

What's new at Cato

- Expanded headquarters at 1000 Mass. Ave. (blocks from White House, Congress, etc.)
- State of the art conference rooms, audio-visual
- Ground floor reception area, meals upstairs
- Increasing international outreach, students from all over at Cato University
- Dispute between Koch Brothers & CEO Ed Crane, et al. has been settled
- Shareholder agreement canceled, from now on Board will run show
- John Allison, BB&T will take the helm on Oct. 1
- Allison speech, 1/29/09 to Ayn Rand Institute re 2008 financial crisis is on line.

CATO University Faculty

GENERALISTS

David Boaz, CATO EVP

Robert Levy, Cato Bd. Chmn.

Robert McDonald, historian
(West Point)

Tom Palmer, Director of Cato
University

Roger Pilon, CATO VP for legal
affairs

EXPERTS

Mark Calabria, financial mkts.

Michael Cannon, healthcare

Daniel Griswold, trade policy
(NAFTZ)

Steve Landsburg, economics
(Univ. of Rochester)

Christopher Preble & Malou
Innocent, foreign policy

Amy Sturgis, native American
history

Rise of States (Palmer)

- Man begins as hunter-gatherers – free but poor
- Agriculture creates a surplus – permitting a state (having monopoly on legitimate physical violence within a given territory) to develop - state claims surplus via taxes.
- Nomadic raiders arrive to plunder, or, if they can, to conquer.
- Rulers work to maximize accessible product vs. total output. Promulgate laws (from which rulers are exempt) vs. customs, standardize weights & measures, encourage cultivation of rice (which must be harvested at a given time) vs. sweet potatoes.
- Louis XIV was called the “sun king” at a time when the sun was perceived as the center of the universe.
- Power of the state can be limited (next lecture), but this will not be easy nor necessarily permanent. Moving through history is like walking down a hallway backwards, you can see where you have been.

Limiting Government (Palmer)

- The idea becomes accepted in one way or another that life is governed by higher principles – religion, reason, natural law.
- Said higher principles are discovered, not made, and rulers are subject to them like everyone else.
- John Locke, for example, believed that there can be no freedom without laws that protect our lives, liberty and estate. “Property” was not material objects, as such, but the right to use them.
- Many examples of limiting power, e.g.,, Epic of Gilgamesh (circa 2500 BC), Roman Republic (500 BC), Magna Carta, Glorious Revolution (1688), Declaration of Independence.
- But since the 18th Century, classic liberalism has generally been on the decline. With people like the president and his former chief of staff Rahm Emanuel (“never let a good crisis go to waste”) around, eternal vigilance is needed to keep liberty alive. That’s why Cato exists.

Stand Up For Liberty (Palmer)

1. Individualism can be overdone; group action is necessary to preserve liberty. However, groups should be voluntary vs. compulsory.
2. Get “educated” so people will come to you as a knowledgeable (vs. opinionated) person.
3. Stand up for moral principles; your example may encourage others.
4. Write a letter to the editor – boil it down for maximum impact.
5. Write legislators; they may not read letters but do count them.
6. Go to public meetings – how can you vote for that?
7. Give books to people who may be interested.
8. Form groups, help each other. And send checks to Cato.
9. They made a difference: Gournay (1712-1759), Turbot, Adam Smith.
10. Remember the marker for Sir Christopher Wren (“if you seek an architect, look around you.”)

American Revolution (McDonald)

- At times, the prospects for liberty look bleak, but colonial Americans faced challenges too.
- Originally, the colonists were proud of their place in the British scheme of things. They enthusiastically supported the French-Indian War against France, “the bad empire.”
- Then as though they were following a “losing an empire for dummies” manual. the British started doing everything wrong. They placed limits on western settlement, which might precipitate another war with the French. And Parliament tried to levy taxes for expenses of the past war. The stamp act was dropped, encouraging a “we can fight back” mentality, but other levies followed and the relationship with England deteriorated.
- The slogan “no taxation without representation” reflected a determination not to be pushed around. The revolution had already taken place in the minds of the colonists, although it would take time for war to follow.

George Washington (McDonald)

- If there was ever a reluctant but also highly capable leader, it was Washington.
- His basic strategy was to husband the resources of the army under his command, avoiding battles with the British forces whenever possible. When he broke this rule, by attempting to defend New York City at the outset of the war in 1776, the Continental Army was nearly destroyed.
- Thereafter, Washington followed his instincts while hatred of the British grew and nurtured steadily increasing support for the Revolution.
- When the war was over, Washington resigned his commission – rather than seizing power, as some of his officers had urged, on grounds that the Army had not been paid as promised - and he later agreed to serve as president only because there was no one else who was universally respected and could hold the fledgling republic together.

