CEI PLANET
ADVANCING LIBERTY FROM THE ECONOMY TO ECOLOGY
COMPETITIVE ENTERPRISE INSTITUTE VOLUME 26, NUMBER 4 JULY/AUGUST 2013

Broadening the Message of Freedom Is the Path to Victory


Senator Rand Paul (R-Ky.) delivers the keynote address at the 2013 CEI Annual Dinner

BY SEN. RAND PAUL

It is kind of hard being in the opposition party because you have got to be agile. You have got to shift from one scandal to the other. It is sort of like the Old MacDonald Farm of Scandals: here a scandal, there a scandal, everywhere a scandal. And I am starting to think that the Obama administration's public relations ploy is to displace one scandal with the other.

But really, if you say, "What is the nexus, what intertwines all of these scandals?" It is really a government that is drunk on power. It is a government that has allowed so much power to gravitate to the presidency, and as an extension, to the bureaucracy.

When I ran for office, I thought I will get to be a senator and I will have an important role in deciding the laws of the nation. But it turns out the laws are not written by your legislature. The laws are written by the regulatory bureaucracy.

Obamacare was bad enough at 2,000 pages, but the regulations are *20,000* pages. Dodd-Frank is another couple thousand pages, but the regulations have not been finished and they will be over five, six, maybe eight thousand pages. The problem is we have let government get away from us.

I know there have been some complaints about Obamacare, but your government just wants to take care of you. They think you are too stupid to take care of yourself.

Really what we have here, if you are concerned about regulations, is the same problem we have with foreign policy or war or anything else: Too much power has gravitated away from you, away from your representatives, and to the president.

The one thing I did not understand when I came here, though, was I thought laws had to change to make a difference. The one thing that is absolutely true is that we did not change a lot of laws on the environment. We did not change a lot

(continued on page 3)

FEATURED ARTICLES

ALSO INSIDE:

Spreading the Narrative of Freedom by Lawson Bader 2
Ethics and Liberty: Engines of Economic Growth by Deirdre N. McCloskey. 7
The Good, the Bad, and the Ugly 10
Media Mentions 11
End Notes. 12

>>MESSAGE FROM THE PRESIDENT

Spreading the Narrative of Freedom

By Lawson Bader

Last year CEI began to search for a successor to Fred Smith. Last fall I was fortunate enough to be selected, and I am honored to be working closely with him to ensure the success of this changeover.

After six months on the job, I am happy to report … nothing! This presidential transition has been devoid of guns, knives, killer drones, or the wiretapping of Fred's phone.

And while Fred is convinced that I've secretly installed a trap door underneath his desk, the truth is he deserves a great deal of credit for doing what too many D.C. leaders fail to do: voluntarily hand over to a successor.

Although, as Fred has said before: "It was only after reading King Lear that I realized that I needed to do this transition right!"

But I would not be here if I thought CEI was ill-prepared or unwilling to engage in this important fight.

CEI truly is "more than just a think tank." We combine rigorous policy work with persistent advocacy. We don't just "think" but also project our findings and principles deep into the policy arena and out into the wider world.

We are bright and creative individuals who love analyzing and writing. Okay, so we're wonks. But we're *good* wonks. Better yet, good *activist* wonks. We relish engaging and harassing and shaming and suing. We build coalitions, file FOIA requests, and without any thought to our personal safety or image, we broadcast our message far and near. We are a blend of the Ivory Tower and the Island of Misfit Toys.

CEI is sorely needed today. These are frustrating times for those of us who believe in free enterprise. In the midst of one of the worst economic crises in modern history, President Obama and his allies continue to argue that Washington, D.C. is a better steward of American's life and liberty than are Americans themselves. And, unfortunately, that argument has prevailed.

Our job now is to channel dismay over these abuses into red-hot anger at the real monster along the Potomac: namely the overgrown and ever-expanding federal administrative state. In our recent publication, *10,000 Commandments*, we estimate its total cost at over $1.8 trillion, much of it borne by families and small businesses.

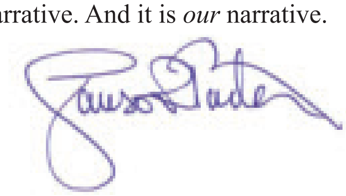
We know what to expect for the next three years. In the 1980s, Ronald Reagan said "It's morning in America." Under President Obama, it's midnight—or rather, it's a perpetual midnight *regulation* as he has signaled in his willingness to bypass a gridlocked Congress and use the regulatory process to cement his vision of a pervasive nanny state.

