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ADVANCING LIBERTY FROM THE ECONOMY TO ECOLOGY
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The Financial Crisis and the Future of Freedom

BY JOHN ALLISON

The following is excerpted from Mr. Allison's keynote address at CEI's 25th Anniversary Gala.

If you look at the financial crisis and the challenges we have in our economy, there is no question: Government policy was the primary driver of the crisis. We do not live in a free market in the United States. We live in a mixed economy. The mix varies a lot. Technology might be 20 percent government, 80 percent free. Financial services is probably 70 percent government, 30 percent free—and that highly regulated industry was the source of the beginning of our problems.

Because of government policies, we were able to create a huge bubble in residential real estate markets that worked through the capital markets and ultimately worked through the economic system. It is true that a number of major financial institutions made some very bad decisions, and that certainly impacted that crisis. But those decisions were secondary. If you look at what happened in our economy, we invested $800 billion too much in residential real estate. We built too many houses. We built houses in the wrong place. We built houses too big. We should have been investing in technology and manufacturing capacity. We should have saved a lot more money.

How do you make an error of that magnitude? When you look at mistakes of that size, they almost always relate to government policy.

It began with the Federal Reserve. Alan Greenspan kept interest rates way too low in the early 2000s, which encouraged misinvestment in real estate. And then Ben Bernanke raised interest rates—the fastest percentage increase in U.S. history—and created what is called an inverted yield curve. An inverted yield curve had a more profound impact on the financial system than people realize. Banks borrow short and lend long. When short-term rates got higher than long-term rates, which Bernanke caused, it killed margins in the banking business. It encouraged financial institutions to take a lot of risk.

There are a lot of smart people at the Fed. However, smart people even with the best mathematical models cannot integrate all that is happening in a global economy with 6 billion people participating in it. Hayek talked about fatal conceit, and unfortunately that is one of the problems you have with the smart people at the Fed.

The FDIC played a big role, too, in really eliminating market discipline. We saw that in our business. A lot of startup banks

(continued on page 3)

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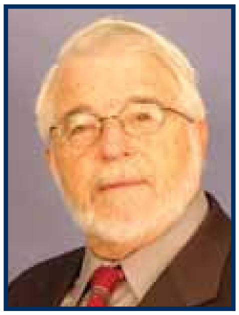

A Silver Anniversary of Advancing Liberty

By Fred Smith

The Competitive Enterprise Institute was founded in 1984, a date that also titled George Orwell's profoundly gloomy novel. Yet ironically, when CEI came into being, liberty was on an uptick. A few years prior, President Jimmy Carter had liberalized the nation's freight railroads. President Ronald Reagan in the United States and Prime Minister Margaret Thatcher in Great Britain pushed privatization and deregulation. Economic liberalization was in vogue and CEI sought to be a trendsetter.

We were optimistic but not naïve. We knew full well that those in power—bureaucrats, politicians, and lobbyists—had much invested in the status quo and would oppose reform. Thus, while we were pleased that members of the Reagan administration applauded our work to liberalize the financial and transportation sectors, we were not surprised when our efforts to reform the nation's outmoded antirust laws encountered opposition from Reagan's antitrust team.

> ***"Concentrated power should be feared—and nothing concentrates power like government."***

We sought to extend the institutions of liberty to environmental protection—to counter the rapidly expanding government intervention in that area. CEI's goal then and now was to increase awareness of the virtues of private conservation—the controversial idea that our environmental resources would be better protected by owners rather than politicians. Sam Kazman, our General Counsel, summarized the case: *Our planet would be much safer if more of it were someone's backyard, someone's pet!*

We championed biotechnology as a way of reducing environmental stress and feeding the hungry. Sam also led CEI in challenging the new corporate average fuel economy standards, known as CAFE, focusing on the safety risks of forcing Americans into smaller, less safe cars. Our challenge to CAFE led to our first litigation victory.

CEI has grown appreciably since 1984. Throughout, we have remained focused on the fundamental challenge: To build and rebuild the foundational ideas of liberty, to take old truths and to demonstrate their applicability to the modern world. We are engaged in an ongoing struggle to make the ideas of freedom politically viable.

