced, because the government has promised trillions of dollars in benefits to current and future retirees—benefits that will have to be paid under the status quo or any viable reform. Moving to a funded system merely makes this liability explicit in the form of government debt.



Harvard economist Martin Feldstein discusses the dramatic financial gains made possible by personal accounts. The returns of pay-as-you-go systems are limited by the real growth of wages, which has historically been about 2.6 percent per year. Private equities, in contrast, have boasted real returns of more than 7 percent for more than a century. Thanks to the miracle of compounding interest, if workers were allowed to divert even a small portion of their payroll taxes to personal accounts, it would make a dramatic difference in their retirement income.

June O'Neill, former head of the Congressional Budget Office, explains that the Social Security Trust Fund contains only treasury bonds, not real, economically productive assets. When the Social Security trustees redeem those bonds, taxes will have to be raised or spending will have to be cut to generate the necessary revenue. Hence, the size of the trust fund has no effect on the ability of the federal government to meet future obligations, since taxes would have to be raised by the same amount with or without a trust fund.

Mike Tanner, director of Cato's Project on Social Security Choice, argues that, because black workers start work earlier and have lower life expectancies, the current Social Security system gives them lower returns than comparable white workers. Leanne Abdnor, a member of the President's Commission to Strengthen Social Security, shows how Social Security has failed to keep pace with the changing role of women in the workplace, giving generous benefits for nonworking spouses but relatively meager returns for two-income couples. Personal accounts would be more equitable for both women and African Americans, Tanner and Abdnor conclude.

Social Security and Its Discontents is available in hardcover for $29.95. It can be purchased in bookstores, at www.catostore.org, or by calling 800-767-1241. ■

News Notes

Slivinski Joins Cato as Budget Director

Stephen Slivinski has been named director of budget studies at the Cato Institute. A former fiscal policy analyst at Cato, he worked most recently as a senior economist at the Tax Foundation in Washington, D.C. Before his return to Washington, Slivinski served as director of tax and budget studies for the Goldwater Institute in Phoenix, Arizona. He has coauthored several editions of the "Fiscal Policy Report Card on America's Governors" with Stephen Moore. He will be part of Cato's fiscal policy team, which also includes Chairman William A. Niskanen, director of fiscal policy studies; Chris Edwards; and senior fellows Moore and Alan Reynolds.


Stephen Slivinski

Radley Balko has been named a policy analyst at the Cato Institute, specializing in "nanny state" issues. He recently published "Back Door to Prohibition: The New War on Social Drinking," a Cato Policy Analysis. He is a regular columnist on FoxNews.com and a frequent contributor to Tech Central Station. A graduate of Indiana University, he has been the manager of Cato's website for the past three years. ■

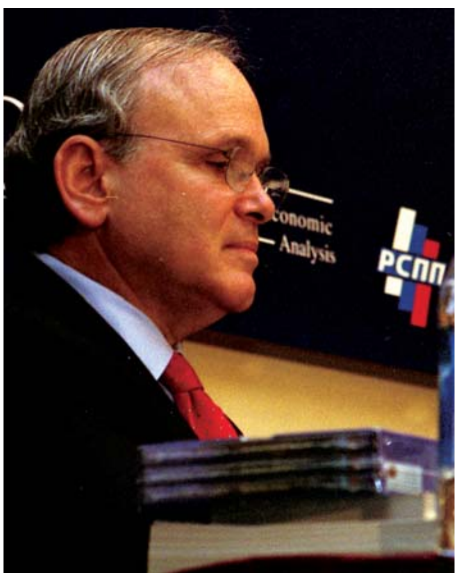

Radley Balko

RUSSIA CONFERENCE *Continued from page 1*

hope very much that our economic and Central Bank specialists will take notice of the ideas voiced at the conference and use them to solve certain economic problems in this country." In particular, he expressed interest in the pension reforms in Chile. "Obviously, Russia should use everything positive the world has amassed in this sphere to make the pension reform very successful," Putin said.