"In the 1980s, Ronald Reagan said "It's morning in America." Under President Obama, it's midnight—or rather, it's a perpetual midnight **regulation.***"*

Each of us needs to challenge this. Whether an individual contributor, business supporter, or think tank ally, each of us must intervene or this trend will continue and we will find ourselves so far down the path of paternalism and restricted liberty that any glance back will only be an act of nostalgia.

Thomas Jefferson said that, "If we can prevent the government from wasting the labors of the people, under the pretense of taking care of them, they must become happy."

CEI does what Jefferson hoped for—we thwart the waste of people's labors and in doing so, we uphold the freedom to prosper, aspiring to a future of longer lives and cleaner air instead of major disease. A future of sunset walks with loved ones instead of holding down two jobs to pay their taxes. That is a pretty good narrative. And it is *our* narrative.



CEI PLANET

Publisher
Lawson Bader

Founder
Fred L. Smith, Jr.

Editor
Marc Scribner

Editorial Director
Ivan Osorio

Contributing Editor
Nicole Ciandella

The CEI Planet is produced by the Competitive Enterprise Institute, a pro-market public interest group dedicated to free enterprise and limited government.

CEI is a non-partisan, non-profit organization incorporated in the District of Columbia and is classified by the IRS as a 501 (c)(3) charity. CEI relies upon contributions from foundations, corporations and individuals for its support. Articles may be reprinted provided they are attributed to CEI.

Phone:
(202) 331-1010

Fax:
(202) 331-0640

E-mail:
info@cei.org

ISSN#: 1086-3036

Message, *continued from page 1*

of laws on how your businesses deal with the environment. But things changed dramatically simply by executive fiat, by regulatory change, by regulatory law. So it does make a difference *who* is in charge of the EPA.

There is a question whether you can get a fair shake from a government employee. Is it a rogue government employee that went after the Tea Party or went after people for religious reasons or went after Gibson Guitar?

Remember the case of Gibson Guitar? It turns out Fender Guitar brings in the same kind of wood, but they give to Democrats and Gibson gave to Republicans. Guess who got prosecuted? It turns out they really were not prosecuted for anything that had to do with whether or not the wood was endangered or not. They wanted the wood to be processed by labor in India. It was simply a labor protection racket for India.

But the most insulting thing about the Lacey Act, if you have not heard of it, is that it is making U.S. businesses subject to foreign laws and foreign regulations. We put an American citizen in jail for 10 years for bringing in some crabs from the Gulf of Mexico off the coast of Honduras and they said he broke a Honduran fishing regulation. He brought them in in Ziploc baggies instead of cardboard. And that earned him 10 years in prison.

We have a man down in the southern part of Mississippi. He is in jail for 10 years. His partner is 80 and he has got a 10-year sentence. Their crime? Putting clean dirt on dry land. He is accused of a wetlands violation. But to give him more time, they said he was a conspirator. He was the Al Capone of putting clean dirt on dry land. They included his daughter. She is a nurse and sold lots part time for his real estate company. She got 84 months in prison without parole. She has a two-year-old child. She never had a traffic ticket.

Your government has run amok when you're putting people in jail for regulatory crimes and it has got to end.

It is not going to be enough for me or anyone else to convince the business class. The business class, God love you, you are entrepreneurs and you are the backbone of the country. But there are not enough of you. There will always be more of the working class. We need a message that resonates with everybody. We have to have a message of opportunity that resonates with those who work for you, which says that their chance to get into the middle class or their children's chances to become one of you exists for them.

> ***"The business class, God love you, you are entrepreneurs and you are the backbone of the country. But there are not enough of you. There will always be more of the working class."***

It has to resonate to even those who are on unemployment insurance, those who are in need and not doing well. I have had family members who are down on their luck and have taken government assistance. We have to convey the message you are not a bad person because you have taken government assistance. We need to give them a message of hope that they can join the rest of us in the middle class and the successful class and the business class.

We need to have this optimism. It needs to appeal to people of all races. When we look like America—when we have people with tattoos, without tattoos; with ponytails, without ponytails—when we look like the rest of America, we will be a national party again.

We need to attract African Americans to our movement. I think ideas of justice will do that. African Americans can remember a time when there was no justice for them, when things were incredibly unfair, when the law was unfair and the law was biased.

When we talk about issues like indefinite detention, which is supposed to be for terrorists but could be applied to American citizens, that appeals to that sense of justice.

When we talk about our drug laws that are imprisoning African Americans at four to six times the rate of white Americans. When we give government grants to police departments and say, "Base it on your arrest record," it does not take them long to figure out they can arrest more kids in the poor neighborhood than they can in the rich neighborhood—and they can get convictions because the poor kids do not have attorneys and do not have any money.