The Constitution (McDonald)

- The key players were Madison (limited government, strict constructionist) and Hamilton (strong government, willing to read between the lines).
- When Jefferson returned from serving as ambassador to France, he effectively sucked Madison into his orbit, e.g., convinced Madison to accept a Bill of Rights (on top of the enumeration of powers).
- The Alien & Sedition Acts of 1798 clearly violated the 1st Amendment, but President John Adams thought it necessary to avoid a war with France.
- President Thomas Jefferson felt the Louisiana Purchase violated the Constitution – but the deal was time critical and too good to pass up.
- Slavery (clearly incompatible with the spirit of the Declaration of Independence) was a national problem that morphed into a southern problem. But for the invention of the cotton gin, which fueled a cotton boom and made slave labor immensely profitable in the south, slavery might have been ended peaceably.
- Civil War put the government on an expansionary path. With a few exceptions, notably under Reagan, this trend has continued ever since. Too bad!

The Invisible Hand (Landsburg)

- An eclectic and somewhat irreverent view of economics. For more in a similar vein see Landsburg's book, "The Armchair Economist" (updated May 2012).
- The Industrial Revolution completely changed the economic landscape, for the first time in human history raising the living standards of the rank and file and not just the elite. Claims that "trickle down" economics don't work, etc. are nonsense.
- Unless something happens to stop it, the standard of living in our society will keep improving. In a mere 400 years, almost everyone should be a millionaire (adjusted for inflation). [Yeah, sure!]
- It's far easier to rely on prices than to attempt to be a socially conscious consumer who makes the decisions that will be best for society. The problem is rationally measuring "externalities" that are thought to require a non-price-based answer.
- Free economy is not synonymous with "survival of the fittest," it actually provides efficient solutions that benefit all concerned. Thus, immigration, free trade, and Walmarts are all socially beneficial.

Gov't Regulation (Landsburg)

- Hard question is not is a given outcome good or bad, but “how much?” Pollution is undesirable, but we can't eliminate all of it.
- 19th Century trains threw sparks that could cause fires in dry fields. Pigou said tax the railroads for the damage. But Coase later pointed out that it's equally logical to require farmers to move their crops back a bit.
- If property rights are well defined and there are no barriers to negotiation, the parties can work out the best answers. Economic theory cannot solve such problems, as the best answers depend on the circumstances of each case.
- However, without mandatory car insurance, many people would be uninsured & insurance costs would go up. And while human reproduction is generally best left to individuals vs. coming up with some notional idea of how many humans the world can support, government subsidies may skew the answer. Don't rely on “common sense,” which may tell you the world is flat, work the problems through.
- Is it rational to spend money for compassionate purposes? Our answers may be hypocritical, e.g., it's OK to let people die if they die far enough away.

Tricky Incentives (Landsburg)

- Make cars safer & people will drive more recklessly; even if driver deaths go down, good luck for pedestrians.
- Deterrent value of capital punishment: not simply on the potential killer, but on everyone else. Estimated that every execution prevents 8 murders.
- All taxes retard economic activity, but taxes on capital income are the worst. Thus, a tax on interest income or dividends penalizes people who might choose to defer consumption and free up funds for investment.
- Are executive salaries too high? Maybe, but it's in the interest of shareholders that executives be motivated to take smart risks rather than acting like caretakers.
- Helmet laws for cyclists lead to higher insurance rates. If use is voluntary, prudent cyclists (helmet wearers) are identified and can be rewarded with lower rates.
- Mandate to use recycled paper means less paper used, fewer trees planted, smaller forests.
- Airplane overbooking, and then paying people to give up seats, should be allowed.
- African elephants: villagers given property rights in ivory, poaching stopped.

Making Policies (Griswold)

- Public policy means to do things for or to people, e.g., regulate or not , declare war or not. Promote liberty when you can.
- The test of a good policy: it's moral, constitutional, practical, and politically realistic (push the envelope, but don't get thrown out of the room).
- Start with a sound analysis, which may expand the options. Don't forget the importance of implementation and evaluation (did the policy solve the problem?); getting a law passed is not all there is to it.
- Theory that public should choose has serious limits: people are self-interested, and politicians often serve special interests (which seek concentrated benefits) vs. the general public (which bear diffused costs). Consider general failure to appreciate benefits of free trade.
- Ideas matter; so does the ground game. No final victories, but don't despair. Politicians may be looking for cover to do the right thing.

Rule of Law (Pilon)

- Declaration of Independence (and before it Roman law and English common law) expresses a philosophy of government. Religious references invoked natural law using idioms of the time. Truths held to be self evident are grounded in reason.
- At some point, principles fail and one gets into values (subjective preferences, no absolutes). Therefore, keep the government small to minimize potential damage. The 9th (other rights) and 10th Amendments (other powers) were intended to have real significance, but this intent has been frustrated.
- Progressives see government spending as an “investment,” as though their credo was “better living through bigger government.” SCt blocked some of their ideas for a while, but it was beaten down during the New Deal.
- Today the Constitution has been converted from a legal to a political document, leaving interest groups in best position to work the system.
- Where do we go from here? Socialism is easy to start, hard to stop. Academic world is corrupt to the core. Need to change climate of ideas. That’s what Cato is for.