Cato president Edward H. Crane told Putin that economic growth and foreign investment would require not just free-market reforms but "the perception and reality of the rule of law, uncorrupted courts, and protection of contracts." He also told Putin: "Another often overlooked aspect of attracting foreign investment is a free press. True, a free press is first and foremost a civil liberties issue. But foreign investors look to a free press in developing nations as an institutional protection for their investments." Investors, Crane said, are concerned that the Putin administration has intimidated the media in Russia and that that would inhibit economic growth.

Yaroslav Romanchuk, deputy chairman of the opposition United Civil Party of Belarus, and Fred Hu of Goldman Sachs, Hong Kong, emphasize the importance of capital freedom.



Putin wasn't the only leader who listened to experts explain the ins and outs of liberal reform during the conference, which consisted of two days of discussion in Moscow—cosponsored with the Institute of Economic Analysis and the Russian Union of Industrialists and Entrepreneurs—and a day in Saint Petersburg cosponsored with the Leontief Centre. Participants from across the developing world, including Iraq, Poland, Mongolia, China, and Bulgaria, learned about which reforms work and which don't from experts with first-hand experience implementing them in their own countries. In the keynote address, Illarionov presented a broad overview of the evidence that economic liberalization drives economic growth and thereby raises living standards. Comparing pairs of countries with similar geographic and demographic traits but different economic policies, he found that those that adopted the institutions of secure private property, the rule of law, and free trade prospered, while those that maintained closed economies and failed to protect property fell behind.

Other speakers confirmed Illarionov's thesis with stories of their personal expe-

Above: Daniel Yergin, coauthor of *The Commanding Heights: The Battle for the World Economy*, delivers a luncheon address on the influence of ideas and individuals in transforming the world.

Piotr Kaznacheev, adviser in the administration of President Putin, gives the case against endorsing the Kyoto Protocol on global warming.

riences implementing market-oriented policies in their own countries. Laar, former New Zealand finance minister Ruth Richardson, and Kazakhstan first deputy prime minister Grigori Marchenko all described their successes in producing rapid economic growth through aggressive reductions in the size and scope of government and strengthening of market institutions. But Leszek Balcerowicz, president of the national bank of Poland and former Polish finance minister, emphasized that more than good policies are needed; economic reformers must also think about how best to sell those policies.

Conference participants also got to see first-hand how market forces have transformed Russia. Cato senior fellow Tom Palmer was struck by how much Moscow has changed since his last visit in 1990. "I remember from the Soviet time how drab, shabby, dirty, and utterly depressing Moscow was," he said. "It's now ablaze with advertising, signs, beautiful restaurants, and shops full of goods. Whereas during my last visit the streets were full of downcast and depressed people, the open gaiety and liveliness among those walking there today is quite remarkable. What a difference capitalism makes."

The conference, organized by Illarionov along with Ian Vásquez, director of Cato's Project on Global Economic Liberty, was Cato's third in Moscow. In 1990 Cato held "Transition to Freedom: The New Soviet Challenge," in conjunction with several academic institutes. Speakers included James Buchanan, Peter Bauer, George Gilder, and Charles Murray, along with such Russian leaders as the mayors of Moscow and St. Petersburg (still Leningrad at that time), liberal economist-turned-politician Grigory Yavlinsky, and future prime minister Yevgeny Primakov. A follow-up conference in 1991 featured Soviet émigré Vladimir Bukovsky, making his first trip back to his native land since his exile in the 1970s. Members of the Supreme Soviet gave speeches extolling private property, and Yavlinsky and Stanislav Shatalin discussed their 500-Day Plan for economic reform.

Papers from the 2004 conference can be read at www.cato.org/russiaconference.

Reformer Leszek Balcerowicz, president of the National Bank of Poland and former finance minister of Poland, exhorts classical liberals to do a better job of selling their ideas.