When we talk about these ideas and issues of justice, we will get more people coming to us. When we talk about the ideas of privacy. You want your business to be left alone. Young adults do not have any money, but they want their Internet to be left alone. They want their email to be left alone. It's all the same thing. When we can bundle all that up in a message of freedom, we will win again.

Sen. Rand Paul (R-Ky.) delivered the keynote address at the 2013 CEI Annual Dinner and Gala on June 20 in Washington, D.C. This article is adapted from those remarks.

In Praise of Banking at Big-Box Stores

BY JOHN BERLAU AND KYLE TASSINARI

Here's some good financial news for millions of Americans: The provision in Dodd-Frank that imposed a three-year moratorium on banks affiliated with nonfinancial businesses expired on July 22. Now, if Congress simply does nothing and regulators apply the law fairly, Walmart could begin offering affordable credit, savings accounts, and CDs to consumers. So could Home Depot and Berkshire Hathaway, both of which applied for a charter to offer banking services before Dodd-Frank took effect.

Opponents—including established banks big and small—will no doubt scream about the risks of allowing nonfinancial firms to enter the banking world. In the mid-2000s, Federal Reserve Chairman Ben Bernanke and his predecessor Alan Greenspan might have brushed off concerns about subprime mortgages, but they warned about the supposed dangers of breaching the "separation of banking and commerce." Yet most other countries have no such separation.

When Dodd-Frank was enacted in 2010, the United States joined just three other countries—the economic powerhouses of Fiji, Guernsey, and the Isle of Man—as the only jurisdictions prohibiting new charters for banking affiliates of commercial firms, according to a 2011 Milken Institute study.

Yet successful banks owned by nonfinancial firms exist all over the world. While Walmart was barred from financial services in America, it operated a full-service bank in Mexico and a bank that issues credit cards in Canada. The Loblaws supermarket chain has a banking unit, President's Choice Financial, which earned J.D. Power and Associates' highest customer satisfaction rating from 2007 to 2011 among Canadian midsize banks.

Perhaps the most successful example of a bank affiliated with a commercial enterprise is the banking division of Tesco, the British grocery and general merchandise retail chain. In 1997, Tesco entered a joint venture with Royal Bank of Scotland to create Tesco Personal Finance. In 2008, when RBS was hit hard by the financial crisis, Tesco bought out its partner's stake and became sole owner of the renamed Tesco Bank.

Tesco Bank currently has more than £5.57 billion ($8.6 billion) in outstanding mortgages, personal loans and credit card debt to British residents. In addition, 12.5 percent of credit card transactions in the United Kingdom are charged on Tesco cards and one pound out of every eight withdrawn from a cash machine comes from a Tesco ATM, according to *The Daily Telegraph*. Tesco Bank also offers insurance to more than 1.5 million home and auto policy holders.

In 2009, Alistair Darling, then chancellor for the exchequer in Gordon Brown's Labour Government, praised Tesco's initiatives and made the case for new types of banks. "We need more competition in the banking sector," Darling said. "It is therefore very important that we do everything we can to encourage new entrants into this sector."

More banking competition serves another important interest. In order for large firms to fail in any industry without significant disruption elsewhere, there must be new and competing firms ready to supply the product or service.

By the time Borders and Blockbuster went bust, Amazon and Netflix had grown large enough to sell books and DVDs to a large national customer base. By contrast, if a megabank fails, there is a very real possibility that the supply of credit and financial services will be constrained. That concern can be eased greatly if large commercial businesses could create banking units.

Internationally and in the U.S.—where about 15 such grandfathered banks exist—the safety and soundness of banks owned by commercial firms exceeds that of the banking sector as a whole. According to the Milken Institute, U.S. industrial loan companies, the most common classification for such banking entities, "in the aggregate have a significantly higher ratio of capital to assets (16.7 percent) than the banking industry as a whole (11.3 percent)." Industrial loan companies owned by nonfinancial firms also "have the lowest percentage of troubled assets of all banks (2.35 percent)."

The banking subsidiaries of Target, Harley-Davidson, and Toyota are examples of such companies that have been in existence for decades and extend credit mostly to their own customers. For safety, convenience, and price, the U.S. needs to join the rest of the world and allow nonfinancial companies to own and operate banks.

John Berlau (jberlau@cei.org) *is a Senior Fellow at CEI's Center for Economic Freedom. Kyle Tassinari* (ktassinari@cei.org) *is a Research Fellow at CEI. A version of this article originally appeared in* The Wall Street Journal.

Beware the Myth of European Austerity

BY MATTHEW MELCHIORRE

France's Austerity Drive Pushes Country into Recession." "How Austerity Has Failed." Thus proclaim two recent, typical headlines on how European governments are trying to tackle the economic crisis. But such claims rely on two myths based on faulty analysis.