That challenge is often best portrayed in civilization's mythic literature. My favorite mythic work is J.R.R. Tolkien's *Lord of the Rings* trilogy. In that saga, a ring can bestow unimaginable power upon its wearer. Like the hobbits entrusted to destroy the ring, our nation's Founders recognized that such unlimited power is too much for any one person to hold—that power must be dispersed, and reined in.

Today, that lesson has been largely forgotten and we are all paying the price. The political class is trying to sell the public on utopian agendas to create a world that is just, safe, clean, and healthy—while disdaining the contribution of economic liberty toward precisely those goals.

Concentrated power should be feared—and nothing concentrates power like government. Today, in the aftermath of the financial meltdown, we see a steady effort to vastly expand government power.

But we must take heart. Americans remain critical of corporate excesses, but they are equally critical of the excesses of government. Citizen opposition to statist proposals—from bailouts to ethanol boondoggles to nationalized health care to cap-and-tax plans—is growing rapidly. Witness the spontaneous outbreak of "Tea Parties" throughout America. This new mood provides us an opportunity to regain the offensive—to champion via analysis, education, and advocacy the principles upon which America was founded. That is not to say that it will be easy.

Progress has never been a consistent trend. Indeed, civilization itself is best viewed as the slow and halting co-evolution of freedom and the institutions that undergird and channel that freedom. The Constitution remains the greatest of those institutions and Americans are again discovering its wisdom. As F.A. Hayek noted, the greatest threats to liberty arise from politicians' efforts to frustrate that process, usually in the name of some utopian goal. Progress, he noted, is certain as long as we can restrain the politicians for a decade or so—hopefully longer.

Achieving that restraint is the goal of the Competitive Enterprise Institute. On this, our Silver Anniversary, I pledge to you that we will continue to do all in our power to attain that goal.

Fred Lee Smith, Jr.

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Future of Freedom, *continued from page 1*

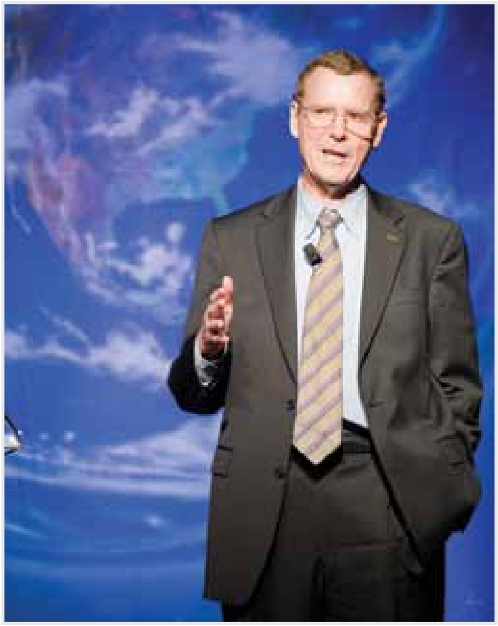
opened in Atlanta, where BB&T operates. Many of those startup banks have now failed, or should have failed, or are in the process. Of course, they could raise a little money and leverage it dramatically with FDIC insurance—money that people would never have put in those new banks if they were not guaranteed by the government.

On a bigger scale, Golden West, Washington Mutual, and Countrywide are large institutions that effectively failed, built nationwide franchises, opened branches everywhere, and paid high rates on deposits. They would attract deposits out of healthy financial institutions, and that is how they funded their lending activity. They were able to do high-risk lending which they could not have done in an open market.

The third and…proximate factor was government housing policy. This really goes back a long period of time, but it got accentuated in the recent past. For a long time, the government has tried to raise homeownership above what is called the natural market rate. They have done it through tax policy. But the most recent event that really undermined the current problems was in 1999. The Clinton administration announced a goal for Freddie Mac and Fannie Mae to have over half their loan portfolios in so-called "affordable housing," now subprime mortgages.

Interestingly enough…there were a number of economists, including liberal economists, who said, "Well, the affordable housing market is not that big. If Freddie Mac and Fannie Mae reach this goal, and it would take them about 10 years to do it, they would probably go broke and they could take the U.S. financial system with them." Nine years later that happened. When Freddie Mac and Fannie Mae went broke, they owed $5 trillion, which you now owe. Congratulations.