Putin's economic adviser, Andrei Illarionov, and Cato's José Piñera held a press conference about how to improve Russia's incipient pension reform.

The Moscow conference "A Liberal Agenda for the New Century: A Global Perspective" sparked spirited discussion among the participants.

"To Be Governed..."

◆ **Slashing the budget by 0.04 percent**

The administration wants to shutter 13 programs deemed ineffective or unable to demonstrate results. Their combined budgets surpass $1 billion.

—*Washington Post,* February 11, 2004

◆**Republicans learn to use carrot and stick**

This month, delegates voted 98 to 1 for a resolution asking Congress to exempt states from the No Child Left Behind act if the states already have rigorous standards and testing programs.

The resolution said that the law "represents one of the most sweeping intrusions into state and local control of education in the history of the United States" and will cost "literally millions of dollars that Virginia does not have."

Given those concerns, one of the authors of No Child Left Behind, Rep. John A. Boehner (R-OH), said Virginia could opt out of the law—at its peril. In an op-ed piece in Thursday's Norfolk Virginian-Pilot, Boehner said the state has every right to ignore the more stringent testing and reporting provisions of the law, "presuming Virginia lawmakers are also willing to hand back the massive increase in federal aid the state is receiving" under the law.

—*Washington Post,* February 9, 2004

◆**Actually, public choice tells us that tax consumers write far more letters than tax payers**

After ricin was found in the mailroom of a Senate office building last week, hazard response teams searched Capitol offices to collect mail that was quarantined when the buildings were shut down....

A limited survey of lobbyists and congressional staffers provided a rough outline of the possible loss. Because it's federal budget season, many of the letters being detained likely argue for or against a wide variety of federally funded programs.

—*Washington Post,* February 8, 2004

◆**And we have the guns**

In a show of hostility toward a company promising to bring hundreds of jobs and rock-bottom consumer prices to poor, blighted neighborhoods, the Los Angeles City Council this month may ban Wal-Mart from opening its popular "supercenters," sprawling new stores that sell discount groceries along with many other bargain goods ....

"They're a goliath, but we're a goliath, too—and we want to send them a message," said Eric Garcetti, the Los Angeles councilman proposing the restrictions against the retailer.

—*Washington Post,* February 3, 2004

◆**Wisdom worthy of Lao-tzu**

[For opponents of gambling in Maryland] their only hope is a slim one: enough partisan bickering to produce stalemate. The people win when nothing happens.

—Marc Fisher in the *Washington Post,* February 1, 2004

◆**Profiles in courage**

Rep. Ralph M. Hall, a veteran conservative Democrat from Texas, switched parties last night, filing for reelection as a Republican. "I've always said that if being a Democrat hurt my district, I would switch or I would resign," Hall said. He said Republican leaders recently had refused to place money for his district in a spending bill, and "the only reason I was given was I was a Democrat."

—*Washington Post,* Jan. 3, 2004

◆**Sophistry defined**

In regard to the proposed cigarette tax increase of 25 cents per pack, Herb Miller [letters, Dec. 16] asked, "Where is the fairness in targeting a specific group that increasingly lacks the political muscle to fight back?"

The fairness is that the average state tax on cigarettes in this country is about 60 cents. With the current tax less than 3 cents in Virginia, I would argue that Virginia taxpayers are subsidizing Mr. Miller's habit to the tune of 57 cents a pack.

—Letter to the editor, *Washington Post,* Dec. 25, 2003

◆**Protecting consumers, uh, sellers**

On Oct. 21, New York Gov. George Pataki signed into law a bill designed to curb predatory pricing of motor fuel. . . .

The law, as signed, will prohibit retail pricing of motor fuel below 98 percent of cost. . . .

"We are grateful for Gov. Pataki's wisdom and strength in signing this bill in the face of stiff opposition from Wal-Mart and the Retail Council of New York State," said Thomas J. Peters . . . of the Empire State Petroleum Association.

—*Fuel Oil News,* Dec. 2003

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