The first myth about austerity is that it has been enacted throughout Europe. The second is that it has led to economic ruin. Americans ought to be wary of politicians and pundits who hold up the pains of Europe to argue against fiscal responsibility at home.

Several studies have attempted to show that European countries have made real cuts to their public sectors, using spending and revenue data. But cuts since when? Analyses to date have relied on selection of a base year—usually 2007 or 2008—from which to measure changes in government spending and revenue.

The problem is that not every European country began implementing austerity at the same time. Therefore, analyzing all European countries from the same starting date captures budget changes in some countries that occurred before austerity programs began.

In a recent Competitive Enterprise Institute report, "The True Story of European Austerity: Cutting Taxes and Spending Leads to Renewed Growth," I address this common analytical flaw by measuring spending and revenue changes from the time each country began its austerity program. The results stand in stark contrast to the conventional wisdom.

Only four European countries—Bulgaria, Ireland, Latvia, and Lithuania—have actually decreased both spending and revenue as a share of GDP since announcing the implementation of their respective austerity programs. This is real austerity, as cutbacks are shared between the public and private sectors.

Meanwhile, nine countries pursued the exact opposite policy, increasing both spending and their tax burdens. This is no austerity in any reasonable sense of the term, as businesses and individuals already hemorrhaging from the recession face increased taxation from a government engorging itself at their expense.

The economic results of these two groups of countries are very different. The first group, which carried out real austerity, maintained an average annual GDP growth rate of 2.65 percent in the six years following budget consolidation, according to my calculations using Eurostat and International Monetary Fund data. The second group, the "austerians-in-name-only," achieved an average growth rate of only 1.46 percent.

Moreover, various European countries enacted different combinations of spending and tax burden changes. The only group that achieved an average growth rate of more than 2 percent—the standard for healthy economic growth—is the aforementioned one whose members cut both taxes and expenditures.

The bottom line: Shrinking government's economic footprint leaves businesses and entrepreneurs less encumbered to create wealth.

With U.S. federal expenditures and taxes set to increase over the next several years, according to the president's budget, American policy makers should learn from Europe's experience. The U.S. doesn't have an unlimited amount of time to fix its economic problems, as the share of federal revenues taken up by interest payments on the federal debt now approximates those of Italy and Spain.

Washington continues to increase our debt load through increasing levels of federal outlays and encouraging private debt-fueled consumption with low interest rates. These debt-driving policies are the only ones to have had a net positive impact on GDP since 2007, according to my analysis of Bureau of Economic Analysis data.

By contrast, gross domestic investment has endured a total net loss of 11 percent from its 2007 level. As debt-financed consumption papers over our anemic economic situation, politicians claim that conditions are improving. It's time for Washington to end this charade and make real cuts. Greater savings would then finance productive investment and government would be eating up fewer economic resources.

The howls of protest from both the left and right over the sequester—which cuts a mere 2 percent from a projected $2.54 trillion federal spending increase over the next decade, according to Veronique de Rugy of the Mercatus Center at George Mason University—only shows how far we still need to go.

In his 2013 State of the Union address, President Barack Obama declared, "We can't just cut our way to prosperity." Perhaps he should pay closer attention to the success of a handful of our European friends, as they shout back a familiar refrain: "Yes, we can!"

Matthew Melchiorre (mmelchiorre@cei.org) *is the Warren T. Brookes Journalism Fellow at CEI. A version of this article originally appeared in* U.S. News and World Report.

EPA GROWTH KNOWS NO LIMITS

BY WILLIAM YEATMAN AND TODD WYNN

In mid-July, President Obama rolled out a climate plan fit for a king. In a speech at Georgetown University, the president declared that since Congress won't enact climate policies, he will just impose them—much as a king would.

Simply put, the president is using congressional inaction as a pretext to launch a climate policy power grab, and that is very troubling. Alas, it is only the latest development in a worrying accumulation of authority at the U.S. Environmental Protection Agency. A new American Legislative Exchange Council report, "The U.S. Environmental Protection Agency's Assault on State Sovereignty," reveals that the agency has been systematically centralizing environmental protection by seizing rightful control from the states and replacing local community input with extremist environmental activists.

Under both the Clean Air Act and Clean Water Act, the EPA has the authority to "disapprove" a state's strategy to meet national environmental standards. A regulatory disapproval is no small matter, as state officials spend countless hours and taxpayer resources crafting plans to comply with newly finalized EPA regulations. When the EPA issues a regulatory disapproval, the agency effectively throws all of this work out the window.

