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Cato Policy Report

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Sweden's Lessons for America

BY JOHAN NORBERG

When asked if he can mention a single example of a country where socialism has worked, Sen. Bernie Sanders (I-VT) says yes but indicates that it's not the Soviet Union of his honeymoon or any other country where the government actually owns the means of production. Instead, he says, "we should look to countries like Denmark, like Sweden and Norway." Likewise, Rep. Alexandra Ocasio-Cortez (D-NY) fiercely rejects any suggestion that she wants to turn the United States into Venezuela. Apparently, she prefers to turn it into a big Sweden or Denmark.

Sooner or later, American socialists always return to Sweden and other Nordic countries. There's a good reason for that. For some reason, the countries that socialists originally tout always end up with bread lines and labor camps. But there's always Sweden: decent, well-functioning, nonthreatening, and with impeccable democratic credentials.

There is just one problem: Sweden is not socialist.

If Sanders and Ocasio-Cortez really want

to turn America into Sweden, what would that look like? For the United States, it would mean, for example, more free trade and a more deregulated product market, no Fannie Mae and Freddie Mac, and the abolition of occupational licensing and minimum wage laws. The United States would also have to abolish taxes on property, gifts, and inheritance. And even after the

recent tax cut, America would still have to slightly reduce its corporate tax. Americans would need to reform Social Security from defined benefits to defined contributions and introduce private accounts. They would also need to adopt a comprehensive school voucher system where private schools get the same per-pupil funding as public ones.

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JOHAN NORBERG, senior fellow at the Cato Institute, is a Swedish author and historian whose works include *In Defense of Global Capitalism* and *Progress: Ten Reasons to Look Forward to the Future*. He is also the host of numerous public television documentaries for Free to Choose Media, including most recently *Sweden: Lessons for America?*.

On November 13, attendees in the F. A. Hayek Auditorium got a special screening of *Created Equal: Clarence Thomas in His Own Words*, followed by a question and answer session with the filmmaker, Michael Pack. The film appeared in select theaters at the end of January and will be broadcast on PBS in May.



BY DAVID BOAZ

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The
reasonable,
radical
libertarian
movement.
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EDITORIAL

Creating a Voice for Libertarian Ideas

Back in 1999, I met a young law student at the Cato University summer session in California. Since then he’s gone on to a successful career, working at two different pro-freedom organizations. Recently he talked to Cato president Peter Goettler about the prospects for liberty and stressed the importance of Cato: “If it were not for Cato struggling to move the climate of ideas and debate, all of the victories we win for liberty in legislatures and the courts will be short-lived when the political winds inevitably shift. On behalf of the entire movement, please never surrender this mission!” As Peter told him, we won’t.

That was our goal when Cato was founded in 1977: to revive the principles of liberty and limited government that were deeply rooted in the American spirit and to help build a movement devoted to those ideas. Our work since then has built on that foundation.

I’ve always considered myself part of the reasonable, radical libertarian movement—radical by the standards of contemporary politics (though not by the standards of life, liberty, and the pursuit of happiness) and reasonable in presenting policy ideas in a mainstream way. This can also include rescuing sound libertarian ideas from unsavory associations or counterproductive framings.

We have tried to present the principles of liberty in a variety of accessible ways to broaden public understanding and support. The Cato University Home Study Course offers 30 hours of audio on the history of libertarian ideas. Cato University seminars give people a chance to study liberty with great teachers and engaged students for several intense days. Our website Libertarianism.org presents both classic and original articles on liberty. Books such as *The Libertarian Mind*; *The Encyclopedia of Libertarianism* (now online at Libertarianism.org); *Realizing Freedom: Libertarian Theory, History, and Practice*; *Economics and Free Markets*; and *Peace, War, and Liberty: Understanding U.S. Foreign Policy* can be found in libraries and college classrooms.

We have been ahead of the curve in focusing attention on policy problems that politicians and pundits were ignoring:

- We began warning about Social Security’s financial imbalances in 1980 and proposing a transition to a system based on ownership, inheritability, and choice. Sadly, the political

system has not acted on these warnings, and Social Security’s financing remains rickety.

- We challenged the war on drugs, pointing out that drug prohibition violated individual rights and led to crime and corruption. Changing minds on drug prohibition has been a slow process, but now 33 states and the District of Columbia have enacted varying degrees of marijuana legalization.
- In the 1980s, discussion of the role of the judiciary centered on “judicial activism” versus “judicial restraint.” Scholars associated with the Cato Institute began challenging that dichotomy with an emphasis on the duty of the courts to protect individual rights. Richard Epstein, Randy Barnett, and now, this perspective is well represented on the Supreme Court and has influenced rulings on such issues as interstate commerce and gun control.

Of course, we could not carry out our mission without the generous support of our 15,000 Cato Sponsors. We’re especially grateful when Sponsors partner with us to identify special opportunities to celebrate and advance our shared commitment to liberty. A grant from the late B. Kenneth Simon helped to sustain our Center for Constitutional Studies, and Roger Pilon became the B. Kenneth Simon Chair as well as director of the center. A more recent grant grew out of a longtime Sponsor’s desire to help Americans learn and understand the basic principles of economics as they apply to policy choices, and his bequest in 2016 allowed us to hire Ryan Bourne as the R. Evan Scharf Chair for the Public Understanding of Economics.

In 2012, the *New York Times* called Cato “a venerable libertarian research center unafraid to cross party lines” and reported, “Over the years, Cato has successfully injected libertarian views into Washington policy and political debates, and given them mainstream respectability.” That’s an indication of our accomplishment over the past 43 years in creating a voice for libertarian ideas in Washington and in the national policy debate.

Cato scholar hits the road

Book Tour for America's Nuclear Crossroads

For Cato scholars, producing a book is a labor of love, but the labor doesn't end with the book's release date. These volumes are not produced merely to sit on shelves, of course. Part of the purpose is to spread them far and wide and reach as many readers as possible, with an emphasis on students and policymakers.

One such recent release is *America's Nuclear Crossroads*, an anthology edited by Caroline Dorminey and Eric Gomez that seeks to address key questions of nuclear weapons policy for the 21st century. (See "Taming the Destroyer of Worlds," *Cato Policy Report*, September/October 2019.)

As part of the promotion for this book, Gomez has undertaken a nationwide tour. In New York City, he participated in a roundtable event at the EastWest Institute and a panel hosted by New York University. In upstate New York, he spoke to Syracuse University's chapter of the John Quincy Adams Society (JQAS) and has two presenta-

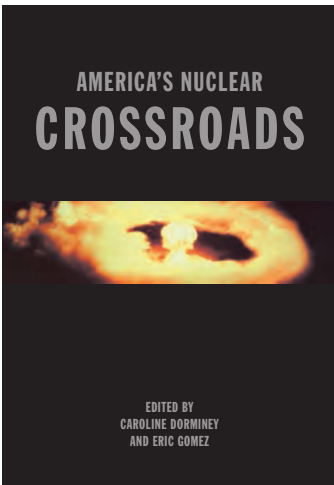
tions scheduled at the State University of New York—Geneseo. In Boston, Gomez participated in a workshop with the Nuclear Weapons Working Group at the Massachusetts Institute of Technology. In Virginia, he delivered a guest lecture at George Mason University in Fairfax and a speech to William & Mary's JQAS chapter in Williamsburg.

In Los Angeles, Gomez spoke at a debate as part of the Pacific Council's annual PolicyWest conference and at Pomona College, the University of Southern California, and the RAND Corporation. In Colorado, Gomez presented at the University of Denver as part of a conference on international security studies.

Gomez is slated for several additional events in 2020. He has been invited to attend a dialogue on U.S.-Chinese relations at Tsinghua University in January to address the nuclear aspects of the U.S.-Chinese relationship and nuclear diplomacy with North Korea. Additional tentatively planned engagements include multiple on-campus events in Texas and New Jersey.