One of the most interesting myths going…today relates to the TARP program, and that has also been a very offensive process. The perception is that banks vol-



BB&T Corporation Chairman John Allison delivers the keynote address at CEI's 25th Anniversary Gala

> ***"I think that we need to be the defenders of principled human action. And as such, we need to say that people have the right to their own lives and the right to the product of their own labor."***

unteered to go into the TARP program. Not so. We were forced into the program. And here was the theory: The Federal Reserve and the Treasury did not want it to look like they were bailing out unhealthy institutions. They had a list of healthy institutions, but if they only put money into those institutions, the market would know they were unhealthy. And also it was bad politics, so they forced the healthy institutions to participate in TARP. We were forced to participate in TARP. And, by the way, they made us sign a contract that said we had to do 100 things and they could change the contract any time they wanted to. A great contract, right?

Where do we go from here? Here's the interesting thing. We have a very resilient economy in the United States. One of the challenges is that we are probably going to have some kind of economic recovery, and unfortunately that's going to be interpreted as "Obama's policies worked." The reality is, however, that what we've done is doom ourselves to a much lower real standard of living. And we're almost certainly—not certainly—but we're most likely to have a period of stagflation very similar to the 1970s: slow growth, high inflation, no fun. That's one reason that Reagan is seen as such a hero because he broke that very destructive cycle.

As human beings, we are purpose-driven entities. We have to know where we're going to get there. Organizations are simply groups of human beings, and organizations need a sense of purpose. And for that purpose to work, it really has to have two components. First, I believe practically everybody I've met wants to make the world a better place to live. I think that is a natural attribute of most human beings. Now, making the world a better place to live does not require that we go to Africa and feed hungry children. Businesses run properly make the world a better place to live. And when leaders of businesses forget that, bad things happen.

I think that we need to be the defenders of principled human action. And as such, we need to say that people have the right to their own lives and the right to the product of their own labor. It is an interesting thing that's happening to us… Recently, there has been a lot of talk about security. Security is important in some sense to all of us, but the United States is not the land of security. People did not come to Jamestown to be secure. The United States is the land of opportunity, opportunity to succeed and, by the way, opportunity to fail. We are the defenders of that sense of life, and that is very, very important work.

John Allison is chairman of the BB&T Corporation and was keynote speaker at CEI's 25th Anniversary Gala.

Worst Idea of the Year

Federal Catastrophe Insurance "Backstop" Puts Taxpayers on the Hook

BY ELI LEHRER

On July 9, former FEMA administrator James Lee Witt and former Coast Guard head James Loy—America's two most trusted emergency managers—assembled a great gaggle of reporters and other interested parties at the National Press Club to voice their support for something called the Homeowners' Defense Act (HDA), and released a new study supporting it. They're wrong. In fact, the proposed law, proffered by Rep. Ron Klein (D-Fla.), ranks as one of the worst ideas with serious support in Congress.

The HDA (H.R. 2255), which passed the House of Representatives last year but stalled in the Senate, would instantly transform the federal government into the largest player in the reinsurance (insurance for insurance companies) market. Under the HDA, a "National Catastrophe Consortium"—a "private" entity with a government-official dominated board—and a system of Treasury loan guarantees, would create a federal "backstop" to replace some of the catastrophic risk coverage that insurers now buy on the private market. Proponents of the bill argue that these programs would cost less than the private sector alternatives, produce consumer savings, and protect taxpayers from liabilities by charging rates high enough to break even.

Unfortunately, the fundamental workings of insurance strongly suggest that this scheme can't succeed. Insurance is based on managing risks across large pools of similar but non-correlated risks. Through international transactions, insurers and reinsurers pool the risk of hurricanes hitting Florida with the risk of cyclones striking Indonesia. Because the storm seasons happen at different times of the year, reinsurers will always make money covering one type of event while losing money on another. This pooling reduces the overall cost of insurance. But reinsurance focused on the U.S. narrows the risk pool, and thus will cost more than international reinsurance.

If it hoped to offer any coverage at all, a government-run reinsurer would end up under-pricing the risk and sticking taxpayers with the liability. Klein's home state of Florida, which has only $3 billion in assets to pay for the nearly $30 billion in potential hurricane risk the state legislature has already sloughed on its taxpayers, would take the lion's share of the benefits with most states getting no benefit at all.