Since President Obama took office, the number of regulatory disapprovals has skyrocketed. The EPA issued 44 disapprovals during President Clinton's second term, 42 during President George W. Bush's first term, and 12 during Bush's second term. During President Obama's first term, the EPA issued an unprecedented 95 disapprovals—a greater than 190 percent increase from the average number of disapprovals during the previous three four-year presidential terms.

Even more alarming is the increasing number of EPA takeovers of state regulatory programs. The EPA's most aggressive action is known as a "federal implementation plan" (FIP), which entails complete federal usurpation of a state's regulatory authority. From 1997 through 2009, the EPA imposed only two FIPs. Since Obama's first inauguration in 2009, the agency has imposed 19 FIPs—a 2,750 percent increase from the average number during each of the previous three four-year presidential terms.

These two trends illustrate a frightening picture of the growth of the EPA's authority during Obama's tenure in office. Centralizing environmental protection essentially imposes on states a one-size-fits-all approach that does not take into account each state's unique circumstances and the effect their residents.

Just as scary, the EPA is replacing the input of American citizens and state regulatory officials with that of environmental activist groups through what are known as "sue and settle" agreements. Here's how it works: An environmental litigation organization like the Sierra Club sues the EPA for failing to meet a deadline for regulatory action. Instead of challenging the suit, the agency and the plaintiffs immediately enter into a friendly settlement that determines a deadline. By dictating how the EPA should roll out environmental regulations, these settlements effectively render official policy without any input from elected officials at both the federal and state levels.

The three presidential terms prior to President Obama saw a total of 30 sue and settle agreements, compared to 48 during Obama's first term—a 380 percent increase over the annual average during the previous three four-year presidential terms. These agreements embody regulation without representation. They are emblematic of a rogue federal agency with little accountability (which should be unsurprising, given the Obama administration's recent IRS, Justice Department, and National Security Agency scandals).

This federal power grab could have severe consequences. Individual liberties, political speech, and privacy are all at stake. The EPA's regulatory assault would impose billions—perhaps even trillions—in direct costs, as well as undermine states' rightful authority in environmental regulation and policy making. It is all part of the Obama administration's established pattern of shifting rights away from individuals and states to unelected regulators and unaccountable bureaucrats in Washington, D.C.

William Yeatman (wyeatman@cei.org) *is Assistant Director of CEI's Center for Energy and Environment. Todd Wynn is Director of the Energy, Environment, and Agriculture Task Force at the American Legislative Exchange Council. A version of this article originally appeared in* The American Spectator.

Ethics and Liberty: Engines of Economic Growth

CEI President Lawson Bader (left) and CEI Founder and Chairman Fred Smith present the Julian L. Simon Memorial Award to Deirdre McCloskey, Distinguished Professor of Economics, History, English, and Communication at the University of Illinois at Chicago

BY DEIRDRE N. MCCLOSKEY

I've been an economist and historian, English professor, and philosopher for a long time. I have been so thrilled to find in my older years a project that inflames me, that excites me—trying to answer what I regard as the main question of the social sciences, which is, "Why are we so rich?"

I look around this room and I don't see any descendants of the crowned heads of Europe or Africa or Asia. Maybe there are some, but there are not too many. Most of us are descended from very, very poor people. And here we are at the CEI Dinner.

What has astonished me is the answer I have discovered. Now, the problem is, I am a little worried because I am delighted at the answer—because the answer is that we are rich because we are free. And we're rich because we honor each other, because we value each other.

It turns out that the bulk—I think the overwhelming bulk—of the historical and economic evidence is that the engine of economic growth is not investment or exploitation or empire or even the current fashion at the World Bank of institutions—it is ethics. It is believing in ourselves and honoring ethical behavior in each other, and having what I call in my books dignity and liberty.

It's a special pleasure to get this marvelous award from an institution that believes above all in human dignity and liberty.

Thank you very much.

Deirdre N. McCloskey, the Distinguished Professor of Economics, History, English, and Communication at the University of Illinois at Chicago, is CEI's 2013 Julian L. Simon Memorial Awardee. This article was adapted from remarks she delivered at the 2013 CEI Annual Dinner and Gala on June 20 in Washington, D.C.

About the Julian L. Simon Memorial Award

In 2001, CEI established an award in honor of the late free market economist, Julian L. Simon, whose classic 1981 work, *The Ultimate Resource*, debunks the alarmist predictions of eco-doomsayers like Paul Ehrlich. In 1980, Simon and Ehrlich famously entered into a wager regarding resource scarcity. They selected five metals—copper, chromium, nickel, tin, and tungsten—with Simon betting their prices would decrease over a decade and Ehrlich betting they would increase. Ehrlich lost the bet. The award is traditionally presented at CEI's annual dinner. Stephen Moore, a member of *The Wall Street Journal*'s editorial board and former research fellow with Dr. Simon, was the first recipient of the Julian L. Simon Memorial Award.