Reaching new audiences and forging new relationships is a crucial part of the work done by Cato policy scholars. At Pomona College, a professor in the theater department attended the talk and was impressed by Gomez's ability to convey complex concepts about nuclear deterrence to those like her who are unfamiliar with the subject matter.

Additionally, participation at the early October event for the Pacific Council led to several more *Crossroads*-related events for when he returned to Los Angeles in November. One of those events, in turn, produced a connection with a U.S. military officer who was able to connect Gomez with the Strategic Command's Deterrence and Assurance Academic Alliance. As Christopher Preble, vice president for defense and foreign policy studies, explains, "Such cascades of new relationships resulting from promotional events outside the DC area are a frequent occurrence." ■



Cato News Notes

HUMAN FREEDOM INDEX IN NATGEO ATLAS

The latest edition of *National Geographic's Atlas of the World* features the findings of Cato's 2018 *Human Freedom Index*, which ranks human freedom across 162 nations. National Geographic created an infographic of the *Human Freedom Index* findings, highlighting the strong relationship among economic freedom, democracy, and higher per capita incomes.

DEANGELIS VS. ELIZABETH WARREN

Cory DeAngelis, Cato Institute adjunct scholar, recently uncovered evidence that presidential candidate Sen. Elizabeth Warren (D-MA) had sent her son to private school, in spite of her opposition to school choice. When asked about this, Warren was caught on video denying it. This subsequently became a substantial story in the presidential race, with widespread coverage including a retweet by President Trump.

MASHBURN TO FHFA

Lydia Mashburn, managing director of the Cato Institute's Center for Monetary and Financial Alternatives, has departed the Institute to become deputy chief of staff at the Federal Housing Finance Agency, the regulator that oversees Fannie Mae and Freddie Mac. Mashburn will be working under another former Cato employee, former Director of Financial Regulation Studies Mark Calabria, whom the Senate recently confirmed to be director of FHFA.



In November, Cato hosted its 37th Annual Monetary Conference, *Fed Policy: A Shadow Review*. 1. **Manmohan Singh**, senior financial economist at the International Monetary Fund, addresses the conference. 2. **Charles I. Plosser**, former president of the Federal Reserve Bank of Philadelphia, speaks on a panel moderated by the *Washington Post's* **Heather Long**. 3. **Victoria Guida**, financial services reporter for *Politico*, moderates a panel on transparency. 4. **Sir Paul Tucker**, former deputy governor of the Bank of England, delivers the luncheon address. 5. **Sarah A. Binder**, professor of political science at George Washington University and senior fellow at the Brookings Institution, takes questions from the audience.



Cato Institute Policy Perspectives 2019 came to Chicago in November. Left: **Sen. Rand Paul** (R-KY) discusses his new book, *The Case Against Socialism*. Right: **Michael Smerconish**, host of shows on CNN and SiriusXM radio, delivers the keynote address on the 2020 election.



Bryan Caplan, professor of economics at George Mason University, speaks at a book forum in November on his new graphic novel, *Open Borders: The Science and Ethics of Immigration*, coauthored with cartoonist **Zach Weinersmith**, outlining his case for radically liberalizing immigration restrictions. Cato's **Alex Nowrasteh** (second from left) moderated with critical commentary by **Tim Kane** of the Hoover Institution.



Patience Moyo, assistant professor at Brown University School of Public Health, speaks at a policy forum in October on the consequences of prescription drug monitoring programs.



Juliana Geran Pilon, senior fellow at the Alexander Hamilton Institute for the Study of Western Civilization, discusses her new book, *The Utopian Conceit and the War on Freedom*.

Continued from page 1

If this is socialism, call me comrade.

So why is it that so many people associate Sweden with socialism? For the same reason they associate it with ABBA and free love: their perceptions are stuck in the 1970s. At that time, it was reasonable to say that Sweden was moving toward socialism. But that was an aberration in Sweden's history—an aberration that almost destroyed the country.

In the 1970s, many outsiders took a serious look at Sweden for the first time, and they were astonished to find a country that combined massive government intervention in the economy with a very high standard of living. Sweden seemed to have squared the circle. But it was like the old joke: How can you end up with a large fortune? You start with a larger one.

As early as 1950, Sweden had become the fourth-richest country in the world, and there was nothing mysterious about its progress. Sweden was also the fifth-freest economy at that time, according to an analysis by Robert Lawson and Ryan Murphy at the O'Neil Center for Global Markets and Freedom at Southern Methodist University's Cox School of Business. In 1950, taxes were just 21 percent of Sweden's gross domestic product (GDP), lower than in the United States, and roughly 10 percentage points below the level in countries like Britain, France, and West Germany.

SWEDEN'S LIBERAL REVOLUTION

This era of smaller government was the result of a much earlier transition. In the mid-19th century, the Swedish government had been taken over by a group of classical liberals led by the minister of finance, Johan August Gripenstedt, who credited Frédéric Bastiat with having opened his eyes to the superiority of free markets. In a short time, these liberals abolished the guild system, tore down trade barriers,

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deregulated business and financial markets, and started to dismantle the legal discrimination against women. They also implemented open immigration and emigration, which instantly led to Swedes lining up for any ship that could take them to America. There, they picked up ideas about human liberty and business organization that would inspire their compatriots back home even more.

Gripenstedt had promised that his reforms would help to turn his desperately poor country into one of the richest in Europe, but he was widely mocked when he left government in 1866. Conservative critics called him a coward for leaving just when people would begin to see how his policies had destroyed the country. Critics insisted that dismantling government controls would wreak havoc on the economy and that foreign competitors would leave Swedish industry in ruins.

But Gripenstedt was proven right. The reforms kickstarted Sweden's industrialization. From 1870 to 1913, Sweden's GDP per capita increased by 2 percent annually, 50 percent faster than the rest of Western Europe. And during this period, public spending did not surpass a tenth of GDP. Then Sweden sat out two world wars, while keeping markets open and taxes low and expanding the size of the government more cautiously than others.

The Social Democrats quickly became a pragmatic party after they came to power in 1932, and some Social Democrats were in fact more consistent free-marketeers and

free-traders than many on the right. The party knew that large, multinational companies brought in the goods, so they provided very hospitable conditions and generous deductions for capital costs. Swedish socialists let the market stay free to create wealth and settled for redistributing part of that result—but not so much as to threaten wealth creation.

More than other countries, Sweden held on to free trade, and international competition made sure that businesses kept restructuring and innovating. The trade unions allowed old sectors such as farming, shipping, and textiles to go gently into that good night, so long as new industries were born to replace them.

A century after Gripenstedt's resignation, his widely mocked hopes for Sweden had been fulfilled. It was now one of the freest and richest countries in the world.

It also happened to be the perfect place to experiment with socialism.

THE SOCIALIST EXPERIMENT

Gunnar and Alva Myrdal, the two leading Swedish Social Democratic thinkers of the 20th century, thought that Scandinavian countries were uniquely suited for a generous welfare state. They were wealthy countries with competitive businesses that could fund it all. They also had homogenous populations with a strong work ethic, noncorrupt civil services, and a high degree of trust. If it did not work there, it would be difficult to believe it could work anywhere.

Slowly but steadily, the Social Democrats intervened in education and health care and created social security systems that provided pensions, unemployment, paternal leave, and sick leave benefits. Most benefits were proportional to the amount paid in so that the middle class would have an interest in supporting the system.

But soon, with coffers filled and riding on an international socialist wave, the Social Democrats accelerated their takeover of

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business and civil society. Between 1960 and 1980, public spending more than doubled, from 31 to 60 percent of GDP, and taxes skyrocketed. The government started regulating businesses and the labor market in detail. The Social Democrats even began experimenting with a system to socialize major companies, “the wage earners’ fund.”

This is the version of the Swedish model that came to the world’s attention, and the version that Bernie Sanders remembers. At the precise moment that socialism attained its highest international prestige, here was a small, democratic country that seemingly proved that socialism and wealth could be combined.