The one major current federal player in the property insurance market, the National Flood Insurance Program, operates under statutory language requiring "adequate premiums" on most properties—but the program is $19 billion in the red and has no practical way of paying it off.

All that said, the problem that Witt, Loy, and Klein seek to confront is real. For many people—particularly those who live a mile or two from the beach—ending the cross subsidies that most states mandate for beach-dwellers through control of insurance rates would ease premiums overnight. For those who do face the most severe risks, proposals to encourage home retrofitting, preserving wetlands (which absorb the storm surge from most hurricanes), and even relocating housing away from risky areas make more sense.

Finally, overhauls of the system for regulating insurance through changes to tax law and regulatory authorities might help attract more capital into private reinsurance markets. Whatever the case, however, Rep. Klein's proposal just won't work.

*Eli Lehrer (*elehrer@cei.org*) is a senior fellow at CEI and Director of CEI's Center for Risk, Regulation, and Markets. A version of this article originally apeared in* The New Majority.

TARP Transparency: A Good Start, but Not Enough

BY RYAN YOUNG

Herbert Allison is President Obama's newly-confirmed head of the Treasury Department's Office of Financial Stability. On Thursday, June 25, he promised to "emphasize transparency so that you and the American people will know what we are doing with their money, why we are doing it, and how it is making a difference."

His remarks are heartening. More transparency is usually better than less. And few programs are less transparent than the massive Troubled Asset Relief Program, better known as TARP—the bank bailout legislation enacted last year.

TARP funds go through 25 different agencies. Different accounting standards and disclosure methods prevent apples-to-apples comparisons of what agencies are doing with the money. Effective oversight of this confusing mess is practically impossible. This is a frustrating situation for Congress, as well as the public.

The TARP Accountability and Disclosure Act (H.R. 1242; S. 910)—introduced by Reps. Carolyn Maloney (D-N.Y.) and Peter King (R-N.Y.) in the House and by Sen. Mark Warner (D-Va.) in the Senate—seeks to address that problem. The legislation would task the Treasury Department with creating a unified database with all expenditures, listed in one standard format.

The database would be a powerful tool for Congress to navigate TARP's murky waters. But the bill's language is unclear as to whether it would be accessible to the public. Where there is transparency for none, the Maloney-King-Warner bill would provide transparency for some. Why not transparency for all?

For Congress to require transparency would be a step in the right direction, but a better option would be for it to scrap TARP altogether. The mere need for this legislation speaks volumes about TARP. Why the lack of transparency? Is it that it is poorly run or that program administrators have something to hide? Neither possibility reflects well on TARP.

TARP's biggest problem is that it makes the price of risk lower than its actual cost. Say an investment firm puts a lot of money into a risky investment, like securitized mortgages. If it goes bad, the firm pays a very low price; the government bails it out.

But that low price does not reflect the cost of the defaulted mortgages, which hasn't changed a penny. Someone still has to pay for defaulted mortgages. Under TARP, that would be taxpayers. We are all paying the cost of the bad decisions of a few.

Why is this a problem? Because when risks are underpriced, banks and investors take more of them than they should. They'll get bailed out, so why not?

TARP gives banks and investors no reason to avoid the sketchy investments that have contributed to the current recession. In the long run, bailouts backfire, yielding the exact opposite of their intended effects.

TARP's lack of transparency is a huge risk to taxpayers. The TARP Accountability and Disclosure Act would make TARP more transparent, and deserves qualified support; the public deserves explicit access to the database it would create.

But TARP itself is an even bigger risk. The sooner Congress gains the political will to recover from its bailout fever, the better.

Ryan Young (ryoung@cei.org) is a Fellow in Regulatory Studies at the Competitive Enterprise Institute.

CEI'S 25TH ANNIVERSARY GALA

With free markets and limited government today facing the greatest political opposition in at least a generation, the Competitive Enterprise Institute held its 25th Anniversary Gala in Washington, D.C. This year's keynote speaker exemplified CEI's principled commitment to those ideals—Chairman and former CEO of BB&T Bank John Allison, a banker opposed to bank bailouts.

In his speech (see page 1), Allison highlighted the short-sighted government regulations that led to the current financial crisis and broader economic downturn. He also described how the Treasury Department forced his healthy bank into the TARP bank bailout program. He then delivered a call to action, urging attendees to continue the fight against the oppressive regulatory state and to defend the American "sense of life"—individual liberty.