CEI's *Annual Gala*

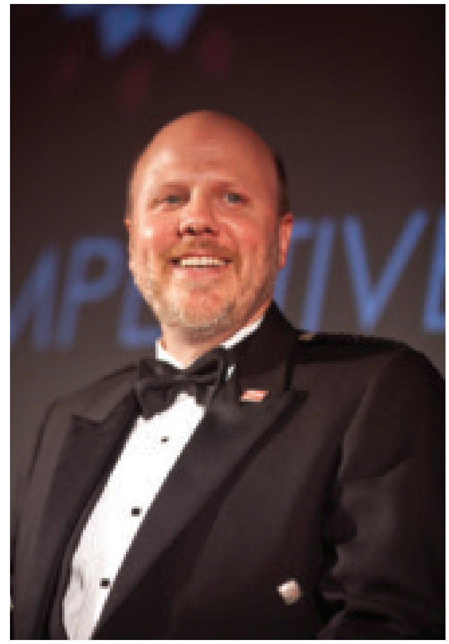
The Competitive Enterprise Institute held its Annual Dinner and Gala blocks from the White House in Washington D.C., on June 20, 2013. This year's theme was "James Bond." The night's featured keynote speaker was Sen. Rand Paul (R-Ky.)

Elected in 2010, Sen. Paul has proven to be an outspoken champion for constitutional liberties and fiscal responsibility and a warrior against government overreach. His legislative proposals include plans to cut $500 billion in federal spending and to balance the federal budget in just five years. He has since introduced similar bills with growing support. In 2013, *Time* magazine named Sen. Paul as one of the 100 most influential people in the world.

Deirdre N. McCloskey, the Distinguished Professor of Economics, History, English, and Communication at the University of Illinois at Chicago, was awarded the Julian L. Simon Memorial Award. Prof. McCloskey argues in her books *The Bourgeois Virtues, Bourgeois Dignity*, and the forthcoming final volume in her trilogy that the economic growth of the past 200 years can largely be explained by attitudinal shifts—ethics that respect human freedom.

Kristina Kendall, Executive Producer of *STOSSEL* and John Stossel's documentary hours for Fox News, served as the Master of Ceremonies.

STOSSEL Executive Producer Kristina Kendall, who served as Master of Ceremonies at the 2013 CEI Annual Dinner



CEI President Lawson Bader welcomes and addresses the audience at the 2013 CEI Annual Dinner

Left to right: John Chisholm of John Chisholm Ventures, Cato Institute President John Allison, and Cato Institute Vice President for Development Lesley Albanese

Left to right: Stamford University Assistant Professor of Economics Art Carden, Reason Foundation President David Nott, *New York Times* contributor John Tierney, and Luke Tierney

Donald G. Smith (left) and Myron Ebell, Director of CEI's Center for Energy and Environment

Patomak Global Partners CEO Paul Atkins (left) and TBP Solutions LLC President and CEI Board Member Tom Haynes

Reason Editor in Chief Matt Welch (left) and 98.7 FM Music in the Morning host and Reason.tv correspondent Kennedy

Rep. Justin Amash (R-Mich.) (left) and Foundation for Government Accountability Director of Development Chad Goote

Judd Weiss (left) and Walter Williams, John M. Olin Distinguished Professor of Economics at George Mason University

THE GOOD

SEC Permits Free Speech for Hedge Funds, Venture Capitalists

On July 10, the Securities and Exchange Commission finally lifted its ban on advertising and communications for hedge funds, private equity groups, and the venture capital community. This regulatory action occurred a year and three months after the Jumpstart Our Business Startups (JOBS) Act was signed into law, requiring the rule change. CEI Senior Fellow John Berlau applauded the decision, noting, "Lifting these archaic rules will be a victory for entrepreneurs, all types of investors, and, most importantly, the First Amendment." Berlau called the repealed rules "paternalistic and anti-egalitarian," as they restricted non-wealthy investors from obtaining basic information about how a number of investment vehicles work.

THE BAD

EPA Continues to Evade Disclosure of Gina McCarthy's Text and Training Records

On July 15, CEI filed suit in federal court to force the Environmental Protection Agency to turn over phone bills for the EPA mobile device issued to Gina McCarthy, a top EPA official and President Obama's nominee to serve as the agency's next administrator. "Obama's EPA is waving red flags all over the place," said CEI Senior Fellow Christopher C. Horner. "Ultimately, we will learn if EPA's problems with non-official email accounts and accounts not identifying the account holder extend to their use of private accounts for texting or even destroying this alternative to email, as it seems. Resolving the questions in today's suit and about her use of a personal account should be necessary conditions to moving forward on her nomination. This also would do much to address the growing impression Gina McCarthy has something to hide and that EPA is going to great lengths to help her hide it."