But it was like taking a snapshot of Elvis Presley at the same time and concluding that the way to become the king of rock ’n’ roll was to eat banana and bacon sandwiches with prescription drugs. The way Sweden behaved when it reached the top was the opposite of what had got it there.

PALME’S HELL

This was a moment of Swedish glory only in American and European newspaper reports. In reality, it was Sweden’s *Atlas Shrugged* moment. Talent and capital stormed out of Sweden to escape taxes and red tape. Swedish businesses moved headquarters and investments to more hospitable places. IKEA left for the Netherlands and Tetra Pak for Switzerland. Björn Borg and other sports stars fled to Monaco. The famous novelist Vilhelm Moberg, who had settled in Switzerland, complained that the Swedish government was a “monster without morality or sense of poetry.” The legendary filmmaker Ingmar Bergman left for Germany after having been falsely accused of tax evasion.

“This is hell,” Prime Minister Olof Palme said behind closed doors, referring to the wage earners’ fund that he couldn’t even get himself to believe in. The Swedish economy, which had gotten used to outpacing all the

other industrialized economies, now started lagging behind them significantly. In 1970, Sweden was 10 percent richer than the G7-group of wealthy countries on a per capita basis. In 1995, it was more than 10 percent poorer. During that period, not a single net job was created in Sweden’s private sector.

The bottom line is that socialist policies didn’t even work in Sweden, despite Gunnar and Alva Myrdal’s hopes. Massive government intervention had undermined not only productivity and innovation but also the very foundations that made Sweden look like the best place to experiment with it. The celebrated work ethic remained intact for those who had grown up under a system of free markets and personal responsibility, but it was eroded in new generations who had only experienced high taxes when they worked and generous benefits when they didn’t. The people were turning into “a population of cheats,” exclaimed a disappointed Gunnar Myrdal.

The share of Swedes who said it is acceptable to lie to obtain public benefits increased from 5 percent in 1960 to 43 percent in 2000. After generous sick leave benefits were implemented, Swedes who were objectively healthier than any other population on the planet were suddenly “off sick” from work more than any other population—suspiciously often male workers during hunting season and big, international sport events.

For a while, a debt- and inflation-fueled boom kept the economy crawling along. But when that ended in 1990, Sweden suffered a spectacular crash. Unemployment surged and the budget deficit soon reached 11 percent of GDP. For a few days in 1992, the

Central Bank tried to defend the Swedish currency with an interest rate of 500 percent.

THE COUNTER-COUNTER-REVOLUTION

By this time, one spectator had already concluded that Sweden’s experiment with semi-socialism was “unsustainable,” “absurd,” and “rotten and perverse.” This was not the view of an ideological opponent of the project but of someone who spoke from bitter experience: the Social Democratic Minister of Finance Kjell-Olof Feldt.

He concluded: “That whole thing with democratic socialism was absolutely impossible. It just didn’t work. There was no other way to go than market reform.” And this was the conclusion of people across the political spectrum. A center-right government under Prime Minister Carl Bildt from 1991 to 1994 implemented a radical reform agenda to get Sweden back to its classical model. But Social Democrats also embraced many reforms.

They reduced the size of the government by a third and implemented a surplus target in public finances. They reduced taxes and abolished them on wealth, property, gifts, and inheritance. State-owned companies were privatized, and markets in financial services, electricity, media, telecom, and others were liberalized. Sweden also joined the European Union to get tariff-free access to its most important markets. In Brussels, Sweden became a leading voice for fiscal restraint and deregulation.

Sweden implemented choice and competition in the public sector and created a school voucher system. And, to the disbelief of foreigners, Social Democrats and center-right parties agreed to end the pay-as-you-go system in social security and replace it with defined contributions and private accounts. Now pension payments are dependent on the development of the economy, not on politicians’ promises.

It was transformational. Between 1980 and 2000, Sweden improved by 2 points on the 10-point scale of the Economic Freedom of the World Index, compared to 0.5 for the Reaganite United States and 1.8 for Thatcherite Britain. Of course, Sweden started from a lower level, but it was still a fairly steep climb.

Since then, the Swedish economy has once again outpaced its neighbors. Even though the reforms were painful for many sectors and groups, they were a boon for the general public. Between 1970 and 1995, when the world thought of Sweden as a worker's paradise, inflation ate almost all their wage increases. Since 1995, on the contrary, real wages have increased 65 percent.

"The Social Democrats' success formula is socialist rhetoric but center-right policies," as Björn Rosengren, a Social Democratic minister of industry summarized.

Public spending and taxes are now down to normal West European levels. Social spending is 26 percent of GDP, compared to 29 percent in Belgium and 31 percent in France. But it is still much higher than in the United States. The Swedish government provides citizens health care, childcare, free colleges, and subsidized parental and medical leave.

TAXING THE WORKERS

The reason this has not been a larger drag on the economy is something that Swedes are not proud to admit. The tax system is not built to squeeze the rich—they are too few,

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and the 1970s showed that the economy is too dependent on them. Instead, Sweden squeezes the poor. They are loyal taxpayers, they can't afford tax attorneys, and they never move their assets to the Bahamas.

Nintey-seven percent of Swedish tax revenue from incomes comes from proportional payroll taxes and flat regional taxes, set at around a third of everybody's income. Just 3 percent of the total income tax revenue comes from "taxing the rich" specifically. The U.S. system is much more progressive. According to the latest Organisation for Economic Co-operation and Development comparison, the top 10 percent in the United States pay 45 percent of the income taxes. In Sweden, they pay less than 27 percent. If Sanders and Sen. Elizabeth Warren (D-NH) complain that the U.S. rich don't pay their "fair share," they would really hate the Swedish model.

In addition, more than a quarter of government income derives from taxes on consumption, in which the poor pay just as much as the rich for every item bought. This includes

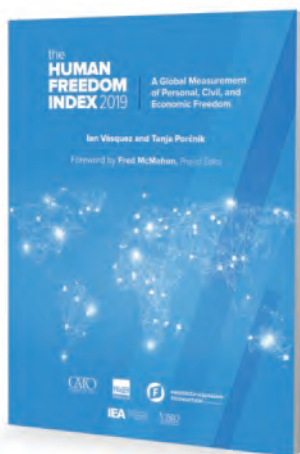
a 25 percent value-added tax on most goods.

Swedish socialists have learned a lesson that socialists in other countries have a very hard time understanding: You can have a big government, *or* you can make the rich pay for it all. You can't have both.

So that is the real story of the Swedish model. Laissez-faire economics turned a poor backwater into one of the richest countries on the planet. Then it experimented with socialism briefly in the 1970s and '80s. This made the country famous, but it almost destroyed it. And learning from this disaster, the left and the right have, in relative consensus, liberalized Sweden's economy more than other countries, even though it is still far from its classical liberal past.

Sweden's history is worth remembering when, as shown in a recent Pew poll, 42 percent of Americans express a positive view of socialism. In fact, 15 percent of self-described Republicans have a positive view of socialism. That's easy for them. They never experienced it. At the same time, another poll showed that no more than 9 percent of Swedes call themselves socialists. So, astonishingly, it seems like there are fewer socialists in Sweden than in the GOP.

One Swede who refuses to call himself a socialist is Göran Persson, the Social Democratic prime minister from 1996 to 2006. Why? Swedish television asked him at one point. "Oh," he replied, "you just become equated with so many crazies." ■



New from the Cato Institute

The fifth annual *Human Freedom Index* is the most comprehensive measure of freedom ever created for a large number of countries around the globe. The 2019 *Index* presents the state of human freedom in the world based on a broad measurement of personal, civil, and economic freedom that includes freedom of movement, women's freedoms, crime and violence, and legal discrimination against same-sex relationships.