Richard Tren, director of Africa Fighting Malaria, was honored with the Julian L. Simon Memorial Award. Tren has worked tirelessly for ordinary Africans, who continue to suffer needlessly under the misguided and discredited DDT prohibitions supported by a dangerous alliance of politicians, environmental activists, and rent-seeking corporations.

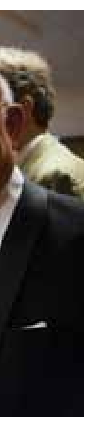
Veteran political commentator and Cato Institute Senior Fellow Tucker Carlson served as the master of ceremonies.

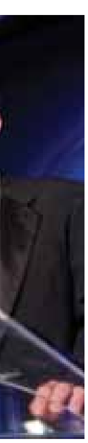
(Top) Cato Institute Senior Fellow Tucker Carlson, master of ceremonies at CEI's 25th Anniversary Gala, addresses the crowd.

(Middle left) Reason.com and Reason.tv Editor in Chief Nick Gillespie (left) and Tucker Carlson.

(Middle right) American Enterprise Institute John G. Searle Scholar and CEI Board Chairman Michael Greve (left) and DUNN Capital Management President and CEI Board Member William A. Dunn.

(Bottom) Reason Magazine Science Correspondent and former CEI Warren T. Brookes Journalism Fellow Ron Bailey presents a tribute to Warren T. Brookes.





(Top left) State Policy Network Executive Vice President Jennifer Butler peruses Steve Milloy's new book, Green Hell: How Environmentalists Plan to Control Your Life and What You Can Do to Stop Them, which was presented as a drawing prize.

(Top middle) CEI President Fred Smith addresses the crowd.

(Top right) Mercatus Center Senior Research Fellow Karol Boudreaux (left) and Mercatus Center Senior Research Fellow Veronique de Rugy.

(Middle) BB&T Corporation Chairman and 2009 Keynote Speaker John Allison (left) and American Enterprise Institute John G. Searle Scholar and CEI Board Chairman Michael Greve.

(Bottom) CEI President Fred Smith presents the 2009 Julian L. Simon Memorial Award to Africa Fighting Malaria Director Richard Tren, as CEI Director of Risk and Environmental Policy Angela Logomasini looks on.

ACES Up Her Sleeve

BY JEREMY LOTT & WILLIAM YEATMAN

Well before Barack Obama brought hope to the White House, Rep. Nancy Pelosi was adamant that something new and different and wonderful had arrived. In 2006, the incoming House Speaker pledged that hers would be the "most honest, most open, and most ethical Congress in history."

At the time, we were skeptical—to say the least. Our refusal to accept her rhetoric was roundly vindicated last week. That was when Madam-Speaker used every trick at her disposal to coldly ram a 1,500-page global warming bill through the House of Representatives.

The Speaker chose to stifle the usual observances of deliberative democracy because open, honest debate would have attracted unwelcome scrutiny to her massive new energy tax.

Pelosi's legislation, the American Clean Energy and Security (ACES) Act, would raise the price of hydrocarbon energy sources like coal and oil thought to cause global warming, but which power 85 percent—85 percent!—of the economic production in America.

A large energy tax during a deep recession is a political cyanide pill that 44 of Pelosi's Democratic colleagues refused to swallow. That almost doomed the bill and in fact would have killed it outright Friday night if eight Republicans hadn't voted with the majority of Democrats. (The final vote was 219 to 212.)

Likely there would have been many more Democratic "no" votes if Pelosi and Energy & Commerce Committee Chairman Henry Waxman didn't find creative ways to shorten or skip every step of that "How a Bill Becomes a Law" song.

When fighting between the Energy & Commerce and Agriculture committees over the bill grew too intense, the farm lobby was bought off as were a lot of other Democrats. In exchange for votes, Pelosi and Waxman wrote countless paybacks, favors, and concessions into the legislation—all without serious debate.

Indeed, the House Democratic leadership crafted much of the ACES Act in secret behind closed doors. In the week before the final vote, it grew by a whopping 600 pages. Even that figure doesn't stress the rushed, secretive nature of the process. At 3:09 Friday morning, Waxman et al. introduced a 309-page "manager's amendment" to the legislation that was set for a vote later in the day.