How SCt Went Wrong (Levy)

- Politicians have a different view of the Constitution than libertarians. LIBERALS support big government and individual rights, but their views are selective. Thus, they don't tend to embrace big government (DOD, DOJ) when it comes to tradeoffs between national defense & personal liberty. CONSERVATIVES want war on drugs, medical malpractice reform, etc., so they overlook lack of constitutional authority.
- Why only 17 amendments since Bill of Rights? Framers were foresighted, amendments are tough, but real answer is back door amendments in the courts.
 - * GovCare decision would have been in line with Helvering v. Davis (upholding Social Security) except legislation said payment was a penalty instead of a tax, forcing Justice Roberts to engage in verbal gymnastics to reach his result.
- 320 alphabet agencies in DC, some 200 volumes of federal regulations. Delegation is accepted if there is an "intelligible principle" (fig leaf) to support it. Less protection for political speech than pornography or flag burning. If we have a campaign cash problem, it's due to big government.

Healthcare (Cannon)

- Traditional practice with entitlements is start small & expand over time. Trying to create healthcare insurance (HCI) for 32M Americans at once was unprecedented.
- Estimated to cost \$1T over 10 years (incl. multiple years with no outlays), half from tax increases and half from reduced rate of growth for conventional Medicare.
- Under legislation as written, states can block implementation by declining to expand Medicaid or set up HCI exchanges. Law does not authorize subsidies for federally organized exchanges, and they couldn't run without them. IRS attempt to rule otherwise on tax credits is illegal and it will be challenged.
- See Cato analysis of effects on states of Medicaid expansion. CA would get federal dollars for programs it has already set up on its own, other states would lose.
- Romney has tapped an advisor (Levitt) who has been urging states to set up exchanges, a bad omen re Romney's policies in this area.
- GOP opposition has been great, but full repeal would require 60 votes per Cannon. 51 votes on a "reconciliation" measure could only "wound the beast."
- Look for Cannon's forthcoming book on replacing GovCare.

Avoiding Financial Crisis (Calabria)

- What's so bad about a financial crisis. Lost economic opportunity, and can be used to justify expansion of government (New Deal, GovCare). Not to mention potential for civil unrest, armed conflict.
- Dot.com bubble destroyed more paper value than housing bubble, but it affected assets and equity rather than debt so there was no financial crisis.
- Multiple causes for 2008 crisis, including loose monetary policy after 9/11, federal push for subprime lending, Fannie/Freddie (leverage 200/1), restrictive zoning in some states (there was no housing bust in Texas), etc.
- To head off the next crisis: fix the fed (end dual role, limit inflation target, give red states more say in governance); tax law changes to reduce advantages of high leverage, e.g., don't permit tax deduction for interest expense; end the FDIC; have courts, not regulators deal with failed banks.
- Is there such a thing as a useful crisis, e.g., school of thought that things must get worse before they get better? It's possible, depends on who is in charge when the crisis hits, but things have usually gone the other way.

The Military (Preble & Innocent)

- The US traditionally maintained a small standing army that was expanded as necessary in wartime. Founders were concerned that a big military establishment would undermine liberty. Note that Constitution authorizes Congress to “provide for the common defense” and puts it in charge of declaring wars rather than leaving this up to the president. Congress is empowered to “raise” armies, but “maintain” navies, a distinction that Preble (being a former Navy guy) can relate to.
- New model took root during the Cold War after World War II, and it has supposedly kept defense spending much higher than necessary. Defense of the US has expanded to the entire world. No one is proposing to cut defense, the only issue is the rate of increase. Obama wants to spend too much – Romney wants to spend a lot more than that. It’s time to rethink military’s role & mission. Do less with less, not more with less. [Data presented looked misleading to me.]
- Military interventions should be limited to US national effort, not humanitarian considerations. And let’s get over the idea that we can create democracies in occupied nations, it worked in Germany & Japan under atypical circumstances but only after a great deal of effort.

Native Americans (Sturgis)

- History of US relations with the American Indians has been disgraceful, both in terms of breaking deals and in rationalizing treatment that has prevented them from being culturally assimilated. A case study in why “collectivism doesn’t work”.
- Historical myths: (1) American Indians did not have a pre-colonial understanding of property rights. They actually had understandings re hunting territories, fishing areas, etc. (2) American Indians failed to adapt to European-style trade and commerce. Case after case can be cited to refute this notion, including Acadians in Nova Scotia; Cherokees’ legal challenge to Indian Renewal Act, which they took to the Supreme Court in 1832 & won (but Andrew Jackson wiped them out anyway).
- In the 1930’s, Wheeler/Howard Act wiped out the property rights of individual Indians, thereby imposing communism on an entire population.
- Time to eliminate Bureau of Indian Affairs. No one wants it, certainly not the indians, except BIA employees.
- Casinos create wealth without solving problem, and they are dependent on continued willingness to grant monopolies to the tribal reservations.