READ AND DOWNLOAD THE *HUMAN FREEDOM INDEX* AT WWW.CATO.ORG/HFI

The Future of Space

In his book *The Case for Space: How the Revolution in Spaceflight Opens Up a Future of Limitless Possibility*, **Robert Zubrin**, founder and president of the Mars Society, tells the amazing true story of a new generation of entrepreneurial endeavors in space, such as SpaceX and Blue Origin. He also lays out some bold predictions for the future. At a Cato book forum in October, Zubrin outlined that vision. **Berin Szóka**, president of TechFreedom, shares the enthusiasm for spaceflight but offered a dose of Hayekian humility about our ability to predict economic outcomes.

ROBERT ZUBRIN: This photo is something that many of you may have seen online. This is February 2018, the launch and landing of the Falcon Heavy by Elon Musk's SpaceX. Now, anyone who saw this no doubt thought it was cool, but if you don't know the background to this, you don't know how cool this really was. Because in 2010, President Obama put together a blue-ribbon committee headed up by my old boss Norm Augustine, the CEO of Lockheed Martin, to evaluate whether George W. Bush's moon initiative was possible within acceptable cost limits. They concluded that it was not. According to them, development of a heavy lift vehicle would take at least 12 years and cost at least, wait for it, \$36 billion. Now Musk has done it in six years at a cost of less than \$1 billion, and to cap it all, the thing is three-quarters reusable. So this launch was a shot heard round the world.

What Musk did has was not merely introduced a very desirable aerospace system but also proven a principle: that it is possible for a well-led entrepreneurial team to do things in a third the time of the federal government at less than a tenth the cost—things that previously it was thought only the governments of major powers could do. And not only that, but the private sector can do things that governments could not do at all despite 60 years of trying. And with that, SpaceX has set off an international



space race. You have Jeff Bezos's Blue Origin, Richard Branson's Virgin Galactic, and even companies not led by billionaires using their discretionary cash in order to become immortal through historic achievement. Companies started by working engineers, people with no more means than most middle-class people but who managed to get investment.

One incredible example is Rocket Lab, a New Zealand company founded by a working engineer, that mobilized \$300 million in investment. They have reached orbit with a launch from New Zealand. This is not science fiction, folks. This is real stuff, and it's really happening. New Zealand has no space program, but they've achieved this through the initiative of private citizens and investors. And since this race has been unleashed, it has shown that it is going to be self-driving. First of all, Musk himself, with his breakthroughs in reusability, has reduced the cost of space launch by a factor

of five. The cost of space launch went down a lot from Sputnik through the Apollo landing as we became competent in the various space-flight technology and pretty much developed the whole bag of tricks during that 12 years of the initial space race.

That was done by governments in the early era. They got the job done, and they reduced the price of space launch from millions of dollars a kilogram to \$10,000 a kilogram. But there it stayed for 40 years until 2009. Between 2009 and 2019, as SpaceX has entered the field, it's fallen from \$10,000 a kilogram to \$2,000 a kilogram. And Musk is trying to make even that price point obsolete. He's working on a new propulsion system, a launch system called Starship, which will be fully reusable and will knock down the cost of space launch by another factor of three. So, we're headed toward \$700 a kilogram or even \$500 a kilogram. And the cheaper launch is, the more launches there are going to be. That's elementary economics. It's cheaper, more people will do it.

Last year, there were about a hundred satellite launches in the whole world. SpaceX got 24 of them. They got a quarter of the lot. This is one relatively small launch company compared to its competitors like United Launch Alliance, the joint operation of Boeing and Lockheed Martin. They did a quarter of the total number of launches worldwide in 2018 and, really, the majority of the world market that was open for bids. Most of the rest of those were China or Russia or other governments, so you couldn't compete for it at all. Now, because of the lowering of launch costs, I think very quickly we're going to see 200 or 300 satellite launches a year. That in turn will contribute to further lowering of launch costs, as the cost of launch is spread out over more launches. But also, it will contribute to the lowering of spacecraft costs, because they

will be being produced in more numbers. Furthermore, the designers of spacecraft will be less conservative.

For the past half century, the prevailing wisdom among spacecraft designers is don't use anything that hasn't been used before; because the launch is so expensive, you don't want to risk your whole spacecraft for a 20 percent improvement in some system. So it became like the person who won't see any movies he hasn't seen before. That's not the way to get a broad education, is it? That's where spacecraft development has been stuck since the moon landings.

But now there is another revolution that has been going on, really driven by technological developments outside the space community. That's spacecraft miniaturization. We're now seeing micro-spacecraft, 10-kilogram spacecraft, that can do things that previously it took a 1,000-kilogram spacecraft to do. They're much smaller and lighter and therefore much cheaper to launch. They're also cheaper to build. These are million-dollar spacecraft instead of hundreds of millions of dollars. And that's another innovation which will facilitate the opening of space.

That's just what we've seen so far, in the past 10 years or so. I do believe, though, that if we're going to make space travel comparable to air travel, it will still have to get much cheaper. Air travel from here to Los Angeles is maybe \$5 a kilogram, not \$500 a kilogram. How do we get there? You can't do it with 300 satellite launches a year or something like that. But reusable launch vehicles open up a new market altogether, which is surface-to-surface flight on Earth. For the past 3,000 years, people have made money on the ocean. Some have made money actually taking wealth from the ocean, for instance, by fishing or mining. But far more wealth has been developed on the ocean by using the ocean as a global low-drag medium for commerce.

The ocean connects ports across the world with less drag than is available on

land. And that's where the serious money in maritime activity has been. Well, space is a zero-drag medium connecting every point on Earth to every point on Earth to every other place on Earth in less than an hour if you go through space. Of course, this is unthinkable with expendable vehicles, but it



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becomes rational, or at least conceivable, with reusable vehicles. I've run the numbers.

Now, we won't see this everywhere to everywhere. It probably is going to have to be from ports, so you can launch offshore and land offshore and not have all the noise and rockets in the city. But the Starship, if it was used as a transport of this kind, could probably be feasible with a ticket price Los Angeles to Sydney of around \$20,000.

To be sure, that is more than I've ever paid for an airplane ticket! But that is the price of a first-class ticket from Los Angeles to Sydney right now. And all those people

get is a tablecloth, a free drink, and a reclining bed. Whereas with this, you're getting there in less than an hour instead of 15 hours, and you're getting half an hour of zero gravity and the stars of space out your window. And now instead of hundreds of flights per year, we're talking about the possibility of hundreds of flights every day.

If you get a bigger market like this, then you can start making spacecraft components at costs comparable to other things. A rocket engine is less complex than your car, but your car costs \$20,000 or something like that. A rocket engine, you're not going to get one for less than millions. Why? Because one is a mass production item and the other isn't. But if you start producing rocket engines, not in ones or twos, but in thousands, tens of thousands, then they become cheaper. Same thing for all the other flight systems, and this will open up the way for orbital commerce—things like orbital research labs, even orbital manufacturing. These were demonstrated in principle on the International Space Station but could not even remotely be commercial because of the tremendous costs of the space shuttle and also the bureaucracy of the space station. But now, if you're talking about cutting the cost of access to orbit by an order of magnitude, and furthermore that means that there'll be private space stations, which won't put up four years of red tape before you can fly to your experiment on it and so forth, you're going to start seeing that kind of stuff. That's the future we have to look forward to because we've finally unleashed markets and entrepreneurship in space.

BERIN SZÓKA: It's really an honor to be here. Dr. Zubrin's book *The Case for Mars* inspired me in a very profound way when I read it in 2004. If you can remember that moment, Burt Rutan had just won the X Prize for becoming the first person to send a reusable vehicle with a person in it into space twice in two weeks. And that was a real moment—it felt like a second Sputnik.

I was a young law clerk at that point. I had just graduated law school, and I read a lot of books, but the one that moved me most was *The Case for Mars*. It inspired me. A lot of that book is really about the power of ideas to inspire people. I think you'll get that when you read this new book, *The Case for Space*, which I would highly recommend that you do. But what I would tell you from that experience, from getting so inspired by Dr. Zubrin's previous book, is that what was happening at that point back in 2004 is really two distinct things.