Representatives would have had all of nine hours to study the text, assuming they went without sleep. The manager's amendment made even that impossible, because you had roughly 1,200 pages of text—containing, at last count, 397 new government regulations and 1,090 new economic mandates—followed by over 300 pages of text with no index that amended the previous legislation on a paragraph-by-paragraph basis.

It would take a team of lawyers several days to sort out a mess like that.

We have to hand it to Oregon Republican Greg Walden for his superb sense of understatement when he said he couldn't "imagine that anyone on this floor has read every word" of the ACES Act. That was the whole point of introducing the legislation under an extremely limited rule and only

allowing three hours for debate on something that may take a good bite out of every American's pocketbook.

Pelosi and company had complained, rightly, that Republicans rushed some legislation through Congress. But she has been even less open to any kind of dissent than former Majority Leader Tom DeLay.

The "open" Congress that Pelosi promised back in 2006 would have allowed members of the House to voice their ideas about how to improve legislation. Fat chance. House leadership discarded all but one—that's right, one—of the 220 amendments submitted by House Republicans on the ACES Act, and allowed next to no time for debate. Georgia's Phil Gingrey complained on the House floor, "The Speaker and the Rules Committee have silenced the opposition."

They certainly tried to. If there's any silver lining to this, it's that congressional Republicans were incensed and unlikely to forget, or shut up about it. John Boehner used his privilege as Minority Leader to insist, over the befuddled objection of Waxman, on going past normal debate time limits and reading large chunks of the 11th-hour amendment on the House floor.

And afterward, when Waxman requested unanimous consent to say a few celebratory words about his historic bill's passage, some Republican uttered those two magical words: "I object."

Jeremy Lott, a former CEI Warren T. Brookes Journalism Fellow, is author of The Warm Bucket Brigade: The Story of the American Vice Presidency *(Thomas Nelson). He blogs at JeremyLott.net. William Yeatman (*wyeatman@cei.org*) is an energy policy analyst at CEI. A version of this article originally appeared in* The American Spectator.

Bureaucrash (www.bureaucrash.com) is an international network of activists, called "crashers," who share the goal of increasing individual liberty and decreasing the scope of government. In short, we fight for freedom.

In 2008, Bureaucrash honed its mission and implemented a new strategy that emphasized decentralization, tacit knowledge, and spontaneity. The lynchpin for this new focus is Bureaucrash Social (social.bureaucrash.com), our own social network where crashers connect and collaborate on ways to use guerrilla marketing and new media to introduce others to the ideas of individual liberty, personal responsibility, and free markets.

Our merchandise—known as Contraband—was improved by retooling its website (www.bureaucrashcontraband.com) to make it more navigable. Our homepage, Bureaucrash.com, was redesigned to be more approachable to those new to Bureaucrash and the ideas we promote, and to the media.

Starting this June, Lee Doren became the new head of Bureaucrash. Lee graduated from the University of Michigan with a communications degree, and received his law degree from Chicago-Kent College of Law. During law school, Lee started the blog "Copious Dissent – Your Daily Dose of Liberty" and the YouTube channel "HowTheWorldWorks" under the alias "Devil's Advocate." Lee will utilize the large networks he developed over the last few years to engage citizens to become activists against the encroachment of Big Government.

Currently, Bureaucrash will be networking with other liberty organizations for activism opportunities, including the famous tea parties. With continued support we expect our membership to grow substantially in the next few months.

THE GOOD

CEI Nudges Florida in the Right Direction

Florida Governor Charlie Crist signed into law H.B. 1495, a law largely inspired by CEI's research and educational outreach in Florida. Although far from a total fix to the state's worst-in-the-nation system for property insurance, the new law is a significant improvement. It reduces the size of Florida's government-run reinsurance entity, raises rates in the state's government-run insurance company, and deregulates some aspects of private market insurance rates. In work published in cooperation with the James Madison Institute during the first part of 2009, CEI recommended all of these provisions as "steps in the right direction" for the state. CEI's Risk, Regulation and Markets (RRM) Florida Director Christian Cámara and CEI Senior Fellow and RRM Director Eli Lehrer hosted events, spoke with the media, and met with legislators to educate them about the merits of the proposed legislation. Free-market reform needs to continue in Florida, but the state is finally beginning to move in the right direction.