THE UGLY

House Votes to Permanently Extend Taxpayer Fleecing in Farm Bill

On July 11, the House of Representatives approved the 2013 Farm Bill on a mostly partisan vote of 216-208. No Democrats voted for the legislation, and only 12 Republicans voted against it. Moreover, the legislation, H.R. 2642, was rammed through the Republican-controlled House under a closed rule allowing no amendments. The legislation greatly expands the crop insurance subsidy program, which heavily subsidizes farmers' premiums and insurance companies' administrative costs—with no means tests. The bill also leaves in place the sugar program, which is a central planning scheme that allocates domestic supply, restricts imports, and sets prices substantially higher than the world price.

MediaMENTIONS

Compiled by Nicole Ciandella

Senior Fellow Gregory Conko warns against state initiatives to track pharmaceuticals:

Over the past several years, pharmaceutical makers have been working with distributors and pharmacies to develop methods that make it easier to spot and eliminate tainted and counterfeit products. Together, they have developed technologies ranging from tamper-proof packaging and unique identification codes to authentication tools such as holograms and color-shifting printing, all of which help protect the integrity of the medicines we buy.

Unfortunately, state legislators and regulators have begun to implement a maze of inflexible, expensive, and often conflicting traceability and pedigree rules that threaten to short-circuit these innovations and jeopardize the effectiveness of industry-wide quality control programs.

Currently, 11 states have enacted special "track and trace" legislation, and 18 others have adopted their own regulatory standards, with little uniformity. And those state-by-state compliance costs are astronomical. California, for example, has adopted a rule that will require all drugs to be serialized and electronically tracked by 2017. The pharmaceutical industry is projected to shell out up to $3.5 billion to meet new requirements in the Golden State alone.

–June 3, *The Hill*

Vice President Iain Murray urges Americans to learn from Europe on wind power:

When Germany decided to close down its nuclear power stations after the Fukushima disaster in Japan, the original plan was to replace most of the lost generating capacity with wind power. However, wind power is expensive, and the growing size of the industry has meant that subsidies—and energy bills—have surged. The German subsidy is paid for by a surcharge on household electricity bills. The growth in wind power meant that in January the surcharge increased to over 5 cents (euro) per kilowatt hour, representing 14 percent of all electricity bills.

In Germany, Chancellor Angela Merkel, realizing that wind power is economically unsustainable, has proposed capping the subsidy until the end of 2014 and capping further rises to 2.5 percent, with the probability of further significant reform after the federal elections this year. It's a similar story in Spain, where subsidies have been cut so much that the chairman of the country´s Association of Renewable Energy Producers said recently: "Spain's government is trying to smash the renewable energy sector through legislative modifications."

—June 13, *USA Today*

Senior Fellow Matt Patterson and Research Associate Julia Tavlas argue the United Auto Workers union has had a disastrous effect on Detroit and could have the same effect on Chattanooga:

Not coincidently, the torturous decades of Detroit's decline coincided with the entrenchment of UAW power. Indeed, for years the UAW pushed for contracts giving generous benefits to its members, driving up automakers' costs to the point of unsustainability.

A union in a company acts very much like a virus in a body; even if the virus itself is not fatal, it can leave its host body weakened and drained of the resources it needs to survive. In the 1980s and 1990s, when foreign-owned companies like Toyota were entering the U.S. market in large numbers, UAW contracts bound and gagged the Big Three Detroit automakers with costs and regulations that fatally restricted their ability to innovate and compete, just as they had done with Packard against the Big Three in the 1950s. Now, having long ago devoured Detroit and its car industry, the still ravenous union is forced to look South for its next meal.

City officials need no crystal ball to see Chattanooga's future if the UAW gets ahold of its VW operation. They need look no further than the crumbling, broken walls of Detroit, Michigan, and the abandoned Packard plant that serves as its burnt and hollow heart.

—June 23, *The Chattanooga Times Free Press*

Founder and Chairman Fred L. Smith, Jr. defends the "Scrooges" of society with a story about his childhood in Louisiana:

My Daddy was the lockmaster at Lock #1 on the Pearl River Corps of Engineers system, which brought him into contact with many of the locals. When my mother died, women from throughout the community brought us hot dishes and provided solace.