Prophecy is one thing, but timing's quite another. So, my advice to all of you who are interested in this field is probably you shouldn't quit your day jobs. You probably shouldn't try to do what I tried to do, which was that I decided to build my legal career in space law and start an institute for space law and policy. ISLAP is the cleverest think tank name you've never heard of because, well, it didn't get off the ground. It turned out there really wasn't a market for that. I have done some space law work over the last 15 years, but it's been very, very slow going. And that's really the nature of this field. Dr. Zubrin may be right about everything he says, but I don't think anybody in this room, including him, can predict how long any of these things will take.

When he says, for instance, in one of the most inspiring passages of the book, that, "All of this can soon become attainable. A new force is broken loose, a new tree is growing. We have only to water it, foster it, clear its way upward and make sure that no one does anything to kill it"—in some sense, I think that's true and I find that vision very compelling. I do consider him a prophet, but I quibble with the word "soon." We really have no idea how long that's going to take, and more importantly, we really don't know what it's going to look like. He describes a number of things that could be plausible scenarios, that could be plausible business models, and those things could happen. But if I have learned one thing

about technology policy over the last 15 years of working in the field, it's the point that—appropriately enough here in the F. A. Hayek Auditorium—the most fundamental thing for us to understand is just how little we can imagine about the future.

The future really is an unknowable place, and there will be an infinite number of



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Future viability
is fundamentally
unknowable.
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challenges to overcome. We don't know how long it will take people to do those things, and most critically, we don't which things will actually make money. Because at the end of the day, there are grand institutional forces at work here. Governments will do what they're going to do. There are real national security issues at stake, and the national security of the United States is going to drive this country to invest in certain things, and that's going to play an important role in what the settlement of the space frontier looks like. But at the end of the day, the promise that he describes, you can think of that as macroeconomics. Yes, there's a new

world that you can see from Spain in 1492, and there are all sorts of prophecies you could make about how that new world will be colonized or opened up or what that will look like, but nobody could possibly have imagined what it actually looked like because there really wasn't any one master plan.

It was a countless endless array of plans and endless iterations. And Dr. Zubrin knows that, to be sure. I'm not saying that he's trying to design a single top-down technocratic future. But he is an engineer, and that mentality is hard to break, and it pops up throughout the book. He's got particular plans that he's particularly excited about, and I hope that they come true, but I don't think that we're going to get to space in any sort of clear path. I don't think there is any bridge from here to there. There's not a single there. The settlement of the space frontier—fundamentally at its best, it really ought to be about excitement, yes, and about what the future could look like, but at the same time, we need a kind of humility. We have to recognize that Julian Simon was right: the ultimate resource really is human ingenuity, and the resources of space are really only there for what we make of them.

We'll see what happens with them. I just caution everyone in reading the book and thinking about this not to fall prey to the particular obsession that people have with one way of doing something—the idea that Mars is our future and it's the terraforming of Mars that's going to happen. Because it creates a kind of confirmation bias. If you start from that premise, you end up reasoning backwards, and this comes across pretty clearly in certain parts of the book.

But the question of what is the business model, what are the economics that will actually make that sustainable, is fundamentally impossible to answer from our perspective today. You can't simply say, well, people will figure things out and that will drive innovation and that will support the business model. That may be true over the course of hundreds of years. But what will

actually sustain development step by step, quarter by quarter, as companies have to justify the decisions they're making, is marginal cost and marginal revenue. It's the same economics that has driven our economy today and will always drive our economy. People have to make their businesses viable, and the challenges in doing that are really quite considerable.

I'm a lawyer. I'm not an engineer. I don't have a degree in nuclear physics. I suspect no one else here does besides Dr. Zubrin, so I'm not going to get into the kinds of debates with him that you would hear at a space conference where people who are actually engineers or actually physicists would say, "Well, you might underestimate how serious the proper radiation is to deal with, or the effects of microgravity." I'll just talk about a few things that I know something about. I've talked a little bit about economics. It's a big part of what I do. The internet revolution is, I think, an important contrast to this, right? The internet revolution is in many ways very similar. It is about settling the electronic frontier. That's why we have the Electronic Frontier Foundation. That's why people think about cyberspace as a vast uncharted territory. But the single most important lesson to draw from that is that nobody could have imagined what the internet of today looks like from back in 1995 or 2000 or 2005, or even 2010 or 2015. It is constantly changing, and if I got up here today and told you the future is X, Y, and Z and artificial intelligence is going to do the following, I would of course be proven wrong, right?

Now, there are some constants Dr. Zubrin can describe, and he does that very usefully. There are some important factors that really are just matters of physics, and they do lend themselves to certain kinds of launch architecture. For those reasons, this book is incredibly worth reading. It's important to understand those things about the future, what it takes to get outside the Earth's gravity, why the moon is an easier

base of operations than the Earth is, and the like. All those things are essentially based on constants of physics. Those are things that an engineer is eminently qualified to talk about. But when it comes to making predictions about what will actually close business cases, I'm not qualified to do that. He's not qualified to do that. We can do it notionally. It's useful to think about those things, but don't confuse those for predictions of what the future's really

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People are
being inspired
today.
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going to look like step by step. It's inherently going to be messier than that.

And, so, then we come to my area of expertise. I'm a policy wonk; I'm a lawyer. I deal with what Congress does and how law works every day. And when I read a book like this, I inevitably see that when an author attempts to bring things down to today and to what this audience can do, the audience is encouraged. The readers are encouraged to do things like supporting private space companies. Because they are going to face a lot of obstacles, and he's absolutely right. It's really important and valuable for someone to tell a story as compelling as his. Where prophecy plays an important role is in inspiring people—inspiring people to go into careers. As the book points out, the number of people who got degrees in hard sciences went through the roof after the Apollo project.

People like me were inspired by the success of Burt Rutan in 2004. People are being inspired today, and it's similarly important to inspire people to make their voices heard in our democratic process to defend companies that are facing regulatory obstacles. That's all very useful. But then it comes to

the actual policy issues, and what exactly is it that we can do as policy matter? Now, once again, I agree with Dr. Zubrin about his suggestions for the most part. He's absolutely right that the way that the government buys services today, on a cost-plus basis, completely skews the way that procurement works. It skews the nature of the space economy. Changing that would make a big difference. It's not the silver bullet that's somehow going to radically instantly change the market, but it will make a difference—an important difference on the margin. But that alone is not going to make private-sector businesses viable.

NASA was designed to create jobs spread across as many congressional districts as possible. This is just a political reality. We could want it to change, but that's not going to make it change overnight. So, while government can play a role here in being helpful, I think it's a mistake to expect too much from government. Similarly, NASA having a better plan for how to get to the moon would make a difference. But fundamentally, my concern is what we might get is a repeat of the Apollo program, where we ultimately go and have what we in the space world call “flags and footprints.” We get excitement out of that and that has some value. But what really matters is jump-starting a sustainable private-sector presence where people can make money on a regular basis. And he does describe some scenarios where that could happen, but some of those scenarios really involve some pretty significant assumptions about what might happen in the future. I think there are significantly more difficult problems than the problems that SpaceX faced in trying to lower launch costs. So to say that this is all going to happen once certain technology is developed on Earth and it's somehow going to just spark a revolution that settles the space frontier, I think that underestimates how difficult these problems are and how long it is going to take to solve them. ■

A new look at a very old foreign policy

The High Cost of the Atlantic Alliance

Donald Trump's presidency has triggered a growing debate on both sides of the Atlantic about the future of the North Atlantic Treaty Organization (NATO) and U.S. policy regarding the alliance. In *NATO: The Dangerous Dinosaur*, Ted Galen Carpenter, senior fellow for defense and foreign policy studies at the Cato Institute, outlines how NATO in its current form has outlived its purpose and how burden sharing is only part of the problem. As he explains, continuing to expand NATO eastward, encroaching on Russia, will only endanger the alliance.