THE BAD

Biden Wants More Stimulus

On Sunday, May 14, Vice President Joe Biden took to the airwaves to announce that the Obama administration's so-called "stimulus" program was not as effective as they once claimed. Biden told NBC's "Meet the Press," "Everyone guessed wrong at the time the estimate was made about what the state of the economy was at the moment this was passed." Unfortunately for Biden, this is completely false. The Competitive Enterprise Institute has consistently opposed President Obama's stimulus plan, along with the bank bailout program created by the Bush administration. "This pork package has been sold to the public as one that will get unemployed Americans back to work by funding public works projects," said CEI Senior Fellow Iain Murray back in February 2009. "In fact, only 7 percent of the Senate package is about infrastructure. The rest is merely pay-offs and rewards to special interest groups. The public has been sold a pig in a poke."

THE UGLY

U.S. Debt Keeps on Growing

America's national debt has now reached $1 million for an average American family of four. Former Comptroller General David Walker, now president and CEO of The Peter G. Peterson Foundation, said that when federal, state, and local obligations are combined with personal debt, Americans owe approximately $75 trillion—or $250,000 each. The largest contributors to this mess are the unfunded Social Security and Medicare entitlement programs—which have $44 trillion in future liabilities between them. With no solution to the entitlement problem in sight, Walker told the Politico that, even assuming no change in the benefits structure, "this number is growing on auto pilot every year by about $2 trillion, or $6,600 per American."

Media**MENTIONS**

Compiled by Richard Morrison

Director of Risk & Environmental Policy Angela Logomasini reminds us of the safety of bottled water:

In addition to meeting stringent FDA standards that mirror tap water standards from the Environmental Protection Agency, the FDA applies standards for food safety and sanitary packaging. And the container prevents contamination during delivery, unlike tap water, which can be contaminated in the pipes.

While both kinds of water are relatively safe, tap water has more health-related incidents by factors in the tens of thousands. Not surprisingly, the Centers for Disease Control and Prevention recommends bottled water for people with compromised immune systems.

–The Washington Post, July 11

President Fred L. Smith, Jr. and Energy Policy Analyst William Yeatman analyze the reaction to House passage of the Waxman-Markey climate bill:

Conservative activists are angry at eight Republican members of the House of Representatives for voting in favor of the American Clean Energy and Security Act (ACES), which passed the House June 26.

They are right to be angry, but their outrage is misplaced. With the exception of New Jersey's Rep. Christopher H. Smith, these so-called RINOs (Republicans in name only) represent districts that voted for President Obama after he campaigned on a promise to fight global warming at any cost. As such, they were only following the misguided will of their constituents.

Indeed, economic conservatives need to look beyond party lines to find the real "cap-and-traitors." To be a traitor, one has to betray his or her constituents. By that definition, many treacherous votes were cast June 26 for ACES, also known as the Waxman-Markey bill. The legislation is a compendium of harebrained environmentalist policies designed to make energy more expensive and force people to emit fewer greenhouse gases, thought to cause global warming.

–The Washington Times, July 9

Regulatory Studies Fellow Ryan Young argues against the need for federal restrictions on carry-on luggage:

Non-regulatory solutions already exist. If your carry-on is too big, then the airline can check your bag at the gate. It's not that big a deal.

At least not to you or me. But it could be a very big deal to the International Association of Machinists and Aerospace Workers, a union that represents airline baggage handlers. Strictly enforced carry-on size restrictions could steer a lot of business their way—almost certainly more than enough to recoup the $10,000 they gave Rep. Lipinski last election cycle.

United Airlines also gave money to Rep. Lipinski. Now that they are charging for checked luggage, they could also see a windfall. Yes, they could strictly screen carry-on size themselves. But with the TSA doing it for them, United can deflect customers' ire away from itself.

–The American Spectator, July 7

Center for Investors & Entrepreneurs Director John Berlau details the need for flexibility in corporate governance:

Different governance structures are appropriate for different firms. A new company in its entrepreneurial stages often wants the same person as chairman and CEO for more of a focus on growth. A more established company may function better by separating these positions. Regardless, a company won't have effective governance without diligent oversight by boards and shareholders, and that's what policy makers should be focusing on improving.