The comfort of community had a downside, however. Adam Smith's admonition that, "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest" seems not to have gained many adherents in Sixth Ward, whose egalitarian and communitarian values made it hard for entrepreneurs to flourish and contribute to economic growth.

Every so often, a talented and enterprising individual would launch a new business, such as a sawmill, gravel pit, or butcher shop. Sometimes these endeavors would flourish, and the impoverished Sixth Ward (where many still lacked electricity and running water) would become a little less poor. But in this closely knit community, success placed cultural demands on the entrepreneur. He would be expected to make place in his business for an out-of-luck Uncle Bill or Aunt Sally.

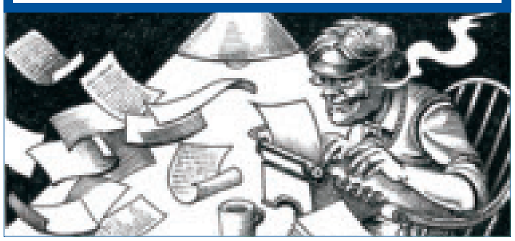
Often, that entrepreneur would give in to such cultural pressures and add these individuals to his payroll and the operation's efficiency would decline, often leading to its collapse. And with that collapse, the additional wealth that the entrepreneur had created would disappear, leaving the Sixth Ward a bit poorer and a little less prone to other entrepreneurial ventures.

—July 17, *Forbes*

Competitive Enterprise Institute
1899 L Street, NW, 12th Floor
Washington, DC 20036

Nonprofit Org.
U.S. Postage
PAID
Permit 425
Southern, MD

…END NOTES



Million-Dollar Bus Stop Breaks

Arlington, Virginia, recently caused a national stir when it built a $1 million bus stop. The prototype "super stop" was intended to be a model for future stops along Columbia Pike. The road has been a target for multiple redevelopment efforts, including a possible "modern" streetcar, which the super stops would serve. The super stop has a heated concrete floor, but it is only partially enclosed, so it doesn't shelter riders from wind. Riders also quickly found out that its rakishly angled roof doesn't keep rain out. And in mid-July, the video screen that displays bus arrival times stopped working, as a heat wave proved too much for it. Officials said it would take approximately two weeks for a new cooling fan to arrive. Until it is repaired, the super stop stands as an expensive monument to gold-plated government waste.

Federal Agency Demands Michigan Disaster Plan

Marty Hahne is a magician in Missouri. He has been putting on magic shows for kids for almost 30 years as Marty the Magician. Back in 2005, he got in trouble with federal bureaucrats. Turns out he was using an unlicensed rabbit for his grand finale of pulling a rabbit out of a hat. Hahne quickly found out that the Department of Agriculture's (USDA) regulations for magicians' rabbits, in force since 1966, are both strict and extensive. Eight years later, the agency is still harassing him. Now, under new regulations, "animal exhibitors" such as Hahne are required to file written disaster plans to the Department of Agriculture covering at least 21 types of disaster, from broken air conditioners to hurricanes. Hahne's disaster plan for Casey is 28 pages long, and is considered short for its genre. Luckily for Hahne, an attorney was kind enough to draft it for him pro bono. The USDA is now revisiting the rule.

MSNBC Host: Small Government Bankrupted Detroit

MSNBC host Melissa Harris-Perry made waves following Detroit's public bankruptcy, claiming with a straight face, "This is what it looks like when government is small enough to drown in your bathtub, and it is not a pretty picture." Contrary to Ms. Harris-Perry's narrative, it is quite clear that Detroit's corrupt and irresponsible government bankrupted the city. Of its $18 billion debt, $9.2 billion is from unfunded pension and health care obligations for city retirees. Residential property taxes are the highest in the nation, income taxes are the highest in Michigan, and the city imposes a "living wage" of $11.03 and myriad business licensing regulations that drive a full tenth of businesses into the black market. Even with an imagination as creative as Ms. Harris-Perry's, it would be hard to describe any of these measures as consistent with small government.

USDA Spends $20 Million to Not Inspect Catfish

A little known provision in the 2008 Farm Bill created a catfish inspection office within the Department of Agriculture. Traditionally, the department had authority to inspect meat and poultry, while seafood and other products were inspected by the Food and Drug Administration. In addition, the Department of Commerce has its own inspection program. Since 2008, the USDA has spent $20 million setting up the catfish inspection office and expects to spend $14 million annually. Yet it has yet to inspect a single catfish. Members of Congress in both parties have called for the closure of the USDA's duplicative service. But why was it created in the first place? In turns out many domestic catfish producers do not like foreign competition. But this proved too much for the industry's National Fisheries Institute, which has criticized the program as a non-tariff trade barrier.