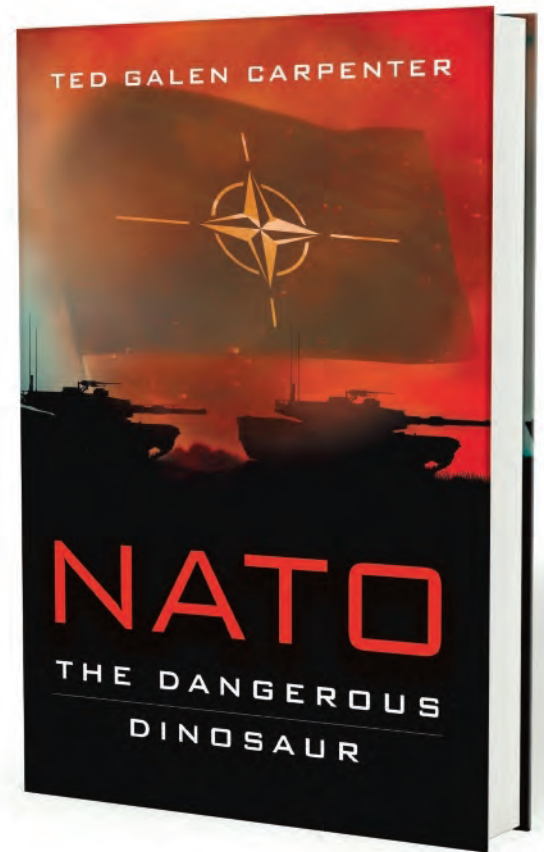
Since the fall of the Berlin Wall, NATO has struggled to find its purpose. No longer faced with the existential threat of the Warsaw Pact led by the Soviet Union, the military alliance seemed for a time as if it might fade away peacefully after having served its purpose.

Instead, a fateful decision was made to expand the alliance into eastern Europe. While Donald Trump complains about members' failure to comply with burden sharing—NATO's policy to encourage greater defense spending by European members—the real insecurity, according to Carpenter, has been caused by this eastern expansion. The reality is that post-Soviet Russia represents a fraction of the threat that the Soviet empire once did and that NATO's expansion has become provocative and played no small role in the aggressive response of Russian President Vladimir Putin.

In addition to this needless confrontation caused by expanding NATO right up to Russia's borders, Carpenter points out that U.S. paternalism stifles independent European security capabilities. This is not just a matter of wanting increased European defense spending but rather a crucial lack of policy independence and flexibility for Europe.

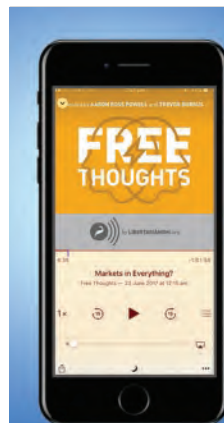
From the wars in the former Yugoslavia to the intervention in Libya, European security needs are often dependent on, and thus subordinated to, American interests. Sometimes it isn't just a matter of European reluctance to have an independent security policy. At times the entanglement is brutally practical, with European militaries lacking crucial infrastructure and support capabilities that have been assigned to America. Other times, this leaves the Europeans unable to mount independent operations if they wanted to, even in their own backyard.

What's the alternative? The broad alignment of interests between Europe and the United States is not going away. As the world's leading liberal democracies, bound by a shared culture and history, Europe and America have common interests deeper than any formal treaty or alliance. But the relationship needs the flexibility that comes with genuine independence on both sides of the Atlantic. Both Europe and America can and should have independent capabilities and policies for securing their own defense needs. When the occasion calls



for working together, they will still be able to do so. But both sides of the transatlantic partnership would be better served by lessening their entanglement and increasing their capability to act independently. ■

NATO: THE DANGEROUS DINOSAUR IS AVAILABLE AT BOOKSELLERS AND ONLINE RETAILERS NATIONWIDE.



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Christopher Preble, vice president for defense and foreign policy studies, **John Glaser**, director of foreign policy studies, and **Trevor Thrall**, senior fellow, listen to comments by **Heather Hurlburt**, former director of the National Security Network, regarding their book, *Fuel to the Fire: How Trump Made America's Broken Foreign Policy Even Worse (and How We Can Recover)*.



Jeff Vanderslice, director of government and external affairs, moderates a Capitol Hill briefing with **Jeffrey A. Singer**, senior fellow, and **David A. Hyman**, adjunct scholar, on the role of naloxone in saving lives from opioid overdoses.



Daron Acemoglu speaks at a forum in October about his book *The Narrow Corridor: States, Societies, and the Fate of Liberty*, moderated by **Ian Vásquez** (left) and with commentary from **John Nye** (right) of George Mason University.



Marianne Jennings, professor of legal and ethical studies at Arizona State University, and **Irvin McCullough**, national security analyst at Government Accountability Project, comment at a book forum for *Crisis of Conscience: Whistleblowing in an Age of Fraud* by investigative reporter Tom Mueller.

Cato Calendar

POLICY PERSPECTIVES 2020

Naples, FL
Ritz Carlton Naples Beach Resort
February 19, 2020

Speakers include Daniel Hannan, David Boaz, and Phil Gramm.

POLICY PERSPECTIVES 2020

Vero Beach, FL
Quail Valley River Club
February 27, 2020

Speakers include David Boaz and Ilya Shapiro.

POLICY PERSPECTIVES 2020

Fort Lauderdale, FL
Conrad Fort Lauderdale Beach
February 28, 2020

Speakers include Ilya Shapiro and David Boaz.

RETURN OF THE GATEKEEPERS: SECTION 230 AND THE FUTURE OF ONLINE SPEECH

Washington • Cato Institute
March 10, 2020

Speakers include Ron Wyden, Kate Klonick, Flemming Rose, and Cathy Gellis.

CRISIS: HOUSING AND HOMELESSNESS IN CALIFORNIA

San Francisco • Grand Hyatt
April 17, 2020

Speakers include Lee Ohanian, Micah Weinberg, and Kevin Faulconer.

NEW CHALLENGES TO THE FREE ECONOMY

Washington • Cato Institute
May 7, 2020

Speakers include Hal Varian, Betsey Stevenson, Jason Furman, Jeffrey Miron, Casey Mulligan, Adam Posen, and Edward Glaeser.

MILTON FRIEDMAN PRIZE PRESENTATION DINNER

New York • Cipriani 42nd St.
May 20, 2020

32ND ANNUAL BENEFACTOR SUMMIT

New York City • May 21, 2020

Speakers include Deirdre McCloskey, Tom Hazlett, and Peter Goettler.

19TH ANNUAL CONSTITUTION DAY

Washington • Cato Institute
September 17, 2020

CATO CLUB 200 RETREAT

Bluffton, SC
Montage Palmetto Bluff
October 1–4, 2020

33RD ANNUAL BENEFACTOR SUMMIT

Carlsbad, CA
Park Hyatt Aviara Resort
February 18–21, 2021

OCTOBER 2: Saving Lives from Opioid Overdoses: Naloxone Policy Discussion and Training

OCTOBER 2: *Crisis of Conscience: Whistle-blowing in an Age of Fraud*

OCTOBER 3: Patients, Privacy, and PDMPs: Exploring the Impact of Prescription Drug Monitoring Programs

OCTOBER 14: The Search for Meaning in the Age of Abundance

OCTOBER 15: *The Rediscovery of Tobacco: Smoking, Vaping, and the Creative Destruction of the Cigarette*

OCTOBER 16: *The Utopian Conceit and the War on Freedom*

OCTOBER 18: *NATO: The Dangerous Dinosaur*

OCTOBER 21: *Fuel to the Fire: How Trump Made America's Broken Foreign Policy Even Worse (and How We Can Recover)*

OCTOBER 23: *The Case for Space: How the Revolution in Spaceflight Opens Up a Future of Limitless Possibility*

OCTOBER 25: Cato Institute Policy Perspectives 2019—New York City

OCTOBER 25: Spending Federal Transportation Dollars Effectively: A Review of BUILD and New Starts