The overall lesson from the experiences of these companies is that shareholders are perfectly capable of deciding on things like whether the chairman and CEO should be separate, and that these matters shouldn't be dictated to them by the government. The same can be said for the bill's other mandates such as "say on pay," the requirement of an annual nonbinding shareholder vote on executive salaries that's also being pushed by the Obama administration.

–New York Daily News, July 2

Senior Fellow Gregory Conko and Adjunct Fellow Dr. Henry I. Miller describe how patients will literally be dying for Obamacare:

In February, Congress and President Obama allocated $1.1 billion to fund a new government bureaucracy called the Federal Coordinating Council for Comparative Clinical Effectiveness Research. Its mission is to compare the effectiveness and expense of various medical treatments and to decide which ones should be covered by government health care plans like Medicare, Medicaid and the federal insurance pool proposed by President Obama and congressional Democrats.

In theory, research on clinical effectiveness can help doctors better understand the likely benefits of the medicines they prescribe and improve the quality of care they deliver, but congressional advocates support the program specifically because it would, in [former Senator Tom] Daschle's words, "have teeth." House Appropriations Committee Chairman David Obey has admitted that the point of studying "comparative effectiveness" is to keep patients from getting more expensive medications and procedures.

The comparative effectiveness council is modeled on a U.K. government program called the National Institute for Health and Clinical Excellence, known by the ironic acronym NICE. That program denies British citizens access to breakthrough drugs for debilitating and life-threatening conditions like cancer, multiple sclerosis, Alzheimer's disease and macular degeneration because those medicines are not sufficiently effective—as judged by bureaucrats—for every patient who takes them. But as Karol Sikora, a professor of oncology at Imperial College School of Medicine in London, observes, "The real cost of this penny-pinching is premature death for thousands of patients."

–Forbes.com, June 12

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California Über Alles

The former California governor described as a "Zen fascist" in a 1979 song by Bay Area punk rockers the Dead Kennedys is still a man on a misguided, authoritarian mission. On May 20, Jerry Brown, now the Golden State's attorney general, petitioned the Supreme Court to uphold a California law that prohibits minors from purchasing or renting any video game deemed "violent" by the state. A federal district court struck down the law in 2007 on First Amendment grounds, and an appeals court denied the state's attempt to overturn that decision earlier this year. "In the same way pornography can be banned, pornographic violence can be banned as well," Brown told the *Los Angeles Times* in an interview. However, video game publishers voluntarily adopted an industry-wide rating system years ago, and the vast majority of retailers already have policies in place that restrict sales and rentals of certain games to adults. Over the past two decades, courts across the country have declared eight similar laws unconstitutional. But unfortunately for California taxpayers, Jerry Brown's habit of setting off on expensive, quixotic political quests is legendary.

Obesity May Save Your Life

Government food nannies have claimed that an assortment of new regulations—from trans fat bans to restrictions on salt content—are needed in order to wage war on the "obesity epidemic" now alleged to be sweeping the nation. However, a new study comes to a counterintuitive conclusion: Being obese may save your life. A report authored by Dr. Carl Lavie, medical director of cardiac rehabilitation and prevention at Ochsner Medical Center in New Orleans, found that thinner heart disease patients have significantly shorter life expectancies than their obese counterparts. Heart disease has been the leading cause of death in the United States for the past 80 years, and while obese individuals are more likely to be diagnosed with heart disease and to be diagnosed earlier, they respond to medical treatment considerably better than thin individuals with the same condition.

Where Nightmares Come True

While on a visit to Disney World in Orlando, Rep. Alan Grayson (D-Fla.) came up with a brilliant idea to stimulate America's ailing economy: mandatory paid vacation. The bill he introduced, H.R. 2564, calls for one week of paid vacation for workers at companies with more than 100 employees, which would take effect immediately. In three years, that threshold would fall to 50, and companies with more than 100 employees would be required to pay employees for two weeks of vacation. If the economic brilliance of this proposal isn't immediately apparent, you're not alone. Currently, the national unemployment rate stands at 9.5 percent. The National Small Business Association issued a statement warning lawmakers that this proposed law would not only impose new costs on already-cash-strapped firms, but it would incentivize companies to set hiring targets and trim their current payrolls to just below the 50- and 100-employee levels.