OCTOBER 25: *The Narrow Corridor: States, Societies, and the Fate of Liberty*

NOVEMBER 4: *Open Borders: The Science and Ethics of Immigration*

NOVEMBER 8: Cato Institute Policy Perspectives 2019—Chicago

NOVEMBER 13: *Created Equal: Clarence Thomas in His Own Words*

NOVEMBER 14: 37th Annual Monetary Conference—Fed Policy: A Shadow Review

NOVEMBER 15: Liberalism, Authoritarianism, and Good and Bad Transitions

NOVEMBER 18: Exploring Income and Wealth Inequality

NOVEMBER 21: *Repugnant Laws: Judicial Review of Acts of Congress from the Founding to the Present*

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The dubious rationale behind a failed protectionist law

Jones Act, National Security Failure

Since its inception, supporters of the Jones Act have claimed that the law is essential to U.S. national security. This protectionist law—formally, the Merchant Marine Act of 1920—requires all ships engaged in trade from one U.S. port to another to be U.S.-built, U.S.-crewed, and U.S.-flagged. This exclusion of foreign vessels and crews is intended to promote the development of

Security,” Cato Institute Policy Analysis no. 882, Grabow contrasts the Jones Act’s stated objectives with its observable results. Far from protecting America’s merchant marine for potential military use, the Jones Act has instead presided over a deep decline in both shipbuilding and the merchant fleet.

Economists who have studied the Jones Act are nearly unanimous that it diminishes American prosperity. One recent analysis

On Capitol Hill in particular, it is this article of faith that has proven the biggest obstacle to Jones Act reform.

One drastic example came in 1990 with the massive buildup of American forces in Saudi Arabia, exactly the sort of scenario for which the Jones Act is ostensibly intended. Instead, a mere eight Jones Act-eligible ships were available for this sealift. Of those eight, only five entered the Persian Gulf, and only a single dilapidated roll-on/roll-off carrier actually transported equipment from the United States to Saudi Arabia. Meanwhile, the United States found itself dependent on no fewer than 177 foreign-flagged vessels to transport the needed equipment and supplies. Incredibly, the United States even requested the use of Soviet-flagged cargo ships, but the request was denied.

Things fared no better on the manpower front, with such a dearth of American merchant mariners available that the government found itself using both teenagers and retirees, including one 92-year-old. Since 1990, the situation has only gotten more dire. Today, a mere four shipyards in the United States are in the business of constructing large oceangoing commercial ships.

The Jones Act not only imposes immense economic costs on the United States, but it also fails to achieve any of its stated rationales. That’s why Cato has taken the lead on Jones Act reform, including offering alternatives to better provide for national security needs. Grabow concludes that the establishment of a civilian Merchant Marine Reserve, which has been considered in the past, would be a far more effective option than the destructive protectionism of the Jones Act. ■

“RUST BUCKETS,” ALONG WITH OTHER STUDIES PUBLISHED AS PART OF THE PROJECT ON JONES ACT REFORM, CAN BE FOUND AT CATO.ORG.



both a U.S. merchant marine as well as a domestic shipbuilding industry that the military can rely on in times of war.

This national security rationale seems facially plausible but withers upon closer scrutiny. That is the conclusion of a new policy analysis by Colin Grabow, policy analyst at the Cato Institute’s Herbert A. Stiefel Center for Trade Policy Studies, as part of Cato’s Project on Jones Act Reform.

In “Rust Buckets: How the Jones Act Undermines U.S. Shipbuilding and National

published by the Organisation for Economic Co-operation and Development estimates that the law’s repeal would increase economic output by up to \$135 billion. But supporters retort that the law’s seemingly indefensible costs are justified by its contribution to national security.

As Grabow explains, “claims that the Jones Act is a national security asset have generally gone unchallenged and, as a result, this justification is more an article of faith than the result of rigorous analysis.”

Is panic over wealth inequality missing the mark?

Some Measures Are More Equal Than Others

Is wealth inequality the crisis that some people believe? It's hard to avoid the issue in modern politics, with many complaining about a shift of wealth to the top at everyone else's expense. But is that really happening?

Those are the questions Chris Edwards, director of tax policy studies, and Ryan Bourne, R. Evan Scharf chair for the public understanding of economics, set out to answer in "Exploring Wealth Inequality," Cato Institute Policy Analysis no. 881. Edwards and Bourne examine six aspects of the wealth inequality debate and review the evidence.

First, they find that while wealth inequality has risen somewhat, the scale of the increase is often vastly overstated. In fact, wealth inequality has changed surprisingly little even as large economic changes have reshaped the world in recent decades. They also note that most estimates overstate wealth inequality because they do not account for the transfer effects of social programs.

Second, wealth inequality measures do not necessarily tell us anything about levels of poverty or prosperity. This makes them a poor guide for policymaking. Simply put, the mere fact that some are getting richer does not mean they are making others poorer in the process. Reducing inequality is a dubious goal when compared with actually alleviating poverty and increasing prosperity.

Third, what about destructive cronyism? For libertarians and advocates of free markets, this is a serious concern. A wealthy class that enriches itself off rent-seeking and destructive government policies is a serious problem. But luckily, this is mostly not the case today. In their paper, Edwards and Bourne show how most of today's wealthy are businesspeople who built their fortunes

by contributing to economic growth, not through government. In addition, the share of the wealthy who inherited their fortunes has sharply declined in recent decades, contrary to the usual narrative about a permanently entrenched class of heirs.

households, government programs for retirement, health care, and other benefits have reduced savings and thus wealth accumulation among the nonwealthy. Social Security in particular is notorious for its catastrophic effect on intergenerational



Scott Winship, executive director of the Joint Economic Committee, comments at a Capitol Hill briefing in November on "Exploring Wealth Inequality," with study author **Chris Edwards** (left) and Cato's director of government and external affairs **Jeff Vanderslice** (center).

Fourth, Edwards and Bourne conclude that it's not to say that cronyism isn't a problem. They find that although not representing the majority of the ultrawealthy, cronyism has likely increased over time as government has grown. With more of the economy's wealth being funneled through government, opportunities for mischief increase accordingly.

Fifth, this analysis looks to the effects of the welfare state. Many see this as the solution to wealth inequality, but the actual results are counterintuitive. In addition to the substantial share of these programs that go to middle- and upper-income

wealth accumulation.

Finally, what about democracy? Don't the rich buy control of the government and tilt public policy in their favor? Sometimes this happens, but the overall effect is again overstated. The reality is that political views among the wealthy are not homogenous, so the net effect of their influence is marginal. In fact, there is no strong evidence that the wealthy have an outsized ability to get their goals enacted in Washington. ■

"EXPLORING WEALTH INEQUALITY," ALONG WITH OTHER CATO STUDIES ON INEQUALITY, CAN BE FOUND AT CATO.ORG.

Dictatorship in the 21st Century

In the 20th century, brutal rulers terrorized their citizens, killed or imprisoned thousands, and deliberately publicized their brutality to deter opposition. But in recent years, a less bloody form of authoritarianism has been spreading. So explain Sergei M. Guriev and Daniel Treisman in “**Information Autocrats**” (Cato Institute Research Brief in Economic Policy no. 183). In this new era of dictatorship, illiberal leaders have managed to concentrate power without resorting to mass murder. The key to such regimes, instead, is the manipulation of information. Through manipulation of information, such regimes can more closely mimic democracy while still ruthlessly entrenching themselves in power.

ANTI-TRUST?

Economists have developed a vast empirical literature on how cultural traits like generalized trust in other people affect economic output. For many, this distinction between “high trust” and “low trust” societies may even be the defining difference between liberalism and authoritarianism, and eroding levels of social trust in the West have sparked alarms. Alex Nowrasteh and Andrew C. Forrester challenge that narrative in “**Trust Doesn’t Explain Regional U.S. Economic Development and Five Other Theoretical and Empirical Problems with the Trust Literature**” (Cato Institute Working Paper no. 57). As they explain, the alleged correlation between trust and economic output does not hold up when examined on the regional level within the United States.

ENERGY COSTS

Are consumers sensitive to energy costs when buying appliances? Conventional wisdom says no, that this so-called shrouded cost requires government intervention

to make it apparent through labels and mandates. In “**Are Consumers Attentive to Local Energy Costs? Evidence from the Appliance Market**” (Cato Institute Research Brief in Economic Policy no. 184), Sébastien Houde and Erica Myers find otherwise. They show that the evidence strongly contradicts the idea that consumers are unresponsive to appliance operating costs when making purchasing decisions.

PRODUCTIVE FORMS

One crucial question for any business is its choice of legal form—that is, how to incorporate and whether to subject itself to corporate income taxes or whether to become a pass-through whose income and losses flow to shareholders and are taxed as individual income. In “**Incorporation and Productivity**” (Cato Institute Research Brief in Economic Policy no. 187), Robert J. Barro and Brian Wheaton consider whether there are productivity advantages to one or the other. They find that the gap between the two types of incorporation has been falling, as the differential tax treatment has lessened in effect over recent decades.



BARRO

DISCRIMINATORY SHARING

Discrimination has become an important issue in the recent development of sharing-economy marketplaces. Previous studies raise serious concerns over racial discrimination on Airbnb, showing that guests with African American-sounding names are 16 percent less likely to be accommodated relative to guests with white-sounding names. In “**Reducing Discrimination in the Sharing Economy with Reviews: Evidence from Field Experiments on Airbnb**”

(Cato Institute Research Brief in Economic Policy no. 188), Ruomeng Cui, Jun Li, and Dennis J. Zhang conduct a series of experiments aimed at finding ways to improve marketplace design and reduce discrimination.

TRADEMARKS

As the U.S. economy shifts toward service- and technology-based industries, firm value is increasingly accounted for by intangible assets such as intellectual property (IP). But the positive incentives of IP protections must be weighed against the negative monopoly costs of such policies. In “**The Strategic Effects of Trademark Protection**” (Cato Institute Research Brief in Economic Policy no. 189), Davidson Heath and Christopher Mace consider the effects of the Federal Trademark

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Dilution Act of 1995, which was in effect until the Supreme Court struck it down in 2003. They find that this increase in trademark protections resulted in lower product quality and reduced innovation.

WORLD TRADE

Until recently, the World Trade Organization (WTO) dispute settlement process had been a remarkably quick and effective arbitration method for international trade disputes. Unfortunately, while it still compares admirably to other international dispute mechanisms, cases do take much longer to complete today than at the start of the WTO in 1995. That is the finding of James Bacchus and Simon Lester in



BACCHUS

“Trade Justice Delayed Is Trade Justice Denied: How to Make WTO Dispute Settlement Faster and More Effective” (Cato Institute Free Trade Bulletin no. 75), in which they propose a series of reforms to increase the pace.

VOTE WITH YOUR FEET

Do potential movers find legalized marijuana an attractive local amenity or something to stay away from? That’s the question asked by Diego Zambiasi and Steven Stillman in “The Pot Rush: Is Legalized Marijuana a Positive Local Amenity?” (Cato Institute Research Brief in Economic Policy no. 190). They find that the evidence is strong that states such as Colorado have been winning new residents in part because people prefer states with legalized marijuana over states that have not yet taken that step.

GIG ECONOMY

People prefer a stable and predictable path of consumption when transitioning from a period of high income to one of low income. This preference acts as motivation for government policies such as unemployment insurance and credit availability. But how does the availability of the gig economy, such as Uber, affect this? In “Gig Labor: Trading Safety Nets for Steering Wheels” (Cato Institute Research Brief in Economic Policy no. 191), Vyacheslav Fos, Naser Hamdi, Ankit Kalda, and Jordan Nickerson show that laid-off employees with access to Uber are less likely to rely on unemployment insurance and untapped credit. ■



FOS

WELCOME TO SPHERE



EMMA ASHFORD
RESEARCH FELLOW, THE CATO INSTITUTE

SPHERE

The Cato Institute and the Brookings Institution are proud to announce the launch of Sphere, an online series to discuss contentious public policy issues in a civil and engaging manner. This new series features debates on drug prohibition, U.S. foreign policy, and the Supreme Court among scholars with different viewpoints on these issues. The objective of Sphere is to create the gold standard for civil discussions on leading public policy issues—to lower the temperature, without abandoning our deeply held ideas and principles.

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“To Be Governed...”

PUT THEM IN CHARGE OF HEALTH CARE

A Bronx subway cleaner who was arrested last week while collecting his paycheck was shocked to discover he'd actually been fired years earlier, *The Post* has learned.

Ronald Berry, 47, claims he's been on sick leave since 2015 for high blood pressure and asthma, and has traveled to a city Transit office on Westchester Avenue and Bruckner Boulevard every two weeks to sign in and pick up his dough without a problem.

He collected roughly \$250,000 before someone at the MTA realized there was a problem and sounded the alarm. . . .

When a *Post* reporter told Berry he was dismissed way back in 2013, he countered, “So how am I still collecting checks? It's a fault on the MTA side.”

“If I'm terminated, how am I still collecting checks?” Berry said he asked a boss after his arrest.

“That's not my problem, that's payroll's problem,” the boss allegedly told him.

—*New York Post*, October 5, 2019

VOTE YOURSELF AN INCOME

There is a lot Izabela Godlewska does not like about Poland's ruling Law and Justice party. . . .

But there are upsides. “They give money away left and right,” she explained. . . .

But analysts say the wildly popular payouts have helped the party win support beyond its base and created a sense that people's monthly incomes are tied to the

ruling party's continuation in power. . . .

In a study of voting preferences ahead of the elections, [Slawomir] Sierakowski and University of Warsaw sociologist Przemyslaw Sadura found that social welfare was the main factor driving new voters to Law and Justice.

—*Washington Post*, October 13, 2019

TECHNICALLY THEY ALSO VOTED TO TAX THEIR NEIGHBORS

70% of our voters taxed themselves to provide [free college].

—Seattle Mayor Jenny Durkin on NPR, October 29, 2019

MOB RULE?

At the end of the day, the 1% is only 1%. We are 99% and that is exactly why we will win.

—Sen. Bernie Sanders (D-VT) on Twitter, November 8, 2019

DEMOCRACY IN ACTION

Mr. Ruckelshaus attended Princeton University, where he was a lackluster student. To discipline his inattentive son, his father, who was chairman of the local draft board, got his son drafted.

—*Washington Post*, November 27, 2019

BANKING ON WASHINGTON

Banks are using their long-established relationships on Capitol Hill and in regulatory agencies to undermine a relative newcomer struggling to get traction in

Washington: the tech industry. . . .

Small lenders have urged lawmakers to crack down on Facebook's plans to offer a new digital currency that would form the basis of a global payments network that could sidestep banks, aligning themselves with liberals like House Financial Services Chairwoman Maxine Waters.

When Japanese e-commerce company Rakuten sought approval to establish its own bank in the U.S., bank trade groups fired off a letter to the Federal Deposit Insurance Corp. saying Rakuten shouldn't be eligible for deposit insurance.

—*Politico*, October 30, 2019

BY FIRST TAKING EVERYBODY'S MONEY

I'm literally trying to give everybody money.

—Andrew Yang on Twitter, November 15, 2019

EVER SINCE I HUNG THAT SOVIET FLAG IN MY MAYORAL OFFICE

“The ideas that I am fighting for now didn't come to me yesterday,” [Sen. Bernie Sanders (D-VT)] said in response to a reporter's question. . . .

“Having a long record gives people the understanding that these ideas that I am talking about — they are in my guts. They are in my heart,” he said Friday. “This is who I am as a human being, and it ain't gonna change.”

—*Washington Post*, October 25, 2019